Financial
Ombudsman
Service

annual report and accounts
for the year ended 31 March 2017

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what's in our 2016/2017 annual report

for more information go to: www.financial-ombudsman.org.uk

about us

We were set up under the Financial Service and Markets Act 2000 to resolve individual complaints between financial businesses and their customers – fairly, reasonably, quickly and as informally as possible. We can look into problems involving most types of money matters – from payday loans to pensions, pet insurance to PPI.

If a business and their customer can't resolve a problem themselves, we can step in to sort things out. Independent and unbiased, we'll get to the heart of what's happened – and reach a fair, pragmatic answer that helps both sides move on.

If we think the business has acted fairly – or there's just been a misunderstanding – we'll explain how things stand. But if someone's been treated unfairly, we'll use our powers to put things right. That could mean telling a business to do anything from amending a credit file to reducing loan repayments, or from settling an insurance claim to correcting a pension.

Since we were set up, we've seen the real impact of financial concerns, complaints and disputes on people from all backgrounds and livelihoods. We're committed to sharing our insight and experience with regulators, financial businesses and consumer representatives, to encourage fairness and confidence in financial services and to make things better.

We're committed to working openly and being accountable. We consult publicly on our plans and budget each year; our budget is subject to approval by the Financial Conduct Authority (FCA); and these accounts are laid before Parliament. We're regularly called to give evidence to Parliamentary committees. And we publish our insight through a range of accessible channels, including our website, our regular newsletter and our annual review.

our year at a glance

a total of
1,394,379
enquiries

we answered...

604,278
phone calls

790,101
letters and emails

we received 321,283 new complaints

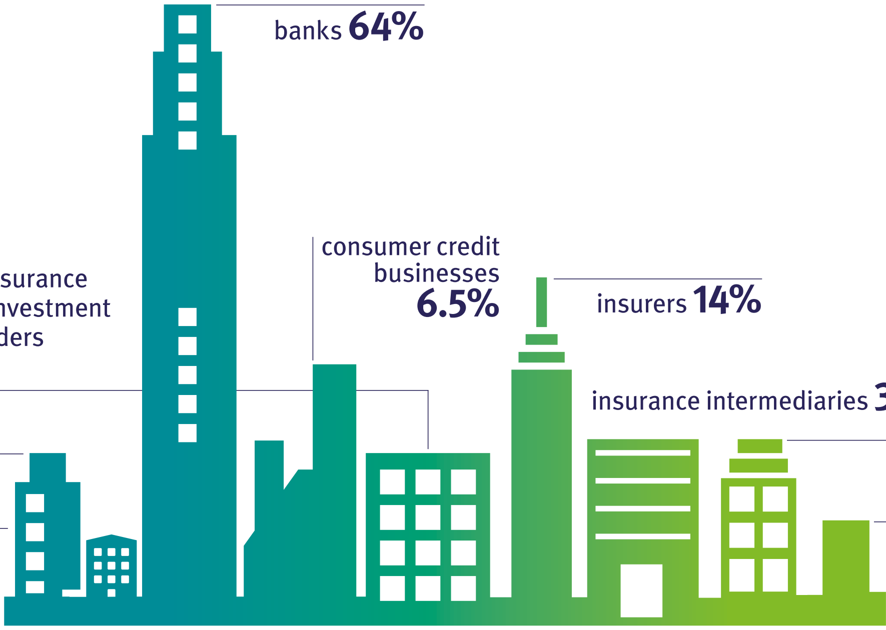
4.5%	were about investments and pensions – **14,471** complaints
12%	were about other insurance – **38,155** complaints
31%	were about banking and credit – **99,888** complaints
52.5%	were about PPI – **168,769** complaints

biggest changes in complaints

- instalment loans **+318%**
- payday loans **+227%**
- guarantor loans **+182%**
- hiring, leasing and renting **+81%**
- catalogue shopping **+75%**
- logbook loans **+75%**
- electronic payment **+73%**
- building warranty **+70%**
- credit reference agencies **+65%**
- hire purchase **+64%**

- **-16%** structured products
- **-18%** personal accident insurance
- **-21%** derivatives
- **-22%** mortgage endowments
- **-26%** card protection insurance
- **-41%** interest-rate hedging products
- **-49%** SERPS
- **-54%** packaged bank accounts
- **-55%** film partnerships
- **-60%** credit broking

complaints by business type



out of the more than 56,000 businesses we cover

50% of complaints came from just **4** business groups

47% came from **427** businesses

3% came from **4,015** businesses, each with fewer than **25** complaints

resolving complaints

336,381
resolved complaints

38,619
legally binding final decisions made by ombudsmen

83%
complaints resolved within three months, excluding PPI

65%
complaints resolved within three months, including PPI

43%
complaints upheld

59%
complaints upheld about payday loans

eight in ten consumers and business complaint handlers said we listened, got to grips with their problem and gave clear answers

76%
of the public said they'd trust us

we shared insight into issues including mental health and debt, crowdfunding, vulnerability and age-related complaints to help encourage fairness

89%
people who had some awareness of us

81%
of our costs are staff-related costs

Over half our staff are female

50% of our board and executive are female

We've been reaccredited as Leaders in Diversity and signed the Women in Finance Charter

chairman's statement

Our annual report and accounts always provides an opportunity to look forward as well as back, and this one is no exception. The past year, like its predecessors, has been immensely demanding, as a look at the bare figures shows.

Payment protection insurance (PPI) has dominated much of our activity, as it has done in all recent years. We are still receiving new cases in the thousands each week – figures which are a big reduction from the peak of a few years ago, but which nevertheless represent a massive demand on the skill and attention of our people in reaching fair answers.

Inevitably, awaiting the Financial Conduct Authority's (FCA) final rules and guidance in the wake of the Supreme Court's decision in the case of *Plevin v Paragon Personal Finance Ltd* has had an impact on our progress. Now that we have the FCA's rules and guidance, as well as the date of the

Our focus continues to be on providing a service with our ombudsmen at its heart, using their knowledge and experience to guide towards fair and reasonable conclusions.

Sir Nicholas Montagu KCB

time limit for PPI complaints, we can plan for the future with greater certainty – though, obviously, we cannot be sure how many new complaints the time limit and the publicity campaign to tell people about it will generate. Elsewhere we have seen a discernible rise in the number of complaints about payday lending and other types of consumer credit.

Our focus continues to be on providing a service with our ombudsmen at its heart, using their knowledge and experience to guide towards fair and reasonable conclusions. Increasingly, those who use our service now deal with a single person from their first point of contact, who will then investigate and arrive at a fair answer about their complaint.

An important part of this approach is that it often gives us the ability to resolve matters much more quickly than before. I am grateful for the readiness with which financial businesses have supported these new ways of working. To me, one of the most visible indicators of success is the satisfaction expressed by people whose complaint has not been upheld: what matters is that they tell us they feel they have been listened to and treated fairly.

This is the future direction of our service. Once again, our people have shown their professionalism and resilience by adapting without losing impetus in their day-to-day work of finding fair and reasonable answers to complaints. We recognise, too, the speed at which technology, ways of communication and customer expectations change. So we are constantly looking towards the future and what we need to do to be able to meet those expectations.

I have already said how fortunate we are in our people; we are, too, in having a talented senior team able to convey the enthusiasm and the leadership to make new directions a reality. I should also record my gratitude to our colleagues at the FCA, with whom our constructive relations help us to work effectively. And, as ever, my thanks go to my board, for their unfailing wisdom and vision, particularly Pat Stafford and Gill Whitehead, who will be leaving the board where they have provided valuable contributions and insights. I'm grateful for their steadfast commitment to an organisation which, as this review shows, has achieved so much in the past year and which I am confident will go on to still greater things.

Sir Nicholas Montagu KCB
chairman
5 July 2017

chief ombudsman & chief executive's report

Whatever your views on the events of 2016, things have undoubtedly changed since this time last year. And the problems people brought to us vividly show how the times we're living in affect how we feel about and manage money.

For example, following the EU Referendum, we heard from people who felt they'd lost out from ups and downs in financial markets. We've helped people affected by the collapse of holiday websites, and those who'd cancelled trips because of the Zika virus. We've resolved complaints from dissatisfied drivers of electric cars, and small businesses who'd lost out from hoax websites.

These things underline not just the centrality of financial services to everyday life, but how the surprises, disappointments and unforeseen developments of the year have been reflected in the problems we've seen.

> As we've helped more people at an earlier stage, we've ensured our ombudsmen's expertise and experience remain right at the heart of our service.
>
> Caroline Wayman

Leaving PPI aside for a moment, the most striking story has been the rise in contact we've had from people having trouble with credit. We've seen around three times last year's volumes of complaints about payday loans. And over the same period – while the numbers involved are smaller – complaints about instalment loans and guarantor loans have risen by 318% and 182% respectively.

The FCA's action on high-cost, short-term credit has had an impact – and we're generally looking into complaints about borrowing that pre-date its tougher rules. However, taken together with wider insight into consumer indebtedness, it's clear that financial difficulties and financial exclusion – and the vulnerability they can both bring and result from – remain very current issues.

Scams, including cybercrime, continue to evolve – affecting people online and offline alike. An ageing population adds another dimension to questions of how financial services meet, and will continue to meet, people's needs. We've continued to work with the FCA and other stakeholders to address these pressing challenges for the financial services sector.

Of course, in 2016/2017 we were still seeing the impact of past unfairness on a mass scale. Even given the increases we've seen elsewhere, PPI accounted for over half of the total complaints we received. We explained in our plans for the year ahead how uncertainty following the case of *Plevin v Paragon Personal Finance Ltd* meant we didn't resolve as many PPI complaints as we'd planned to.

As of the beginning of March 2017, however, we've had more clarity about the way forward. The FCA's announcement that its *Plevin* rules and guidance will come into effect in August 2017 is undoubtedly good news for people waiting for an answer about their PPI. In the coming months, we'll continue to focus on giving an answer to as many of those people as we can – while managing the ongoing uncertainty about the volumes of complaints that we might receive as a result of the FCA's PPI communications campaign.

What's also not yet clear is how claims management companies – who brought 85% of all the PPI complaints referred to us in 2016/2017 – will act in the run-up to the two-year time limit for complaints. At the same time, the dramatic fall we've seen in complaints about packaged bank accounts shows how our proactive engagement with claims managers and their regulator can make a real difference in reducing the burden of unfounded claims.

While we'll be dealing with the fallout of PPI for some time, the end may well be in sight. And it's essential that, as financial services move on, the mistakes of the past aren't repeated. New technology has the potential to transform the way people engage with their money – and as always, we're ready to encourage fairness: helping strike the right balance between innovation and protection. For example, this year we gave an insight into the small number of complaints we received about crowdfunded loans and investments.

At a time when people can move money in seconds on their phone, things can go wrong just as fast – and quite rightly, people don't want to wait months for them to be put right. But resolving complaints quickly isn't just about meeting the expectations of people used to managing things online. It can also mean the difference between people losing or keeping their home.

Through keeping up our focus on working flexibly, in 2016/2017 we resolved the problems people brought to us more quickly than ever – with record numbers of consumers and complaint handlers giving us positive feedback.

And as we've helped more people at an earlier stage, we've ensured our ombudsmen's expertise and experience remain right at the heart of our service – reflecting the fact that, while speed matters, it's fairness that is and always will be foremost for us. Challenging and changing long-established processes is no easy task. So I'm really grateful for the support we've continued to receive from businesses as we've worked together on the nuts and bolts.

we're ready to encourage fairness: helping strike the right balance between innovation and protection

In changing times, it's vital we maintain and grow people's confidence in us. Last year we committed to doing even more to support the small businesses we cover – including taking forward the *Financial Advice Market Review's* recommendations for giving independent financial advisers (IFAs) specifically more certainty about the ombudsman's role. I hope the roundtables we've held with the FCA this year – in addition to our existing and long-standing engagement with IFAs and others – have gone a long way in giving reassurance that we're on the same page, and always ready to talk.

On the other side of complaints, our partnerships with consumer advisers and representatives have helped people who might have otherwise not reached us to get the independent answers they need. We've also shared our experience more widely: supporting the work of regulators and policymakers to promote fairness and confidence, and helping raise standards across schemes like ours in the UK and further afield. Looking ahead, our plans for an office in Coventry will help us manage our workload in an increasingly flexible, cost-effective way.

Of course, none of our achievements this year would have been possible without our people. During a time when we've experienced significant organisational change, their tremendous effort is testament to their commitment to our customers. And as we look to the future, their enthusiasm, sound judgement and sense of fairness will help ensure we continue to provide a relevant, accessible service that not only resolves complaints effectively, but sets the bar for doing so. I'm proud too of our demonstrable focus on equality, diversity and inclusion, which means we bring a range of perspectives to everything we do: for example, once again, more than half our people are women, and we've been reaccredited as Leaders In Diversity.

Though things never stop moving, it's important to stop and reflect – and this report is a chance to do that. While there are still challenges ahead, I think 2016/2017 has shown how openness, cooperation and pragmatism can pay off – both for the financial services sector and for the people who rely on it to work fairly.

Caroline Wayman
chief ombudsman & chief executive
5 July 2017

our workload year by year

strategic report

This report explains our commitments, our approach to managing risk and other key information about our organisational performance. Our *annual review* gives more information about our work and our impact in 2016/2017 and we published *our plans for 2017/2018* in March 2017.

commitment 1: keeping fairness at our heart – being fair and feeling fair.

Fairness isn't only about making sure our answers and decisions are technically right. It's also about making sure they feel fair to both sides. We do this by giving people thoughtful, honest answers that help them feel listened to and understood.

commitment 2: being trusted and respected – we're the people who listen and know what to do.

We want to be trusted and respected. And to maintain our customers' and stakeholders' confidence, we put knowledge and professionalism at the heart of everything we do. This depends on our having the right knowledge and values to do our work to the highest professional standards.

commitment 3: being recognised as well run and efficient.

As a demand-led service, we need to manage our resources to ensure we're ready to respond to the problems people bring to us. As we do so, we scrutinise our costs and look for opportunities to improve our efficiency.

our commitments

At the start of 2016/2017 we published *our plans for the year ahead*, which are based on our five strategic long-term commitments. As our chief ombudsman & chief executive's report highlights, we've made good progress in meeting these commitments. We've done so even in the face of significant challenges: in particular, the ongoing uncertainty arising from the Supreme Court's judgment in *Plevin v Paragon Personal Finance Ltd*, which meant we were unable to give final answers about a significant proportion of the complaints we received about payment protection insurance (PPI).

commitment 4: providing insight to encourage fairness.

To show that we're fair and consistent in our approach, we need to be clear and open about what we see and what we do. And by sharing our experience and insight, we can help prevent things that have gone wrong from happening again.

commitment 5: making sure we reach and help those who need us.

There's always more we can do to make our service easier to use – both for consumers and for businesses. This includes working to remove barriers to using our service and ensuring people are aware of us.

how people who complained to us rated our service

people we helped with an enquiry
% who agreed

	2016/2017	2015/2016
you gave me clear and honest answers and let me know where I stood	92	84
you got to grips with things and used common sense	92	83
you listened to me and cared about what I had to say	91	86

people whose complaints we investigated
% who agreed

	2016/2017	2015/2016
you gave me clear and honest answers and let me know where I stood	94	95
you got to grips with things and used common sense	96	93
you listened to me and cared about what I had to say	97	91

people whose complaints were resolved by an ombudsman's final decision
% who agreed

	2016/2017	2015/2016
you gave me clear and honest answers and let me know where I stood	70	70
you got to grips with things and used common sense	63	62
you listened to me and cared about what I had to say	67	68

commitment 1: keeping fairness at our heart – being fair and feeling fair

In 2016/2017:

- Over eight in ten consumers and business complaint handlers said we listened, got to grips with their problem and gave clear answers, an improvement of up to 6% compared to 2015/2016.
- As we've worked increasingly flexibly, growing numbers of people – including nearly half (49%) of people whose complaints we didn't uphold – have been giving us positive feedback. This compared to 44% in 2015/2016.
- To give greater certainty and clarity about what we believe fairness looks like, we published over 36,000 of our ombudsmen's final decisions on our website, around 1,000 more than 2015/2016.
- We made it easier to access our service online – with more than 78,000 people contacting us directly through our website compared to 50,000 last year – minimising paperwork and process.
- We provided practical problem-solving support with around 1.4 million letter, email and phone enquiries, a reduction of 200,000 compared to 2015/2016.
- We upheld 43% of complaints overall – deciding that people had been treated unfairly and telling businesses how to put things right.
- Excluding PPI, we sorted out 83% of complaints within three months.
- Including PPI, we sorted out 65% of complaints within three months.
- We resolved just under nine in ten complaints at our initial stage, without the need for an ombudsman's final decision.

open conversations result in fair outcomes

Mrs G contacted us after receiving a "letter of action" from a mortgage administration company, saying they were taking steps to repossess her home. Her husband was terminally ill and she was finding the situation overwhelming.

Mrs G hadn't made a formal complaint. But when we spoke to the mortgage administration company they agreed that, in line with complaints handling rules from July 2015, we could get involved straight away. We arranged a three-way phone call so we could find a fair and reasonable answer to Mrs G's situation.

As a result of our open conversations, the letter of action was withdrawn, an arrangement was reached about Mrs G's arrears, and her mortgage term was extended by six months. It was agreed that she would keep in touch with a named account manager at the mortgage administration company with the help of a free debt charity.

what the new complaints were about

banking and credit	31%
investments and pensions	4.5%
insurance	12%
PPI	52.5%
total new complaints	321,283

commitment 2: being trusted and respected – we're the people who listen and know what to do

In 2016/2017:

- 76% of adults across the UK said they would trust us – up from 75% last year. In comparison, wider research suggests that trust in financial services remains at just over 50%.
- We continued to invest in our people's skills and expertise – focusing on building our people's capability and capacity to handle a greater breadth of complaints. We supported our staff, providing training and development to 820 people to work in our new, more flexible approach to casework.
- Our technical helpline answered over 22,000 queries from people working in complaints, a similar volume to 2015/2016.
- We continued to embed knowledge and experience at the heart of our service – with our ombudsmen leading our investigation teams.

commitment 3: being recognised as well run and efficient

In 2016/2017:

- We froze our recruitment in light of the amended timetable for the FCA's *Plevin* PPI rules and guidance – resulting in a reduction of £6.5m on our staff-related costs compared with our budget.
- We reduced our support costs by 5% in comparison to 2015/2016 – a reduction of £4.3m.
- We retendered our contingent labour contract, resulting in significant savings on management fees this year and an expected further £1m in savings next year.
- We increased the proportion of our total workforce who are either case handlers or ombudsmen from 66% in 2015/2016 to 69% in 2016/2017.

commitment 4: providing insight to encourage fairness

In 2016/2017:

- We published over 36,000 ombudsmen's decisions, and a further eight issues of *ombudsman news* – sharing our insight into issues ranging from pension freedoms and inter-generational fairness, through to crowdfunding and mental health and debt.
- We've continued to build on our effective relationship with the FCA – regularly sharing information about problems we're seeing and helping to inform the FCA's work on issues ranging from crowdfunding to small business banking. And we supported the work of a number of other regulators, policymakers and organisations, including the Claims Management Regulator and the National Audit Office.
- We continued to engage with financial businesses and the consumer advice sector – running free workshops across the UK and sector-specific conferences, in addition to our regular operational and strategic conversations. And in view of the recommendations of the *Financial Advice Market Review*, we ran tailored roundtables for independent financial advisers (IFAs) and attended the FCA's *Live and Local* events.
- We contributed to the NAO's inquiry on financial misselling: regulation and redress in 2015, and our chief ombudsman & chief executive gave evidence at the Public Accounts Committee (PAC) in March last year. When the PAC published its report in May there was one recommendation for the service, to publish our timetable for resolving our oldest PPI complaints. We published this in July 2016 and have updated it since.

commitment 5: making sure we reach and help those who need us

In 2016/2017:

- We helped increasing numbers of people at an earlier stage – following changes to the FCA's complaint handling rules in 2015, which mean, if both sides agree, we can step in to resolve a complaint before the business has investigated it themselves.
- We began to accept over the phone, rather than in writing, people's consent to look into their complaints – further reducing barriers to using our service.
- We've maintained our online presence – with 78,379 complaints received directly through our online form, growing our capacity to talk to people through social media, and our website receiving 7 million visits over the year.
- We translated over 4,787 documents into and out of a total of 65 languages – and now use Browsealoud software across our website. And 15 of our people learned British Sign Language to help us provide a better service to customers with hearing loss.
- We continued to partner with consumer representatives and charities across the UK, to help us better understand and reach the people who turn to them.

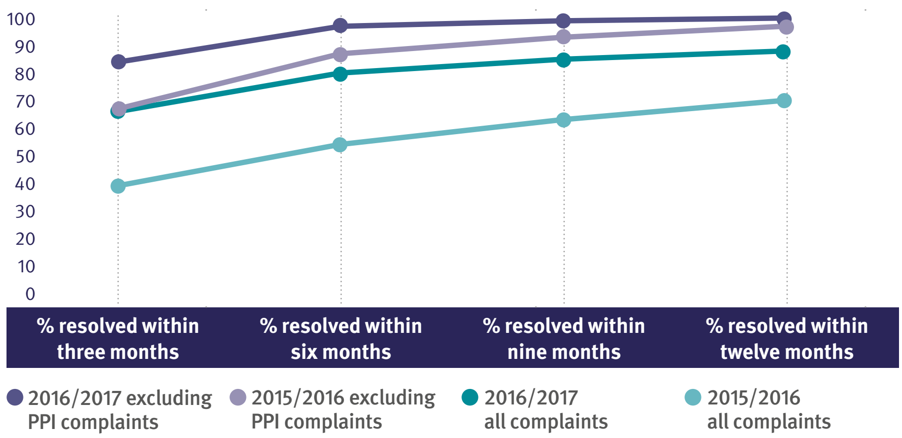
listening and understanding leads to clarity about life cover

A cancer charity contacted us about Mr C, who had been given just a few weeks to live. He was worried that his wife would struggle to afford their mortgage repayments after he died. Mr C's life assurance provider had said his cover wasn't guaranteed to pay off the mortgage – and the charity asked us if it had been mis-sold.

The life assurance provider agreed that we could look into Mr C's concerns straight away. From the information they sent us, we could see Mr C had previously been offered the type of cover that would have paid off his mortgage – but had turned it down. However, he did have three other different policies. And when we looked at the values of these, we found there would be enough money to pay off Mr C's mortgage.

We confirmed this with the cancer charity, who explained the position to Mr C – giving him the peace of mind he wanted that his wife wouldn't lose their home.

how quickly we resolved complaints



the complaints we resolved

Following consultation on our plans for 2016/2017, we budgeted to receive 306,000 complaints and set a target to resolve 406,000 complaints. While volumes of new PPI complaints were in line with our forecasts, we received over 25,000 more complaints about other financial products than we'd anticipated – and we actually received 321,283 complaints over the course of the year, 5% more than in our plans. This was despite a reduction in some areas, such as packaged bank accounts, where we received 10,000 fewer complaints than expected.

As a result of our not finally resolving complaints affected by the case of *Plevin*, we resolved 29% fewer PPI complaints than we'd planned to. Outside PPI, we received and resolved 15,000 more complaints than budgeted for – with the most notable increase in short-term lending. This meant that, by the end of March, we'd resolved a total of 336,381 complaints.

Consistent with last year, we resolved around nine in ten complaints following an initial investigation – and the other one in ten were settled by an ombudsman's final decision. Like last year, consumers made around two-thirds of requests for a final decision.

Because our uphold rate for PPI complaints is typically higher, not resolving so many PPI complaints meant our overall uphold rate was lower this year – at 43%, compared with last year's 51%. But as usual, the rate varied significantly depending on what the complaints were about: for example, we upheld 52% of complaints about PPI and 19% about packaged bank accounts.

our response to PPI

By the end of 2016/2017 we'd received over 1.6 million complaints about mis-sold payment protection insurance (PPI). We've been dealing with the impact of this mis-selling scandal for many years now – and resolved many hundreds of thousands of complaints based on similar issues. But in late 2014, the Supreme Court's judgment in *Plevin* created new uncertainties. The judgment means that some people may have new grounds to complain about PPI – based on the amount of commission the business received for the sale, and whether they disclosed that commission. This uncertainty carried on into 2016/2017, as the FCA considered how the rules for handling PPI complaints needed to change.

Our 2016/2017 budget assumptions had been based on the FCA's rules and guidance being finalised in April 2016 and operational from the first quarter of 2016/2017. However, this timetable was pushed back – so the rules won't come into force until August 2017. Because of this, we didn't resolve as many PPI complaints during this financial year as we'd planned to – and at the end of 2016/2017, around 140,000 of the 170,000 PPI complaints we'd yet to resolve were affected by *Plevin*. Despite this, and although we didn't make decisions about the issues raised in *Plevin*, in nearly every case (96%) we gave an initial answer about whether the PPI policy involved had been mis-sold.

A number of uncertainties about the future of PPI still exist: for example, we don't know how many people will complain as a result of the FCA's PPI communications campaign, which will launch in August 2017 and run up to the complaint deadline of 29 August 2019. It's also not yet clear how claims management companies, who bring the majority of PPI complaints to us, are going to act.

However, we'll be focusing on applying our considerable experience in sorting out complaints on a large scale – and in building effective working relationships with businesses, claims managers and organisations representing consumers – to ensure everyone with concerns about PPI gets a fair and final answer. We've published our timetable for dealing with PPI complaints on our website – including our plans for giving answers to people who've been waiting the longest. We also give more context for our medium-term plans for PPI in our financial outlook on page 25.

In contrast to the ongoing fall-out of mis-sold PPI, there was a different picture for packaged bank accounts. In an area that had previously involved a growing numbers of complaints, we received around a third fewer complaints this year than we'd expected. We believe this is a reflection of our ongoing proactive engagement with claims management companies, who initially brought the majority of these complaints to us – and who are now carefully considering whether claims have any merit before doing so.

our commitments for 2017/2018

As we've explained in *our plans for the year ahead*, this year we intend to build upon the progress we've made in the last few years. Reflecting the strategic themes within our commitments, we've put in place a range of measures to track the impact we're having on our customers, as well as more widely. Our commitments for 2017/2018 are:

- We'll resolve the problems people bring to us increasingly quickly and flexibly – sorting out 50% of complaints (except PPI) within 45 days by the end of the financial year.
- For PPI complaints that don't involve *Plevin* – depending on the continued uncertainties in the area of PPI – we'll resolve 50% of complaints within 45 days by the end of 2017/2018, and 95% of complaints where people have been waiting more than 12 months.
- Depending on the uncertainties described above, we'll resolve 280,000 PPI complaints.
- We'll continue to respond flexibly to the problems people bring to us – answering over 1.7 million consumer enquiries, resolving 430,000 complaints in total with 150,000 about non-PPI products and services.
- We'll maintain our focus on equality, diversity and inclusion, so our service reflects the people we're here to help – recognising that different perspectives are essential for fair and balanced decision-making, and that our people will be at their best if they feel they can be themselves. Having achieved a number of external accreditations this year, and signed the Women in Finance Charter, we'll report on our progress in January 2018.
- We'll maintain and build our customers' satisfaction with our service – so that 80% of business case handlers tell us we resolve complaints fairly, and a majority of consumers whose complaints we don't uphold give us positive feedback.
- We'll continue to publish regular information about the volumes and trends in the problems we're seeing, to help our stakeholders identify and address potential unfairness.
- We'll focus on minimising our cost to the businesses we cover:
  - Maintaining our levy income at £25 million and our case fee at £550, for the fifth year in a row, and keeping our 25 "free case" allowance – so businesses only pay for the 26th and each subsequent complaint their customers refer to us.
  - Continuing to talk to our stakeholders about our funding arrangements, to ensure they remain fair and fit for purpose into the future.
  - Building a service that can respond flexibly to changes in demand – including establishing an office in Coventry, to help us manage volatility in a cost-effective way.

> we'll resolve the problems people bring to us increasingly quickly and flexibly

working with the regulator

- Part of the FCA's statutory responsibilities is to ensure our service is able to fulfil its own statutory responsibilities. Since July 2015, the FCA has also been the "competent authority" in relation to our responsibilities under the EU directive on alternative dispute resolution. Our memorandum of understanding, which is published on our website, explains our relationship in more detail.
- We talk regularly to the FCA about themes and trends in complaints being referred to us – and help inform and support its own programme of work. In 2016/2017, this included supporting the FCA's advice unit and Project Innovate, sharing insight into the complaints we were seeing involving crowdfunded loans and investments, as well as regularly sharing operational information.
- We also continued to promote good practice in the claims management sector by sharing information about claims managers' behaviour with their regulator. Our *annual review* highlights more examples of how we shared our insight more widely over the course of the year, as part of our commitment to encouraging fairness and confidence in financial services.

risks to meeting our commitments

The executive team, with support from the rest of the organisation, identifies and monitors potential risks to achieving our commitments – with the board overseeing this process and setting out its expectations on our tolerance for risk.

The executive team and board receive a quarterly report about our position in relation to four thematic risks:

- Being impacted by **external** factors – for example, those of a regulatory, political, legal or societal nature.
- Our **service delivery** falls significantly below the expectations of our customers – consumers, businesses or both.
- Our **support functions** are not effective – undermining our ability to meet our commitments.
- We are unable to successfully implement **new ways of working** and make our service more **sustainable** for the future.

The executive team takes collective responsibility to oversee the risk tolerance and mitigations in place for these risks. Risk owners update their risk assessment on, at minimum, a quarterly basis. These assessments are subject to independent review by the risk and governance team each quarter as part of the formal reporting process to the executive team and board. The board receives a risk report for each meeting, which summarises the status for each strategic risk – linked to current performance or other relevant information – and gives sources of further information. The audit committee also reviews the overall risk picture each quarter, considering each theme with reference to both completed and planned internal audits. The audit committee chair updates the board regularly on these discussions to inform their perspective on risk.

In addition, the audit committee regularly carries out "deep dives" to review independently key areas of risk and how we're responding to them. In 2016/2017 the committee carried out "deep dives" covering service delivery, IT and HR. From 2017/2018, the committee will provide an annual assurance report to the full board, setting out the activities it has undertaken to discharge its delegated responsibility in this area. More information on our risk-management and internal control processes can be found on pages 20–21 and 40.

around 140,000 of the 170,000 PPI complaints we'd yet to resolve were affected by Plevin

In 2016/2017 we have been dealing with our four thematic risks in the following ways:

what's the risk?	how have we been dealing with it?
risk: being impacted by **external** factors – for example, those of a regulatory, political, legal or societal nature	We regularly monitor the external environment to understand changes that could have an impact on our service. We have a strong working relationship with the FCA, discussing issues of mutual interest and reporting patterns and trends in the complaints we're seeing. The FCA is responsible for assessing whether we're meeting the requirements of the EU Directive on alternative dispute resolution (ADR). We've completed the agreed actions from the *Financial Advice Market Review* and shared our progress with a joint team from the FCA and HM Treasury. We review legislative and judicial developments and monitor trends in consumer and industry behaviour. We also engage with other stakeholders, including HM Treasury and the Department for Business, Innovation and Skills (the Department for Business, Energy and Industrial Strategy from July 2016). Our chief ombudsman and chief executive attends the Public Accounts Committee as invited. In 2016/2017 the committee discussed matters relevant to our operational plan for dealing with PPI complaints. The time bar announced by FCA has given us a framework to work towards. We regularly engage with the Claims Management Regulator to share insight and respond to developments in this sector. We continue to engage with industry and consumer groups through formal and informal networks and forums, sharing our insight and learning from insight they share with us. Our chief ombudsman and chief executive and chairman have a regular programme of meetings with the largest firms and engage with external stakeholders and interest groups at a range of relevant forums. Following the result of the referendum on the UK's membership of the European Union in June 2016, we set up a working group to monitor any potential implications of developments in this area.
risk: our **service delivery** falls significantly below the expectations of our customers – consumers, businesses or both	We measure performance against our commitments and share this across the organisation. We assess how we've dealt with customers against a quality framework, and give them regular opportunities to give feedback on their experience – using this insight to improve our service. We've continued to put our ombudsmen at the heart of our casework processes. This will mean they can provide professional leadership to our case handlers and help us maintain and improve our customer satisfaction and quality, at the same time as resolving complaints more quickly and flexibly. We've continued to take PPI complaints as far as we can – keeping our customers well informed – until we can start finally resolving the issues raised in the *Plevin* judgment. We have a data protection officer, responsible for overseeing our data protection policy to help ensure we safeguard personal data. We're working towards the implementation of the requirements of the EU directive on data protection, which is due to come into force in May 2018.

what's the risk?	how have we been dealing with it?
risk: our **support functions** are not effective – undermining our ability to meet our commitments	We monitor and review the effectiveness of key systems using in-house expertise and some external support from third-party providers. We've procured a new case management tool to support our operational model. This will be rolled out across all areas of the service in 2017/2018, with benefits including a more customer-centric focus and enhanced data security capability. We'll continue to use third-party providers where it makes sense to do so. Building on improvements we've made to our approach to procurement, we've introduced a new supplier management tool. This will help us better monitor performance in accordance with agreed key performance indicators and track contract expiry dates – ensuring a more proactive and timely tender process. Internal audit independently review the controls we have in place to manage our risks. The risk and governance team also provide independent challenge as a second line of defence. Our internal auditors have confirmed this year that we have adequate controls in place for most areas. We've identified a number of improvements we can make – for example, in documenting processes – and it will be important to ensure a robust system of control is carried forward into our new operational model. Further detail on the focus of our audit committee over the year is provided on page 37.
risk: we are unable to successfully implement **new ways of working** and make our service more **sustainable** for the future	We have made good progress in implementing our new casework operational model in 2016/2017 – putting our ombudsmen at the heart of our investigation teams, and with our case handlers increasingly able to resolve a greater breadth of complaints. This has helped us resolve complaints more quickly and flexibly – and means our customers can benefit from our ombudsmen's knowledge from the start, rather than at the most formal final stage of our process. Our new case management system supports this new operating model – and will be extended to all our case handlers in the year ahead. We're taking a phased approach to implementation to ensure we can identify and deal with any issues without impacting customer service. Our change management programme has executive and board oversight as it manages the implementation of our new ways of working. We've made further improvements to the overall governance of the programme following recommendations made by our internal audit providers.

financial performance

overview

The nature of our work means we need to respond to whatever number and nature of complaints people bring to us. We consult publicly on our plans and budget each year, to give our stakeholders the opportunity to give their perspectives on our priorities, forecasts and assumptions. Following this, our budget is considered and approved by the FCA.

In setting our plans for 2016/2017, a key operational assumption we made was that the FCA would publish its *Plevin* rules and guidance in the first quarter of 2016/2017. Changes to this timeline – meaning the final rules and guidance were published in March 2017, and won't now come into effect until 29 August 2017 – meant we couldn't finally resolve complaints affected by *Plevin* during 2016/2017. As we've explained overleaf, this had a significant impact on our financial performance and operations.

We also experienced volatility in other areas of our work: for example, we received 10,000 fewer packaged bank account cases than budgeted, but 5% more complaints than expected across our non-PPI complaints. Elsewhere, whilst the numbers are smaller, we've seen three times as many payday loan complaints as 2015/2016. We expect to continue to manage this uncertainty in the coming years alongside the challenge of managing the fallout of mass PPI mis-selling.

In 2016/2017 our operating revenue (total revenue excluding net released deferred income) was £230m, with a cost base of £247m – £7m and £13m lower than 2015/2016 respectively. This meant – broadly in line with our medium-term financial plans – we made an operating deficit of £17m before the release of deferred income. The deficit before tax was £10m. There are more details about our operating plans and our reserves policy to fund the deficit on page 25.

income

The ombudsman service is funded by a combination of levies, case fees and group-fee arrangements paid by the financial businesses we cover. In 2016/2017 over 60% of our revenue came from the group-fee arrangement, which is paid by eight large financial groups, with the remainder coming from case fees from other businesses, annual levies, and other income such as bank interest. The group account fee arrangement helps provide predictability and stability in our funding – so we can plan ahead while responding flexibly to demands on our service.

operating expenditure

The change in timetable for publication of the FCA's final *Plevin* rules and guidance had a significant operational and financial impact on our service. Employee and employee-related costs, including our contingent workforce, accounted for 81% of our overall expenditure. The fact we couldn't resolve PPI complaints affected by *Plevin* meant we didn't go ahead with the recruitment we'd planned. Average staff numbers for the year were almost 160 below those in our plans – which contributed to a £8m underspend in staff costs.

In last year's *annual report and accounts*, we set out some of our plans for continuing to make efficiencies – which included a review of our support functions. Over the course of 2016/2017, we continued to combine and streamline support teams and processes: resulting in a saving of around 5% of our total support costs (£4.3m) compared to 2015/2016.

Our overall headcount at 31 March 2017 was approximately 13% below the previous year. We now have a larger proportion of ombudsmen to other roles: reflecting our ongoing plans to put their professional leadership and knowledge at the heart of our service.

Other expenditure – including property, professional fees and IT costs – is broadly in line with what we expected this year. However, because we didn't increase our PPI resource as we'd anticipated, we didn't spend our central contingency budget of £7.6m.

In line with our commitments we continue to focus on delivering a well-run and efficient service. In summer 2016 we began to sublet office space to the Housing Ombudsman – an arrangement that has been cost-effective for both of us. As anticipated, retendering our contingent labour contract in 2015/2017 has generated savings of over £1m in management fees compared with our previous contract. And into the future, we expect to save approximately £4m across a range of contracts from recruitment services to utilities.

our income

case fees

For the fourth year in a row our case fee was £550 per case, with a “free case” allowance of 25 cases per firm. This means that firms were only charged a case fee for the 26th and subsequent complaints about them that we resolved.

During the year nine out of ten businesses whose customers referred complaints to us didn't pay any case fees at all. We will keep this case fee arrangement in 2017/2018.

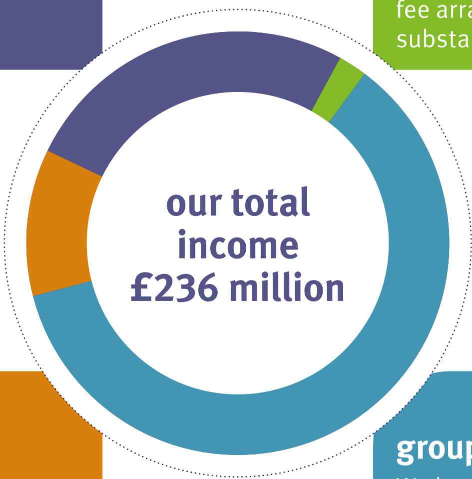
26%

deferred income release

In 2012/2013 we introduced a supplementary case fee as a way of funding the upfront investment that we needed to make a deal with the fallout of mis-sold PPI. It has also helped us to ensure the costs involved in dealing with our PPI workload over many years are paid in a fair way – that's also as stable as possible.

In accordance with our accounting policies, supplementary fee income and the PPI element of the group fee income are both held as deferred income on the balance sheet until the closure of the complaint it relates to – at which point revenue is released to the income statement. As at 31 March 2017 we were holding approximately £8m as deferred income – of which £3m relates to supplementary fees and £5m to the group fee arrangement. We expect this to be substantially released during 2017/2018.

2%



11%

levy and other income

Our levy income – arising from our compulsory and voluntary jurisdictions – has remained approximately £25m for the last four years. The compulsory jurisdiction levy has remained at £24.8m and is charged and collected by the FCA according to the amount of work we expect from each industry sector. £0.6m of levy income related to our voluntary jurisdiction.

We also generate small amounts of income from interest receivable gained from our investment strategy.

61%

group fee arrangement

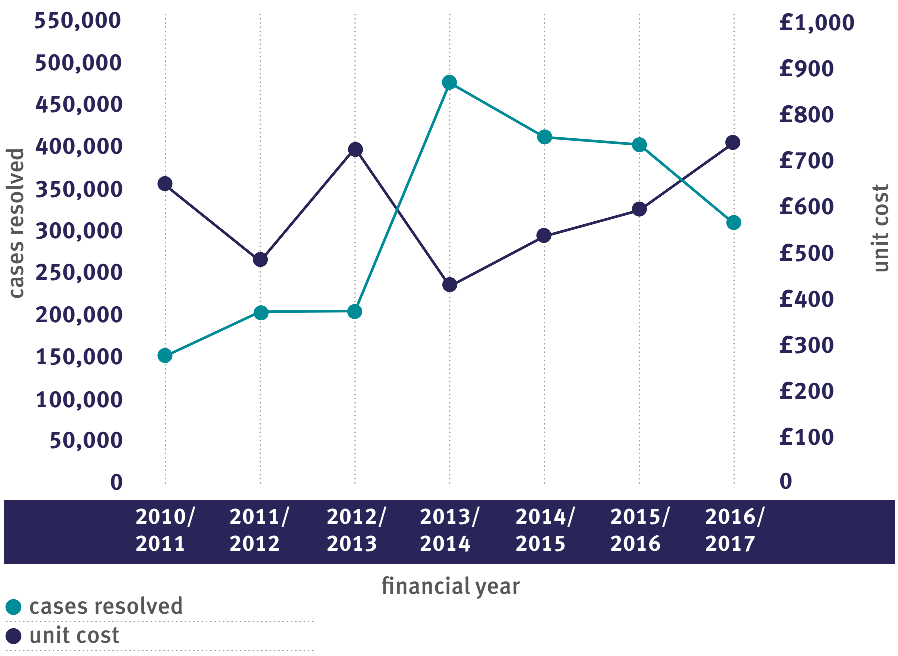
We have a group fee arrangement in place to cover eight financial services groups – Lloyds, Barclays, HSBC, RBS, Nationwide, Santander, Aviva and Direct Line.

Group fees are calculated in advance based on a published formula. We calculate each group's share of our overall workload – taking into account our existing “stock” of complaints, recent case volumes and the number of cases we've budgeted to deal with. The formula includes maximum and minimum thresholds for some aspects if volumes are outside certain tolerance levels.

The arrangement gives a level of certainty about our income and the likely costs for the financial groups involved. Quarterly invoicing also minimises administration burdens – both for us and businesses.

unit cost

We calculate the "unit cost" of resolving a complaint by dividing our total running costs – not including financing costs and bad debts – by the total number of complaints we resolve during the year. Although we regularly report on our unit cost, the fact it's influenced by factors both inside and outside our control means it isn't a sufficient measure of efficiency in itself. For example, this year, the changes to the timetable for the FCA's *Plevin* rules and guidance meant we didn't resolve as many complaints as we'd planned to – and as at the end of March 2017, approximately 140,000 of the 170,000 PPI complaints we've yet to resolve were affected – although we gave an initial answer in 96% of these affected complaints. Reflecting the fact we didn't receive a case fee for these complaints, our unit cost increased from £590 last year to £736 this year.



Looking ahead, we expect the unit cost of PPI complaints will rise, until the volume reduces to a level where we're able to fully integrate our PPI operation with other areas of our work. But there's significant uncertainty about the timing of any future rise in PPI complaints. And the level of any increase will be influenced not just by our own internal processes, but by the way businesses and claims managers work with us cooperatively.

reserves

We maintain a level of reserves that's appropriate to support the continued operation of the service. In a period of relative stability, we believe a level of reserves of around three months' operating costs is appropriate. However, because we're not currently operating in a stable environment, we've maintained them at a higher level over the past few years.

Our audit committee undertakes six-monthly reviews of our reserves policy – considering factors such as the number of complaints we've received, together with the external and regulatory landscape. We also get regular feedback from stakeholders, including the FCA, and as part of our annual public consultation on our plans and budget. Taking account of the current environment and the ongoing uncertainty we face in PPI – and in line with our stakeholders' feedback this year – the committee considers that it's currently appropriate to continue to retain reserves at a higher level than in our formal policy.

In line with our medium-term financial strategy, our combined total of reserves and deferred income has decreased from £251m at 31 March 2016 to £233m at 31 March 2017. As we work through our remaining PPI cases and prepare our service for a future beyond PPI, our reserves should be much closer to normal levels of around three months' operating expenditure by 2019/2020. However, we don't intend to hold additional reserves for longer than necessary and we will continue to review regularly if and when we should return a proportion of the funds raised to the relevant businesses.

cash management

We review our cash balances daily and update our forecasts on a quarterly basis – working with our outsourced treasury manager, Capita Asset Services, in accordance with our investment policy. The audit committee approves all new counterparty banks and we carry out independent "know your customer" checks before setting up the counterparty account details in our bank payments system. Our controls over cash were assessed as part of the annual review of key financial controls undertaken by our internal auditors – who found no matters of substance arising. During the year we invested funds with 12 institutions: delivering an average return of 0.7%, with total interest amounting to £1.7m. At 31 March 2017 we had £243m of cash, of which £241m was invested between 11 institutions for periods of up to 12 months.

creditors' payment terms

We have a policy to pay creditors within agreed terms.

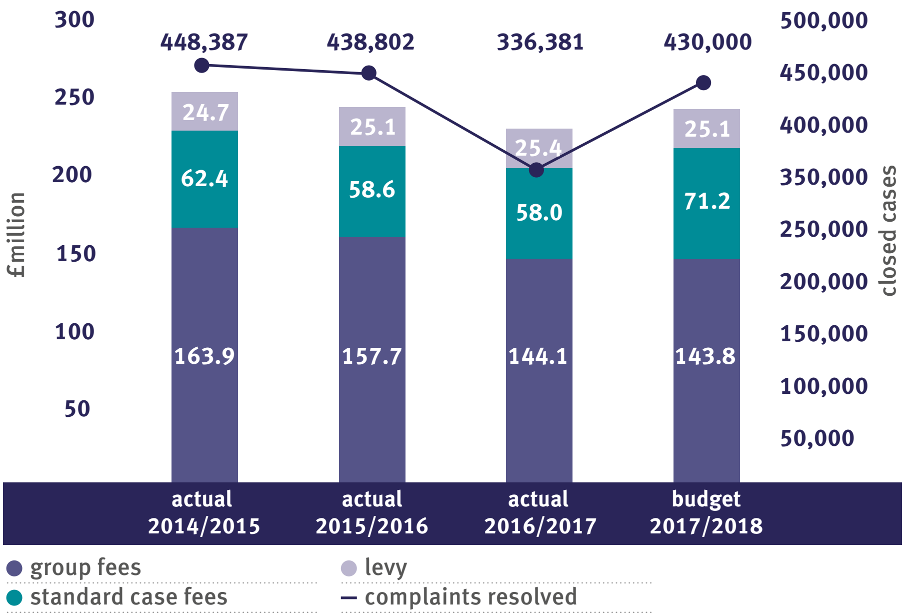
outlook

Following a public consultation from December 2016 to January 2017, our budget for 2017/2018 has been considered and approved by our own board and the FCA's board. Our plans for the year ahead, published in March 2017, set out both our budget and our ongoing commitments to run a service with fairness at its heart – one that's both relevant in a changing world and sustainable into the future.

Consistent with recent years, a key operating assumption is our ability to take forward and finally resolve those complaints affected by *Plevin* in line with published timelines. We aim to start building our contingent workforce before 29 August 2017, when the FCA's new rules and guidance come into affect. Our operating plans and our budget reflect our expectation that, of the total complaints we've planned to resolve in 2017/2018, we'll resolve over 70% in the second half of the financial year.

As the next phase of PPI begins, expanding our contingent workforce will help us manage demand in a flexible way. However, it's also been an opportunity to review our accommodation strategy – and in doing so, show our commitment to providing a relevant and accessible service across the UK. Reflecting this, our new contingent case handlers will be based in a new office in Coventry. This decision will mean we can reduce our East London office space when our lease for Independent House expires in February 2018, delivering efficiencies into future years.

our income and resolved complaints



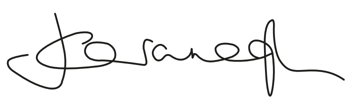
our 2017/2018 budget

We expect to collect £242m of operating income, including levies, in relation to our activity for the year. To achieve this we're budgeting to resolve 28% more complaints in 2017/2018 than 2016/2017 – including a 90,000 increase in PPI resolutions.
For the fifth year in a row, we've kept our levy income at approximately £25m, our standard case fee at £550, and our "free case" allowance at 25 cases. We've also retained the group-fee arrangement, so that the majority of our workload continues to be paid for by the eight business groups whose customers use our service the most. We'll be releasing deferred income as we continue to resolve more of our older PPI complaints – so our total revenue is budgeted at approximately £250m.

A significant increase in demand for our service will require additional investment in resources. In view of our expectation that complaint volumes will grow, we expect our costs to increase above their 2016/2017 levels by approximately £17m – up to £264m – in 2017/2018. A key factor in this increase is the expansion of our contingent workforce – as we explained previously – which will grow by 35% and cost an extra £10m. Our central contingency of £10m will be drawn down in the event of significant changes to the operating environment – such as a steeper than expected rise in new volumes of new PPI complaints.

We'll continue to challenge our efficiency and bear down on our cost base, as we move towards our aim of transitioning our PPI casework into our regular operation. Consistent with our multi-year strategy, we expect to make a deficit for the third year in a row. In line with our plans, in 2017/2018 we'll continue to use the reserves we've accumulated to cover the significant costs of dealing with the ongoing fallout of mass PPI mis-selling.

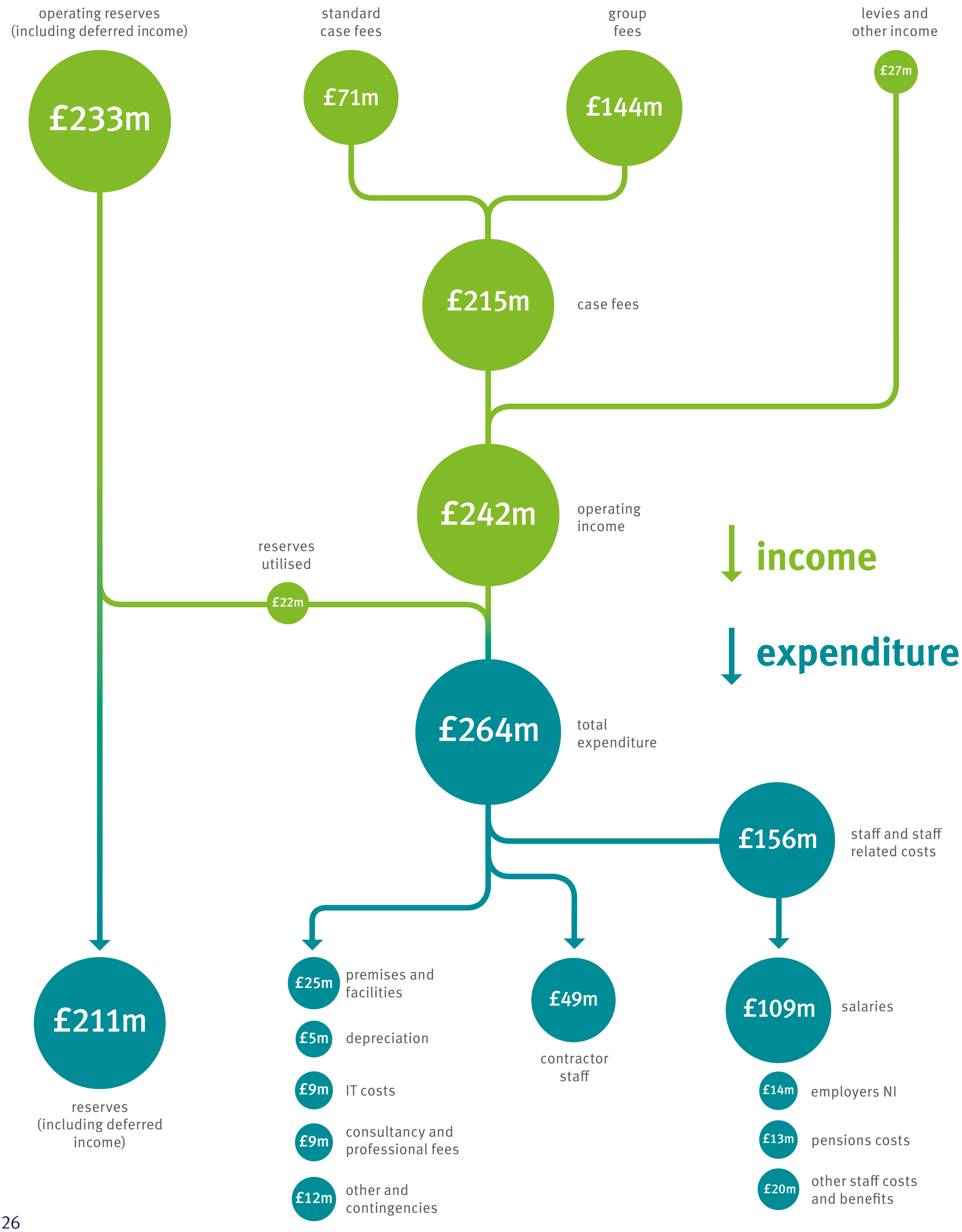
We'll be updating our in-year and future plans as we get a better sense of how businesses and claims managers respond to the FCA's *Plevin* rules and guidance – and as we begin to see the impact of the FCA's PPI communication campaign. Mindful of the ongoing challenge of forecasting in this uncertain environment, we'll begin the cycle of budgeting for 2018/2019 by taking into account the information we will have at that time and, like every year, rely on our stakeholders' views and insights.



by order of the board

Julia Cavanagh
company secretary
5 July 2017

the financial flow of our resources 2017/2018



directors' report

environmental policy – sustainability report

Minimising our impact on the environment is an important part of our commitment to running our service sustainably. In addition to improving our accessibility, using digital technology – for example, sharing information with businesses through our online portal – helps us reduce carbon emissions relating to paper, printing and transportation. We've also focused on improving our recycling rate, worked with our suppliers to reduce the waste we generate, and raised our people's awareness of how they can help our environment and local community.

With our five-year carbon management plan ending in the end of March 2017, we're working with the Carbon Trust to review our progress against the targets we originally set – and to set new goals for the future.

We recycled **936** tonnes of paper

the equivalent of **15,731** trees

We used **1,056,500** fewer sheets of paper

and diverted **3,511** cubic metres of waste from landfill

We recycled over **2,500** batteries

We saved **2,968,508** kWh of energy

Over **200** of our people cycle to work

health and safety

We're committed to protecting the well-being of everyone who works for us and with us. In 2016/2017 we:

- Reviewed our health and safety policy.
- Continued to provide our people with health and safety training and support, covering first aid and fire awareness, desk assessments, working at heights and general safety.
- Put in place the recommendations of the British Safety Council, including implementing our health and safety training matrix, raising awareness of our incident escalation process and implementing our policy around portable appliance testing.
- Piloted mental health first aid training and committed to exploring ways of extending this to more people.
- Maintained our 2015/2016 result of 98% for our internal HSG65 audit (the Health and Safety Executive's model for managing health and safety at work).

During the year our people reported:

- 30 work-related accidents.
- 92 incidents of ill health requiring first aid.
- 0 RIDDOR incidents (under Reporting of Injuries, Diseases and Dangerous Occurrence Regulations).

In 2017/2018 we plan to carry out a further independent audit of our health and safety processes, and to continue to raise our people's awareness of health and safety matters.

equality, diversity and inclusion

The commitments we've made around equality, diversity and inclusion (EDI) are underpinned by our aim of providing an impartial, trusted and respected service.

Building on the commitments we made last year, we've made good progress this year in promoting EDI among our people and making it a core part of our strategy. Our achievements this year, and our ongoing plans, include:

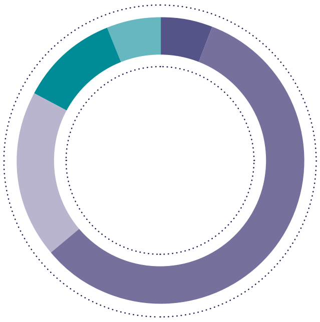
- Making EDI a key part of our commitments and core strategy; setting a new three-year plan for EDI; appointing a senior champion to lead our work in this area and committing to publish our first standalone EDI report in January 2018.
- Improving our senior leaders' focus on EDI by considering EDI measures when rating executive performance; inviting the National Centre for Diversity to train our senior leadership team; providing unconscious bias training to board members; and appointing a senior-level sponsor for each of our ten employee network groups: our carers' network, disability network, ethnic minority network, giving something back committee, interfaith network (including our Christian Fellowship, Islamic network and Jewish group), mental well-being network, LGBT network and women's network.
- Developing a "reasonable adjustment" policy aimed at encouraging our people to be open about their individual needs; committing to an updated Time to Change pledge to reduce mental health stigma; and taking steps to improve our understanding of the transgender community.
- Achieving and maintaining external accreditations – including accreditation by the Living Wage Foundation, being reaccredited as Leaders in Diversity, Investors in Diversity, a gold standard diversity-assured organisation and Stonewall Workplace Champions and signing the HM Treasury Women in Finance charter.

The diverse skills, experiences and backgrounds our people bring are essential to fair and balanced decision-making. And we believe that being an accessible, trusted service depends on our reflecting the diversity and perspectives of our customers and stakeholders.

by the end of 2016/2017:

- Women accounted for:
  - 50% of our non-executive board.
  - 50% of our executive team.
  - 51% of our ombudsmen.
- 36% of our employees say they are from a non-white background.
- 6% say they have a disability.
- 4% have told us that they identify as lesbian, gay, bisexual or transgender (LGBT).

the age of our employees ranged from 18 to 73



aged 18–24	6%
aged 25–34	58%
aged 35–44	19%
aged 45–54	11%
older than 55	6%

45% of our people are men and 55% are women

woman	55%
men	45%

percentage of people who have completed diversity records

71%

Up from 67% at the start of the year

percentage of employees who said they are from a non-white background

36%

corporate social responsibility

Many of our people work for us because they feel the work we do has a positive impact – and they also want to contribute actively to the local community. This year we continued our partnership with the East London Business Alliance (ELBA), volunteering around 145 hours. Our people's contribution included mentoring local students about careers and employability; giving lunchtime literacy and numeracy classes at a local school; and supporting literacy and leadership programmes for women run by local charity City Gateway.

As well as payroll giving, our people can take part in a "pennies" scheme, where their salaries are rounded down to the nearest pound and the difference donated to charity. In recognition of our contribution this year, we received a silver award from Pennies Heaven and a bronze award from the Charities Aid Foundation. This year our people chose London Air Ambulance as our latest charity partner– having raised £38,766 over the last two years for Haven House Children's Hospice.

learning and development

As we continued to develop our service this year, we extensively supported our people's learning and development through a blend of classroom-based and on-the-job training, e-learning and coaching. This included:

- Supporting 850 of our people to move to new roles as investigators and ombudsmen – including continuing to build our people's capacity to resolve a broader range of financial complaints, so we're able to respond flexibly and quickly to the problems people bring to us.
- Growing our ombudsmen's professional leadership skills, to support them in their role at the heart of their teams and our service as a whole.
- Further developing and integrating our knowledge-sharing networks and infrastructure, helping to ensure consistency in our answers to individual complaints and to identify patterns and trends across the complaints we receive.
- Continuing to invest in our people's skills and expertise – focusing on building our people's capability and capacity to handle a greater breadth of complaints and supporting our people to gain industry-recognised qualifications.

Our focus for the coming year is to review and build on learning and development for our people – aligning this with our commitments around improving our customers' experience and providing a service that's trusted and valued. Looking more widely, we'll continue to use a range of channels to provide self-directed learning opportunities, and further develop the way we share knowledge across our service.

employee engagement

As part of our continuing development of the service, we have been moving our ombudsmen to the very heart of our case handling process – where they can provide effective guidance and professional leadership. These changes have meant we've been able to resolve complaints increasingly quickly – excluding PPI we resolved 83% of complaints within three months, compared with 66% in 2015/2016. And our customer feedback suggests our focus on working flexibly has had a positive impact on consumers and businesses alike.

Our ability to make these changes – and to ensure we continue to provide a service that meets our customers' needs and expectations – is underpinned by our people's hard work and commitment. Our regular employee surveys throughout the year showed that three-quarters of our people on average said they understood the need for change. However, other feedback reflected people's feelings of uncertainty about the future and their individual roles. While this is understandable in light of the unprecedented level of change we've been through, it's something we've looked to address, and will continue to do so. To help us get a better sense of how our people are feeling, we ran a series of independent focus groups with different areas of the service. These workshops helped us develop tailored plans and in the coming year, we'll continue to take forward what we've learned from these, together with the things people tell us in our organisation-wide employee survey.

And we will continue to give reassurance and clarity about the future more broadly, by providing support and channels for feedback including:

- Regular messages from our chief ombudsman & chief executive, both face-to-face and by video.
- Formal and informal ways of sharing information – including tailored sessions and information cascades, as well as employee newsletters and online surveys and forums.
- Regular meetings between our executive team, employee networks and our employee information and consultation council (ICC).

sickness absence

For the year ending 31 March 2017, we lost an average of 10.3 days per full time equivalent employee due to sickness absence. This compares with 8.5 days last year – which reflects much of the uncertainty highlighted above. We expect to see this reduce in 2017/2018 as we see the impact of our ongoing proactive absence management and support a wide-ranging well-being offering for our people.

managing information

To resolve complaints, we need to ask for personal and financial details – and given the volumes of complaints we receive, we handle very large amounts of information each year. We have a legal duty under the *Data Protection Act 1998* to protect all the information we hold, including records about our own people.

Over the last year, we've taken further steps to improve our information management and governance – and to ensure that everyone who works for and on behalf of us understands what's expected of them and why it matters.

Having updated our data protection policy last year, we introduced a guide to help our managers ensure data protection incidents are managed consistently, and to emphasise to our leaders the importance of data protection. Our data protection group, chaired by our data protection officer, meets monthly – to identify risks, agree actions to address them, and ensure we learn lessons from any mistakes, including those of other organisations. This group also oversees our progress – currently on course – against ensuring compliance with the EU General Data Protection Regulation (GDPR), which comes into force in May 2018. Our data protection officer periodically updates the executive and the board and audit committee about data protection matters – including our preparations for the GDPR.

freedom of information

Following significant year-on-year increases, volumes of formal requests for information stabilised in 2016/2017 – reflecting our commitment to openly publish information in our regular publications and on our website.
We answered 610 formal requests for information, compared with 640 last year – responding to 95% within the statutory 20 working days. This reflects our commitment to openly publishing information in our regular publications and on our website. As in previous years, most requests asked for more specific data about certain types of complaints, or for information relating to the requestor's own individual complaint.

governance

board membership as at 31 March 2017

Members of our board are appointed under Schedule 17 of the *Financial Services and Markets Act 2000* – which provides that "the chairman and other members of the board must be persons appointed, and liable to removal from office" by the FCA. In the case of the chairman, the appointment must also be approved by HM Treasury. The legislation also provides that "the terms of their appointment must be such as to secure their independence".

The chairman and members of the board are appointed in the public interest, not as individual representatives of any particular group or sector – and they're not involved in considering the individual complaints that are brought to us. In line with the legislation mentioned above, all board members are independent.

Under our articles of association, the board must consist of a minimum of three directors. On 31 March 2017, the board consisted of six non-executive directors. Members of the board are required to complete an annual declaration about their current interests and those of people connected with them – and to confirm that those interests don't conflict with their position as a director of the Financial Ombudsman Service (see *conflicts of interest* on page 35).

recruitment

The recruitment process for non-executive positions is open and transparent, with advertisements running in the national media. We make appointments as an equal opportunities employer, in line with the principles of fairness and impartiality and selecting on merit. The process is overseen by the board's nomination committee (see page 39), which nominates suitable candidates to the FCA board for approval. For recent recruitment activity the chairman has invited a member of the FCA board to participate as a member of the selection panel. Once approved, non-executive directors will receive a letter of appointment, which includes details of their terms and remuneration. Details of remuneration paid to non-executive directors can be found in the remuneration report on page 42.

All non-executive directors go through an extensive induction programme to introduce them to the ombudsman service. This includes meeting our executive team, being guided through the way we resolve complaints, familiarisation with our wider support framework and receiving a directors' handbook of information about the board and the service. Throughout the year, both as a group and individually, the board undertake a number of activities to maintain and enhance their knowledge of our work.

changes to board appointments

Alan Jenkins, Maeve Sherlock and Pat Stafford were re-appointed for further terms during the year. However, due to increasing demands on their time, Pat Stafford and Gill Whitehead have both given notice that they will be stepping down from the board over the summer. They will both be sorely missed; their respective backgrounds – which span marketing, customer insight, the media, digital and technology – have been invaluable, as has their natural inclination to consider things from the customer perspective. We look forward to the contribution and insight our new board members will provide. Jenny Watson was appointed from 1st June, Diana Warwick's appointment will be effective from 1st Sept, and we're currently in the process of confirming the appointment of a third board member with the FCA.

Sir Nicholas Montagu KCB (chairman)

Nick Montagu was appointed chairman of the board on 1 February 2012. He is also chairman of the nomination committee and a member of the remuneration committee.

Nick is chairman of the Council at Queen Mary & Westfield Foundation. Nick is a former chairman of the board of Inland Revenue.

Nick's term of office is due to end on 31 January 2018.

Baroness (Maeve) Sherlock OBE

Maeve Sherlock was appointed to the board on 23 February 2008. She is the senior independent director and is also a member of the remuneration and nomination committees.

Maeve is a member of the House of Lords and is a shadow spokesperson for Work and Pensions. She is an honorary fellow and a member of the Council at St. Chad's and St. John's colleges at Durham University.

Previously, she was chairman of Chapel Street, a charitable enterprise that delivers education, health and family services. She has worked as chief executive of the Refugee Council and of the charity One Parent Families. She spent three years as a full-time member of the Council of Economic Advisers in HM Treasury. She served as a commissioner at the Equality and Human Rights Commission and a non-executive director of the Child Maintenance and Enforcement Commission and was chair of the National Student Forum.

Maeve's term of office is due to end on 22 February 2018.

Gerard Connell

Gerard Connell was appointed to the board on 11 December 2014. He is chairman of the audit committee and a member of the remuneration and nomination committees.

Gerard is a non-executive director and chair of the audit committee of the Defence Science & Technology Laboratory. He is also a non-executive director of the Land Registry and the Nuclear Decommissioning Fund Company Ltd and a Council member and chair of the remuneration committee of the Science & Technology Facilities Council.

During his career, Gerard was the group finance director at Wincanton, a regional director at Hill Samuel and a managing director at Bankers Trust. He was previously a non-executive director of Bournemouth Water Plc, senior independent director and chair of audit committee at Pennon Group Plc.

Gerard's term of office is due to end on 11 December 2017.

Alan Jenkins

Alan Jenkins was appointed to the board on 23 February 2011. He is a member of the audit committee, nomination committee, the quality assurance group and also the service development steering committee.

Alan is a non-executive director of the Crown Prosecution Service, the Pension Protection Fund and a non-executive director of Gross Hill Properties Ltd, Sydney and London Properties Ltd, Northcourt Ltd, Roehampton Members Club Ltd, and GPS Associates and GPS Malta Ltd.

He is also chairman of the board of directors of Mencap Trust Company Ltd and a trustee of the London Middle East Institute at the School of Oriental and African Studies and of the charity Kids for Kids.

During his career, Alan has been a chairman of Lattitude Global Volunteering and a vice chairman of the International Institute for Environment & Development, managing partner of Frere Cholmeley Bischoff, a partner and chairman at Eversheds LLP, and an independent non-executive at PKF (UK) LLP.

Alan's term of office is due to end on 22 February 2021.

Pat Stafford

Pat Stafford was appointed to the board on 22 February 2011. Pat is chair of the remuneration committee and is a member of the nomination committee. Pat stepped down from the audit committee at the end of the financial year.

Pat is a vice president and marketing director at HCA Healthcare and vice chair of Guide Dogs Group. She has an extensive portfolio of previous NED roles including at HMRC, the Princes Trust and the National College for Teaching and Leadership. Her previous executive career includes group marketing director at BUPA, brand director at British Airways and managing director at Corporate Positioning Services. She also has extensive experience as a strategy and marketing consultant, including in the organisation she founded, The Stafford Partnership.

Pat has given notice that she will be stepping down from the board at the end of July 2017.

Gill Whitehead

Gill was appointed to the board on 6 July 2015. Gill is a member of the audit committee and the nomination committee.

Gill is senior director, EMEA Market Insights at Google.

Previously, she was director of audience technologies and insight at Channel 4 and roles before that have included director of strategy and corporate development at Channel 4, head of global strategy and head of BBC commercial iPlayer, BBC Worldwide, strategy, finance and economic consulting manager at Deloitte and an economist at the Bank of England. Her previous board roles include director, Freeview Television (DTV Services Ltd), director, Ragdoll Worldwide Ltd and board director and the chair of the remuneration committee at YouView Television Ltd.

Gill has given notice that she will be stepping down from the board at the end of August 2017.

secretariat support

The company secretary – with the help of the board secretary – supports the board, its committees and the executive team and ensures all relevant procedures are followed. The company and board secretaries are available to provide independent advice to directors on issues relating to their responsibilities.

Julia Cavanagh, our chief financial officer, is the company secretary. Alison Hoyland, our head of board and executive secretariat, is the board secretary.

the role of the board

The *Companies Act 2006* requires directors to act in a way that they consider would be most likely to promote the success of their company. Directors are also expected to exercise reasonable care, skill and diligence.

The role of the board of the Financial Ombudsman Service is to:

- ensure that the service is properly resourced and able to carry out its work effectively and independently;
- agree the strategic direction of the service and its key commitments;
- oversee and monitor the service's operational and financial performance;
- appoint the chief executive & chief ombudsman and the panel of ombudsmen under paragraphs 4 and 5 of Schedule 17 of the *Financial Services and Markets Act 2000* (which the board has delegated to the chairman);
- appoint the independent assessor – who deals with complaints about the level of customer service we provide in our work resolving consumers' complaints about financial businesses;
- approve the draft budget each year for recommendation to the Financial Conduct Authority (FCA);
- approve (with the FCA) appropriate rules in the Dispute Resolution: Complaints (DISP) and Fees Manual (FEES) sections of the FCA's Handbook;
- prepare and approve an annual plan that sets out how resources will be used; and
- approve the annual review and the directors' report and financial statements.

The board is made up entirely of non-executive directors. Members of the executive team are invited to attend board meetings as required, with regular attendance from the chief ombudsman & chief executive, chief operating officer and the chief financial officer. The board combines executive and non-executive insight to govern the service effectively.

The chairman and chief ombudsman & chief executive meet regularly to discuss the operation and development of the service. The chairman ensures that the service has a clear strategy and direction – with effective management for its current and future needs. He leads the board and ensures it meets its statutory and corporate responsibilities and is effective in its decision-making.

The chairman provides oversight to ensure the information provided to the board is of sufficient accuracy and quality, including in terms of the clarity of content and the purpose and action required. He also has an important role in role-modelling the ombudsman service's culture and values, as well as acting as an ambassador for the service externally. He meets the executive team one-to-one at least once a year.

The chief ombudsman & chief executive is responsible for leading the service's strategy and overseeing the delivery of its commitments. She also leads the executive in making and implementing operational decisions, and ensuring that the board has high quality, clear, timely and accurate information about operational and financial performance. She is responsible for providing leadership across the ombudsman service, and together with the chairman, the board and her executive, helping to role model the ombudsman service's culture and values.

The chairman and chief ombudsman & chief executive set board agendas in advance, ensuring an appropriate balance between strategic matters and operational and assurance business. The board has agreed an assurance framework which ensures all key assurance matters are reviewed at appropriate points during the year – including the service's performance, management of corporate risks and the effectiveness of internal systems and controls. Assurance reviews in relation to financial risks and controls are delegated to the audit committee, where appropriate.

This year, discussions on key strategic issues have focused on modernising and developing the ombudsman service to ensure it remains relevant and sustainable into the future, meeting our customers' needs and expectations. In view of ongoing uncertainty following the judgment in *Plevin*, the board also discussed the service's approach to its PPI caseload, including the impact on customers and ensuring that resources are available and can flexibly meet demand. Minutes of board meetings are available on our website at *www.financial-ombudsman.org.uk/about/minutes.html*.

time commitment and attendance at board meetings

On average, the chairman spends two days each week on ombudsman service business. The time commitment of other board members amounts to around two days each month. The executive team is grateful to the chairman and board members for the additional time they give to support our strategic development.

The board met seven times during the financial year 2016/2017. Attendance at board and committee meetings is shown below.

	board meetings
Nicholas Montagu, chair	7/7
Gerard Connell	7/7
Alan Jenkins	7/7
Maeve Sherlock	6/7
Pat Stafford	4/7
Gill Whitehead	6/7

	audit committee
Gerard Connell, chair	4/4
Alan Jenkins	3/4
Pat Stafford	2/4
Gill Whitehead	4/4

	remuneration committee
Pat Stafford, chair	2/2
Nicholas Montagu	2/2
Gerard Connell	2/2
Maeve Sherlock	1/2

conflicts of interest

Under the *Companies Act 2006*, the board can authorise any potential conflicts of interest that may arise – and impose whatever limits or conditions they consider appropriate. A register of conflicts is maintained and reviewed regularly to keep all the details up to date. Before a new non-executive director is appointed, they must seek appropriate authorisation for any potential conflicts of interest, and board members must seek authorisation as and when potential conflicts arise during their tenure on the board.

tenure policy

Directors are appointed for an initial period of no more than three years – or no more than five years in the case of the chairman. Unless a director resigns before the end of their term of office, their period of office finishes at the end of the term.

A non-executive director may be reappointed by the FCA. In the case of the chairman, the reappointment has to be approved by HM Treasury. Any non-executive director can be reappointed, but they can’t serve for more than a total of ten years. For the chairman, this ten-year period includes any time during which they acted as a non-executive director. A non-executive director who wants to resign before their term of office would otherwise be due to end must give at least three months’ notice in writing, both to the chairman and to the FCA.

performance evaluation

Each year the board carries out a formal evaluation of its own performance and that of its committees. In this evaluation, the board considers the balance of its skills, experience and knowledge of the service, its diversity, how it works together as a unit and other factors that influence its effectiveness.

As part of the evaluation, the senior independent director (who acts as an alternative point of contact to the chairman) meets with members of the board on a one-to-one basis to discuss the performance of the board and the chairman. In accordance with good governance practice, the assessment is undertaken by an independent external reviewer every three years and one is due to be conducted in 2017.

An internal exercise was carried out in 2016. Overall, board members and the executive agreed that the board received good quality data to perform their role and was effective – highlighting in particular its dynamics, its decision-making and its role-modelling the right values for the service. Potential areas for improvement included the board’s ethnic diversity; the need to maintain public policy capability in future recruitment; and the need for a succession plan for the role of senior independent director, which was considered to be of significant value to board members.

indemnity of directors

Directors' and officers' liability insurance cover is in place for non-executive directors. Subject to the provisions of UK legislation, the company's articles of association provide an indemnity for non-executive directors for any costs that they may incur in defending any proceedings brought against them that arise from their positions as non-executive directors. This applies if they are acquitted or if the court rules in their favour.

corporate governance

As a company limited by guarantee, the Financial Ombudsman Service isn't obliged to comply with the UK Corporate Governance Code. However, because we're committed to maintaining the highest standards of corporate governance, we comply with the Code as far as possible. During the year the internal auditors undertook an assessment of our compliance with the code and best practice. There were no significant shortcomings identified, and plans are in place to address the limited number of recommendations

Under changes introduced in the *Financial Services Act 2012*, the Comptroller and Auditor General is responsible for the audit of our annual accounts. Like the other members of our regulatory family, we're subject to an annual accounts direction from HM Treasury.

The company has no share capital and no shareholders – and we exercise our right under the *Companies Act 2006* not to hold annual general meetings. Our non-executive directors aren't submitted annually for re-election. But we continuously engage with a wide range of people who have an interest in our work – including, where appropriate, at chair-to-chair level. These stakeholders include financial businesses and trade bodies, consumer groups, regulators and government, parliamentarians, claims-management companies and the media. Our *annual review* highlights examples of our engagement during 2016/2017.

appointment of ombudsmen

Our board is responsible for appointing ombudsmen on terms that guarantee their independence. As at 31 March 2017, the ombudsman panel was led by Caroline Wayman, as chief ombudsman & chief executive – supported by two principal ombudsmen, four lead ombudsmen and directors of casework, eight lead ombudsmen, 20 ombudsman leaders, two managing ombudsmen, nine senior ombudsmen and 296 other ombudsmen. Each member of the panel is appointed by the board under paragraphs 4 and 5 to Schedule 17 of the *Financial Services and Markets Act 2000*.

Our ombudsmen's professional qualifications and experience reflect the diversity of our customers and the problems people ask us to resolve. Their wide-ranging backgrounds include financial services, law, teaching, local government, human resources and charities and the third sector – and we publish brief career histories on our website at *www.financial-ombudsman.org.uk/about/panel-ombudsmen.html*.

board committees

audit committee

The audit committee met four times during the year. Members of the audit committee were:

Gerard Connell (chair)

Alan Jenkins

Pat Stafford

Gill Whitehead

The board is satisfied that the combined knowledge and experience of the audit committee members ensures that it can fulfil its responsibilities effectively.

During the year, as well as its annual review of the directors' report and financial statements, the committee's main business included:

- "deep-dive" risk reviews across a range of areas, covering service delivery, IT and HR;
- reviewing and approving updates to a number of policies, as well the service's approach under them, including in relation to procurement, "speaking up", investment, revenue recognition and reserves;
- monitoring progress against the annual internal audit plan and considering all completed internal audits in the year;
- noting the corporate risk register, and entries on registers covering gifts and hospitality, single tender actions, fraud, investment and data protection; and
- agreeing the external audit and production of the *annual report and accounts*.

The chief ombudsman & chief executive, chief operating officer, chief financial officer and head of risk and governance are invited to attend all audit committee meetings. The NAO and the ombudsman service's internal auditors are also invited to attend the meetings.

The committee's full terms of reference are available at *www.financial-ombudsman.org.uk/about/audit_committee.pdf*

the audit committee's terms of reference are:

financial reporting
To review and challenge accounting policies adopted and accounting practices used for unusual or significant transactions; and to assess whether appropriate standards have been followed.

internal controls and risk-management systems
To keep under review the adequacy and effectiveness of internal financial control, and internal control and risk management systems.

compliance, whistleblowing and fraud
To review how adequate our arrangements are for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

internal audit
To monitor and review how effective our internal audit function is, in the context of the overall risk management and independent assurance – and to approve the appointment and removal of the internal auditor.

external audit
To oversee the relationship with the external auditors. The National Audit Office were appointed as our external auditors in April 2013 under the Financial Services Act 2012, replacing Baker Tilly. The NAO has direct access to the chairman to discuss financial reporting matters and is invited to all audit committee meetings. Our annual report and accounts are subject to approval by the Comptroller and Auditor General.

remuneration committee

The remuneration committee met twice during the year. Members of the committee are:

Pat Stafford (Chair)

Nick Montagu

Gerard Connell

Maeve Sherlock

During the year, the committee's main business included:

- reviewing the impact on staff of changes to pension tax relief;
- reviewing government proposals for changes to exit payments;
- reviewing changes to the tax arrangements under IR35;
- agreeing recommendations on the annual pay review and collective reward payment; and
- agreeing recommendations on ombudsman pay and on executive pay and "salary at risk" awards.

The chief ombudsman & chief executive and the director of human resources and organisation development are invited to attend the remuneration committee meetings. However, neither attend when their own individual performance is due to be discussed.

The committee's full terms of reference are available at *www.financial-ombudsman.org.uk/about/remuneration_committee.pdf*

the remuneration committee's terms of reference are:

remuneration strategy
To oversee the remuneration strategy for the executive and other senior posts within the organisation, and support the chief ombudsman & chief executive in reviewing overall executive performance.

executive remuneration
To consider and agree proposals from the chief ombudsman & chief executive about the remuneration of senior executive staff (no director or executive shall be involved in any decision about their own remuneration).

overall remuneration
To consider proposals from the chief ombudsman & chief executive regarding overall remuneration across the service, ensuring in the case of ombudsmen that the remuneration terms are consistent with their independence. In considering these recommendations, the committee shall:

- have regard to the service's key commitments and performance against them and take into account any other factors which it deems necessary – internal and external comparative information and data and information supplied by external parties.

employee reward and benefits
To consider and agree proposals from the chief ombudsman & chief executive about any proposals for major changes to the employee reward and benefit structure.

nomination committee

The nomination committee did not meet separately this year, its business was considered at the full board meeting as the membership of both the committee and the board is identical. Members of the committee are:

Nick Montagu (Chair)
Gerard Connell
Alan Jenkins
Maeve Sherlock
Pat Stafford
Gill Whitehead

During the year, the committee's main business included:
- considering the board's composition in the light of upcoming vacancies for non-executive directors;
- reviewing the board's succession planning; and
- reviewing and overseeing the recruitment process.

The committee's full terms of reference are available at *www.financial-ombudsman.org.uk/about/nomination-committee.pdf*

the nomination committee's terms of reference are:

board composition
To review the structure, size and composition (including the skills, knowledge and experience) required of the board, including at the end of a board member's current term and when vacancies arise, and make recommendations on behalf of the board to the Financial Conduct Authority for it to approve:
- the appointment of board members; and
- the reappointment of board members

board sub-committees
To appoint members of board sub-committees, taking account of the skills, knowledge and experience required.

chief ombudsman & chief executive appointment
To make recommendations to the board about the appointment of the chief ombudsman & chief executive.

succession planning
To oversee the succession and recruitment risks for critical senior posts, including for the chief ombudsman & chief executive role, ensuring that the HR director and chief ombudsman & chief executive have effectively identified the risks and have mitigation/succession plans in place.

recruitment
To ensure that all appointments it advises on, or makes, are made with regard to being a good equal opportunities employer, observing the basic principles of open and transparent recruitment processes, fair, impartial and consistent selection processes and selection on merit.

the independent assessor

The independent assessor, Amerdeep Somal, is appointed by the board and has her own formal terms of reference. She can consider complaints from consumers and businesses about the level of customer service we've provided – rather than whether it was right for us to uphold or reject a consumer's complaint about a business.

The independent assessor meets formally with members of the executive team and the board on a quarterly basis, and at other times as appropriate. During these meetings the independent assessor's feedback and recommendations are discussed – as well as any underlying themes in the complaints she's received and the action that's being taken to address them.

The independent assessor's annual report to the board – setting out the findings and recommendations she made in 2016/2017 – is on pages 47 to 50. The board has accepted her report and recommendations in full, and would like to thank her for her ongoing contribution to helping us improve our service.

the executive team

The board is supported by the executive team, who are responsible for the day-to-day management of the service. Led by Caroline Wayman, chief ombudsman & chief executive, the executive team:

- proposes and manages the budget, and approves major expenditure;
- plans, prioritises and oversees the delivery of the organisation's strategy and commitments;
- ensures the organisation is running effectively and efficiently; and
- manages risks.

As at 31 March 2017, our executive team were:

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- Caroline Wayman, chief ombudsman & chief executive
- Julia Cavanagh, chief financial officer/company secretary
- David Cresswell, director of strategy
- Annette Lovell, director of engagement
- Chris McDermott, chief operating officer
- Richard Thompson, principal ombudsman and quality director
- Garry Wilkinson, principal ombudsman and director of new services
- Sally Webster, director of human resources and organisation development

internal audit

Deloitte are in the second year of their three-year contract as our internal auditors. Their engagement partner acts as our head of internal audit, reporting directly to our chief executive and the chair of the audit committee.

Our 2016/2017 audit plan was prepared by Deloitte and approved by the audit committee in June 2016. We continue to operate a "three lines of defence" model – with risk and governance and other assurance and oversight functions acting as our second line, and internal audit as the third line.

Internal audit is responsible for reviewing the risk management activities of various business areas, taking an independent view of the operational effectiveness and efficiency of our internal controls. Audit findings include an overall assurance assessment of significant findings, including associated risks. The audit work for 2016/2017 covered our casework process; our process for responding to complaints about our service; key financial controls, including a "deep dive" on payroll controls; information technology general controls; HR key controls; change programme governance; and a follow-up audit on risk management.

internal audit opinion

The head of internal audit provides an annual internal audit opinion based on the work undertaken each financial year. This is based on an assessment of the adequacy and effectiveness of our governance, risk and control environment, and whether these are sufficient to help us achieve our commitments.

The head of internal audit's opinion was that overall we had "adequate and effective systems over governance, risk and internal controls which provided reasonable assurance regarding the effective and efficient achievement of the service's objectives". The opinion identified two exceptions. Audits of our HR processes around recruitment; and the way we handle complaints about the service made recommendations to inform our future approaches, which we are implementing through 2017. The agreed audit actions will be implemented during the first and second quarters of 2017/2018.

external audit

The NAO were appointed as our external auditors in April 2013 under the *Financial Services Act 2012*. The NAO liaise directly with internal audit as appropriate. They attend our audit committee meetings. They have direct access to the chair of the audit committee to discuss financial reporting matters.

risk management and internal control

Our risk-management framework applies across all our main business areas. Our four thematic risk assessments are underpinned by a number of supporting risk registers, which are also used as proactive management tools to deal with risks in their respective areas.

The executive team and board consider strategic risk – and each year they carry out a "risk refresh" exercise to identify the thematic risks for the service. This exercise was completed in July 2016 and April 2017 and reported to the board at its meetings in July 2016 and April 2017 – confirming that our risk coverage is broadly sufficient and the identified themes remain relevant.

The executive team review and oversee the risk tolerance thresholds relevant to them, and thematic risk assessments are discussed in detail each quarter with the responsible directors and senior managers either directly or through the relevant governance forums. We've also developed new ways to provide more proactive support to executive directors in helping them identify and address key areas of risk across their portfolios.

The risk and governance team is responsible for assessing the extent of risk coverage across the ombudsman service. They provide independent challenge in relation to risk assessments; collate risk information; monitor risk movement; and agree the quarterly risk report with the executive team for the board. The team undertake formal quality risk reviews to provide feedback to register owners about the content of their registers, including whether risk mitigations and timeframes have been defined.

The team conducted an anonymous survey with risk owners in early 2017 to assess how useful they found the risk management framework and to identify potential improvements that could be made to guidance, processes and support. Encouragingly over 90% of respondents confirmed that the framework is a useful management tool that added value and helped manage their risks. The risk and governance team will be using the findings to shape further developments to the framework in 2017/2018.

The key organisational risks are set out on pages 18 to 21.

remuneration report

The board consists entirely of non-executive directors who don't participate in the reward, pension or benefit schemes that we run for our employees. The fees paid to directors aren't specifically related to individual or collective performance, and directors aren't entitled to compensation for loss of office.

Non-executive directors' fees are set annually by the regulator and adopted by the board. The remuneration committee considers and approves executive remuneration.

During 2016/2017 the chairman received an annual fee of £74,970. A fee of £24,500 was paid to each of the other non-executive directors and an additional fee of £5,000 was paid to the chair of the audit committee, the chair of the remuneration committee and the senior independent director. Fees paid to non-executive directors will remain unchanged in 2017/2018 and have been unchanged since April 2012.

In this report, the disclosures on board fees, remuneration, expenses benefits for the executive team, Hutton fair pay ratio and exit packages have been audited. Other disclosures haven't been audited.

During the year the independent assessor, Amerdeep Somal, received a salary of £101,951 for 4 days a week (2016: £96,000), pension contributions of £13,526 (2016: £13,920) and other benefits amounting to £3,444 (2016: £3,466). In addition, Amerdeep received £1,846 for additional hours worked.

fees for the board (audited)

	Note	**total fees for year ended 31/3/17 £**	total fees for year ended 31/3/16 £
Nicholas Montagu		**74,970**	74,970
Gerard Connell	1	**29,500**	29,500
Alan Jenkins		**24,500**	24,500
Maeve Sherlock	2	**29,500**	29,500
Pat Stafford	3	**29,500**	24,500
Gill Whitehead	4	**24,500**	18,218
Gwyn Burr	5	**–**	8,167
total		**212,470**	209,355

notes
1 Gerard Connell's fee includes an additional fee for chairing the audit committee.
2 Maeve Sherlock's fee includes an additional fee as the senior independent director.
3 Pat Stafford's fee includes an additional fee for chairing the remuneration committee.
4 Gill Whitehead joined the service on 6 July 2015.
5 Gwyn Burr left the service on 21 July 2015.

expenses incurred by board members (audited)

In line with the memorandum of association, the directors are entitled to be paid travel, hotel and other expenses which are reasonable and have been properly incurred. The directors' expenses policy is available on our website. The expenses incurred by, or on behalf of, the directors during 2016/2017 are shown in the table below.

	travel £	accommodation £	entertaining £	total £
Nicholas Montagu	5	543	366	914
Gerard Connell	–	250	73	323
Alan Jenkins	–	244	53	297
Maeve Sherlock	–	244	66	310
Pat Stafford	–	250	29	279
Gill Whitehead	–	244	65	309
total	**5**	**1,775**	**652**	**2,432**

executive remuneration

Packages for members of the executive team comprise a salary, a reward scheme, pension benefits and other benefits including healthcare insurance.

salaries

Salaries for members of the executive team are reviewed annually by the remuneration committee. Any increases reflect changes in responsibility, inflation, market movements and individual performance. Salaries for the chief ombudsman & chief executive and principal ombudsmen also take account of the judicial salary-scales.

reward scheme

In line with the recommendations of the Hutton Review into Fair Pay in the Public Sector (March 2011), all members of the executive team, with the exception of the director of HR and organisational development, have their remuneration structured so that an element of their salary is "at risk". This means that 15% of their salary is held back until the end of the year – and is paid only if the board agrees that the organisation's performance is satisfactory.

The level of payment is determined by the remuneration committee, who can also award up to an additional 5% of salary to individual executives for exceptional performance. Future reward payments will also be considered in line with our progress against the Women in Finance Charter commitments.

pensions

Members of the executive team are eligible to join the non-contributory defined-contribution FCA pension scheme, which is open to all employees except non-executive directors. The employer makes a core contribution to the scheme calculated as a percentage of salary linked to age, at the rates in the table below. In addition, employees can make extra contributions from their flexible benefit account up to a maximum of 40% of their salary. For employees who choose to do this, the employer makes a matched contribution to the scheme up to 3% of the employee's pensionable salary. The remuneration committee has approved an alternative cash arrangement for those employees on higher salaries, including the executive team, who want to leave the pension scheme. This alternative arrangement has been introduced as a result of the reduction in the tax free pension allowances that became effective from 6 April 2016.

There are further details about the cost of the pension scheme in the notes to the financial statements.

age	contribution rate
16 to 24	6% of pensionable salary
25 to 29	8% of pensionable salary
30 to 34	10% of pensionable salary
35 and over	12% of pensionable salary

other benefits

Members of the executive team are eligible to take part in the flexible benefit arrangements, which are open to all employees except non-executive directors. The executive team arrangements include life assurance (up to four times salary), income protection cover, critical illness cover, personal accident insurance, health screening and a private medical insurance plan, including family cover. All employees – including the executive team – receive a cash benefit allowance of £600 a year, which they can spend on other benefits available under the flexible benefit plan.

remuneration and benefits for the executive team (audited)

	note	salary* £	pension £	other benefits** £	**total for year ended 31/3/17 £**	total for year ended 31/3/16 £
Caroline Wayman	1	262,750	32,812	6,793	**302,355**	282,573
Julia Cavanagh		198,697	20,609	10,337	**229,643**	227,641
David Cresswell		147,807	18,855	5,738	**172,400**	168,639
Annette Lovell		169,905	21,221	5,110	**196,236**	197,067
Chris McDermott	2	206,152	23,404	6,198	**235,754**	241,255
Richard Thompson		165,214	21,536	6,284	**193,034**	190,615
Garry Wilkinson		165,214	17,229	5,807	**188,250**	186,053
Sally Webster	3	129,026	16,683	4,086	**149,795**	–
Jacquie Wiggett	3	–	–	–	**–**	273,476
total		**1,444,765**	**172,349**	**50,353**	**1,667,467**	**1,767,319**

* Salary cost represents base salary including salary at risk, with the exception of the director of HR and organisational development.
** Other benefits are the cost of providing core benefits, other than pension, through the flexible benefits scheme. Benefits provided include personal accident insurance, life assurance, private medical insurance, income protection and flex benefits.

notes
1 Executive directors are required to seek approval for, and declare, any other non-executive positions they hold. Caroline Wayman is a non-executive director at the Claims Management Regulator, for which she receives a day rate fee of £300.
2 Chris McDermott receives a cash payment in lieu of pension following the recent changes to pension legislation described above.
3 Jacquie Wiggett left the service on 29 February 2016 after working at the ombudsman for 15 years as director of HR and organisational development. Sally Webster joined the service on 23 May 2016 taking on the same role. Her salary for 2016/2017 reflects the shorter time in this role.

expenses incurred by, or on behalf of, members of the executive team (audited)

	travel £	accommodation and subsistence £	entertaining £	prof subs £	**total for the year ended 31/3/17 £**
Caroline Wayman	3,357	1,372	142	360	**5,231**
Julia Cavanagh	17	244	63	451	**775**
David Cresswell	1,682	2,109	90	–	**3,881**
Annette Lovell	1,025	584	73	–	**1,682**
Chris McDermott	37	244	59	–	**340**
Richard Thompson	307	329	43	328	**1,007**
Sally Webster	–	244	11	199	**454**
Garry Wilkinson	118	244	–	–	**362**
total	**6,543**	**5,370**	**481**	**1,338**	**13,732**

Hutton fair pay ratio (audited)

Organisations with a requirement to report must disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The remuneration* of the highest-paid director** in the Financial Ombudsman Service in the financial year 2016/2017 was £269,543 (2015/2016: £252,023). This was 7.36 times (2015/2016: 7.22 times) the median remuneration of the workforce, which was £36,643 (2015/2016: £34,913). No employee received remuneration in excess of the highest paid director. If the calculation is amended to include employees only – rather than total workforce – the ratio between the highest paid director and the median pay of employees in 2016/2017 was 7.75 times, compared to 7.39 in 2015/2016.

* Remuneration includes salary, salary at risk and benefits-in-kind. It doesn't include severance payments and employer pension contributions.

** For the purpose of this note, director refers to both non-executive directors and members of the executive team.

exit packages (audited)

exit packages by cost band	**2016/2017 number (redundancy)**	**2016/2017 number (other)**	2015/2016 Number (redundancy)	2015/2016 Number (other)
Less than £2,000	**–**	**5**	–	59*
£2,001 to £5,000	**–**	**8**	–	17
£5,001 to £10,000	**–**	**5**	–	2
£10,001 to £25,000	**3**	**4**	–	5
£25,001 to £50,000	**2**	**9**	2	2
£50,001 to £100,000	**2**	**3**	1	1
£100,001 to £250,000	**–**	**–**	–	1
total	**7**	**34**	3	87
total payments (£)	**£258,890**	**£624,229**	£127,098	£506,506

* The majority of these payments were for case handlers who didn't pass their probation period and left the service without working their notice.

The table above comprises the exit packages for leavers in 2016/2017. Further amounts totalling £10,000 have been accrued at 31 March 2017 representing payments due for leavers in 2016/2017 (31 March 2016: £118,175). Amounts totalling £4,500 accrued at 31 March 2016 were not required. The total charged within the financial statements for 2016/2017 is £770,444 relating to exit packages (2015/2016: £751,779). The highest payout during the year was £87,500 (2015/2016: £135,752).

statement of directors' responsibility

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. They have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that:

- are sufficient to show and explain the company's transactions;
- disclose with reasonable accuracy, at any time, the financial position of the company; and
- enable them to ensure that the financial statements comply with the *Companies Act 2006* and are in accordance with the accounts direction given by HM Treasury under paragraph 7(5) of Schedule 17 to the *Financial Services and Markets Act 2000*.

The directors have general responsibility for taking whatever steps are reasonably open to them to safeguard the assets of the company, and to prevent and detect fraud and other irregularities.

going concern

The directors are satisfied that the Financial Ombudsman Service is in a position to meet its obligations as they fall due, and is therefore a going concern. We have prepared budgets and cash flows for 2017/2018 which show year end reserves of £211m and £198m in the bank. The financial statements have accordingly been prepared under the going concern accounting convention.

statement of disclosure of information to the auditors

Each director confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- they have taken all steps a director might reasonably be expected to have taken, to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

by order of the board

Julia Cavanagh
company secretary
5 July 2017

To The Board Of The Financial Ombudsman Service

The Independent Assessor's Annual Report 2016/2017

During 2016/2017 the Service received 1,932 service complaints, of which I only investigated 23%. This shows that most of the customers that raised complaints were either satisfied with the Service's responses, or didn't have a legitimate service complaint and this speaks volumes about the continued progress on improved customer service.

This year I investigated 437 complaints compared to 411 last year and 275 the previous year. So again, my office is busier than before. The types of complaint I received have changed, so I was also investigating uncommon issues, some of which had never been raised with me before.

Complaints investigated by me

	this year	2015/2016
Satisfactory	46%	39%
Adequate	14%	13%
Critical	40%	48%

This year 60% of the complaints I investigated were dealt with well, or only had minor service failings. It is clear the level of service has shown a marked improvement over the last couple of years, as the number of complaints classed as critical has decreased by 8% overall.

What the Service did well

Of the satisfactory complaints most were about whether the Service had followed its own processes correctly. Customers often complain that a fair process hasn't been followed when the outcome wasn't what they had hoped for or expected, but part of a fair process is that both sides are able to put their side across before a final decision is reached. The Service always made sure in the cases I reviewed that its customers had this opportunity throughout the process.

Complaints I found critical

Overall, I made recommendations in 50% of all the critical cases I reviewed. So the Service didn't always adequately resolve the customer's concerns when serious service failings were found. However, this is an improvement to the 60% recommendation rate on critical cases for 2015/2016. This shows the Service has taken on board my past recommendations on putting things right when they go wrong.

Overall complaint themes

A comparison of the top three complaint themes against the previous year indicates the main reasons customers have approached me:

this year		2015/2016	
Adherence to FOS process	25%	Communication	24%
Communication	20%	Adherence to FOS process	19%
Professionalism/attitude of staff	18%	Timeliness	14%

Communication and adherence to process remain the highest causes for complaint.

Adherence to process

It's fair to say this has been a challenge for the Ombudsman Service this year. Not only were complaints about this the highest in the critical category, but adherence to process complaints were the highest cause for complaint overall.

There have been instances that reflect some customer uncertainty as to what the processes are now. Most customers simply had general queries about whether the Service had followed its processes correctly or fairly, but there were also customers who had used the Service before and compared their recent cases to past experiences which were different.

The Independent Assessor's Annual Report 2016/2017 *continued*

I also identified several instances where the Service had missed vital parts of its processes that could have led to potential unfairness. Examples include, failing to ask for the business' consent to investigate the case, adjudicators missing key aspects of the customer's complaint and consequently not setting up a new case in a timely manner, or managers not appropriately escalating service complaints. So, there were a range of processes that weren't followed correctly, so along with ensuring staff are aware of processes, any changes made, and ensuring this is refreshed and embedded; monitoring the compliance with process may be something the Service considers needs more focus.

Overall, however, there are several positives in that while I identified service failings I was satisfied the resolution to the customer's complaint was appropriate in 68% of the complaints. This shows how seriously complaints are taken and the Service's willingness and ability to take the appropriate steps and put things right.

Communication

In recent years the Service has put a lot of work into improving the way it communicates with its customers. I can see this is reflected across different departments and product areas, and it shows there has been a shift from largely written correspondence to much more telephone work from all levels of staff. This is welcomed as not only does it ensure more meaningful updates are given but also its staff are getting to the heart of customers' questions far more quickly. While this is true it's fair to say the Service still has work to do, as communication generally remains one of the highest causes for complaint. Although it was clear to me that communication was the issue, the Service only classified around a quarter of these cases as being primarily about communication, and instead considered the main issue to be the customer's unhappiness with the investigation.

A common theme in service complaints in this area was the wording of final decisions, which was at times confusing and vague. This led to customers feeling as though certain aspects of their case hadn't been considered; or even that the Service hadn't investigated the case they lodged with it at all.

It's important that, regardless of the outcome, customers feel as though their fundamental case has been recognised and addressed. While the Service predominantly comments on the crux of customers' complaints, simple things such as explaining points in the customer's own words go a long way to improving communication. Ensuring final decisions are specific and language unambiguous helps avoid any margin for confusion; as there have been instances where both the consumer and business have written to the Service post final decision to clarify the outcome and recommendations.

The issue with communication isn't specific to the use of the telephone or written correspondence only; the Service should continue to work on improving its general communication with customers and ensure it gives appropriate answers.

Professionalism and attitude of staff

In 2016/2017 I reviewed a total of 80 complaints about professionalism and attitude of staff, I found that in 69% of the time the Service had been professional and handled the cases well. 31% of them were critical but I only made recommendations on 14 of them, so 17%. Although there were a higher number of complaints about this issue compared to the 55 received in 2015/2016; I found that overall there were more critical complaints in 2015/2016, 65%.

There was a 34% reduction between 2015/2016 and 2016/2017, meaning the Service learnt from and took my recommendations on board. This issue has been in the top 4 causes for complaint in the past couple of years. Although the Service has improved in this regard, it would be wise for it to keep a close eye on its use of the telephone if it is to consolidate this improvement. It may wish to consider further telephony training, across all areas of the Service that engage with customers, as I haven't found there to be a particular area that it needs to focus on.

Timeliness

It's fair to say that the Service no longer has the perennial timeliness issues of the past. Last year I stated that the Service had made some real improvements, and this year a corner really has been turned. Timeliness was one of the lowest causes for complaint overall this year, with the number of complaints reducing from 14% in the first half of the year to only 5% in the second. However, for those customers who did complain, people were generally right to do so, as there were serious service failings in 58% of the complaints, and I made recommendations in over half of these.

Complaints rejected by me

I cannot investigate every complaint a customer brings to me, my Terms of Reference set out my remit. This year painted a similar picture to previous years in that complaints about the merits of the case (so about the outcome reached by the Service) were the highest reason I rejected complaints. Given the nature of the Ombudsman Service's work, it is hard to see how this will change. However, I continuously see positive efforts to make the distinction between service and merits clear to customers, along with the Service clearly explaining customers' viable options and any possible next steps.

Many customers escalated their complaints to me prematurely, before they had received the Service's final word or even complained to the Service. However, I had no concerns about misinformation by the Service about when the right time was to refer to me, in fact the very opposite.

Headline Topics

FAMR

In August 2015, the Financial Conduct Authority (FCA) and HM Treasury jointly launched the Financial Advice Market Review (FAMR). The aim of the review was to explore ways in which government, industry and regulators can take individual and collective steps to stimulate the development of a market to deliver affordable and accessible financial advice and guidance to everyone. The final FAMR report was published in March 2016 and one of the recommendations was that *"the report of the Financial Ombudsman Service's appointed Independent Assessor should be expanded to include a more in-depth analysis of the cases they consider and identify potential areas for process improvement from 2017"*.

Having taken the above into consideration, during the course of the year I made a number of recommendations about the improvement of the case handling process. I recommended the Service review and update its customer factsheets to reflect the new ways of working, to prevent service complaints about the Service deviating from its usual processes, this is something the Service is effectively working on. I also recommended the Service make it completely clear to its customers when it does issue a final decision and what it establishes to be a final decision.

I have engaged directly with senior casework staff so that they understand the importance of service complaint handling and addressing them accordingly in awareness sessions. Additionally, I have and continue to stress the significance of cascading information about what my office sees and share learning points across the Service through feedback and its intranet platform. More recently, I have also updated my website so that it is more accessible and easier to navigate, as well as containing relevant information about how and who can raise a service complaint with me.

For the purpose of this report, I have focused on and provided an insight into the complaints received from Independent Financial Advisers. Overall, I received very few complaints from IFAs, 16 in total. However I only investigated 10 as the rest had contacted me too early or raised complaints about the outcome of their cases which is outside of my remit. 9 out of the 10 cases I investigated had no service failings. There was only one where I made recommendations.

The IFA contacted my office as they had concerns about the Service's decision to investigate certain aspects of the case, they had pointed out in their final response letter there were elements that were time-barred. As per my Terms of Reference, I made it clear that my remit excluded me from considering whether or not a case is within the Service's jurisdiction and their use of judgement on this. However, I was able to review how the Service addressed and dealt with the time-bar references they had made. I found that although the case followed the correct process, as the issue of consent didn't need to be specifically raised with the IFA at the time, I would have still expected the Service to query this with him given he was one of the smaller businesses.

Good customer service would have been for the adjudicator to question the IFA about the references he made in the final response letter. I recommended £300.

Most IFAs complained that the Service hadn't considered their evidence or the case correctly and were generally unhappy with the outcome. I can't say the Service should interpret the evidence differently, because considering the evidence is exactly what the Service must do when investigating. I can't interfere with its ultimate role. However I can consider whether the Service has followed its established processes correctly and there was only one case where I didn't think this had happened.

The Service understands that IFAs may need more information and care than the larger businesses. On the whole this extra care is given, however the Service should continue to be mindful of this. I would say however that, as most of the complaints were satisfactory again, where things are identified as having gone wrong the Service put them right before my intervention.

The Independent Assessor's Annual Report 2016/2017 *continued*

Smarter ways of working – Customer relations

This was something I mentioned last year as an area for the Service to focus on, as previously I saw deliberately challenging customers taking an inordinate amount of the Service's time and resources away from settling genuine problems for customers who wished to cooperate with the Service.

I was pleased this year to see the Service take a more robust and holistic approach to managing these customers. Additionally, I saw an increase in early senior management intervention to prevent situations from getting out of hand. These actions have ensured a fairer service for all and enabled the Service to spend the time where needed. There's still work to be done in embedding this across the board and ensuring junior staff are comfortable and equipped to distinguish whether a customer is vulnerable, or simply challenging. However, there is a distinct improvement against previous years.

New ways of working – Investigation Pods

Last year I touched on the Service trialling new ways of working. I noted that of the small number of complaints I had seen they had all been dealt with well. This year, the trials have expanded and are now simply business as usual for the majority of cases. I again observed many positive things: quicker resolutions, more personable and meaningful communication, and customers speaking to the right person at the right time, to name but a few. But overall, I got a real sense of a change in culture and mindset of getting to the heart of the issue. This is reflected in the complaint numbers.

I investigated 21 complaints in total. 71% were dealt with well or had a minor service failing and I only made recommendations in 5%, highlighting not only a good level of service, but also that the Service did put things right.

Most of the complaints were received in the second half of the year, with the expansion of the departments. Again, adherence to process was the highest cause for complaint. 50% of the process complaints had no service failings, and the rest had serious failings. I believe this accurately reflects the fact that the Service was and is still finding its feet and working out the boundaries of a more fluid process.

It also reflects that as its staff have embraced wider roles they needed to learn more processes they hadn't previously been familiar with so it took time to embed this. I anticipate staff expertise will continue to increase as the new ways of working become a routine. I have found the new ways of working has made the Service not just seem, but actually, more accessible to its customers. It's not so easy for customers to distinguish between the circumstances of their case and the level of service provided by the Ombudsman Service, and at times these can merge.

I can see that the interaction between customers and the Service flows a lot better when they can discuss both aspects with the appropriate staff member.

In the past year I reviewed a complaint where as well as being extremely unhappy about the outcome of his case the customer was also unhappy with how the Service had handled his case. A senior staff member called the customer to discuss his concerns. He had several points of concern about the decision and investigation of the case at both stages. The senior staff member addressed the customer's concerns in detail explaining where the Service stood on each of his points and queries, and why it couldn't agree with him. This was a positive example of working in a new way, as the senior staff member was able to discuss both merits and service issues with the customer.

The customer still went on to raise his concerns with me, however, I found that the service complaint had been dealt with satisfactorily and I made no recommendations. This case illustrates that the new ways in which the Service is working focuses and displays excellent customer service, through: making the processes clearer and simpler for customers, getting to the heart of the issues by answering the relevant and significant questions and early intervention of senior staff members, when necessary.

Finally

I ended the financial year without any outstanding complaints, so it's fair to say that my findings are representative of all of the customer contact I had this year. This shows that a corner has now been turned with regards to timescales, and the Service's main areas of focus are defining and adhering to its processes, but also continuing the excellent work on its communication and its new ways of working with continued focus on customer service.

The Certificate And Report of the Comptroller And Auditor General to the Houses Of Parliament

I certify that I have audited the financial statements of the Financial Ombudsman Service for the year ended 31 March 2017 under the Financial Services and Markets Act 2000. The financial statements comprise the Statement of Comprehensive Income, Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the directors and the auditor

As explained more fully in the statement of directors' responsibility, the directors are 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, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000. 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 Financial Ombudsman Service's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report 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 certificate.

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 company's affairs as at 31 March 2017 and of the company's deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on other matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with HM Treasury directions made under the Financial Services and Markets Act 2000;
- the information given in the Strategic and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and these reports have been prepared in accordance with the applicable legal requirements; and
- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

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 by the Financial Ombudsman Service; 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.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP
July 2017

financial statements

statement of comprehensive income

for the year ended 31 March

	note	**2017 £000**	2016 £000
continuing operations			
revenue	4	**235,872**	262,799
administrative expenses	5	**(247,284)**	(259,888)
operating (deficit)/surplus		**(11,412)**	2,911
finance income	6	**1,657**	1,773
finance costs	6	**(185)**	(255)
(deficit)/surplus before income tax		**(9,940)**	4,429
corporation tax expense		**(237)**	(364)
(deficit)/surplus for the year from continuing operations		**(10,177)**	4,065

statement of other comprehensive income

for the year ended 31 March

	note	**2017 £000**	2016 £000
(deficit)/surplus for the year		**(10,177)**	4,065
other comprehensive expense:			
items that will not be reclassified to profit or loss			
remeasurements of post-employment benefit obligations	23	**(2,365)**	1,826
total other comprehensive expense		**(2,365)**	1,826
total comprehensive expense for the year		**(12,542)**	5,891

All operations are continuing.

statement of changes in equity

	note	**accumulated surplus**
balance as at 1 April 2016	21	**236,126**
total comprehensive expense for the year		**(12,542)**
balance as at 31 March 2017	21	**223,584**

statement of financial position

as at 31 March

	note	31 March 2017 £000	31 March 2016 £000
non-current assets			
property, plant and equipment	9	**7,749**	11,916
intangible assets	10	**7,330**	7,559
trade and other receivables	11	**526**	450
		15,605	19,925
current assets			
trade and other receivables	11	**26,192**	37,939
short-term deposits	12	**153,000**	114,000
cash and cash equivalents	13	**89,813**	119,512
		269,005	271,451
total assets		**284,610**	291,376
current liabilities			
trade and other payables	14	**47,761**	43,906
current corporation tax liability		**92**	365
		47,853	44,271
non-current liabilities			
trade and other payables	14	**2,805**	4,107
provisions for other liabilities and charges	16	**2,704**	1,415
post-employment benefits	23	**7,664**	5,457
		13,173	10,979
total liabilities		**61,026**	55,250
total equity			
accumulated surplus	21	**223,584**	236,126
total equity and liabilities		**284,610**	291,376

The notes on pages 55 to 75 are an integral part of these financial statements.

The financial statements on pages 52 to 75 were approved and authorised for issue by the board of directors on 5 July 2017, and are signed on behalf of the board of directors by:

Sir Nicholas Montagu
chairman
5 July 2017

Company number: 03725015

statement of cash flows
for the year ended 31 March

	note	2017 £000	2016 £000
cash flows from operating activities			
cash inflow/(outflow) from operations		**11,194**	(28,307)
interest paid		**–**	(17)
corporation tax paid		**(510)**	(176)
net cash inflow/(outflow) from operating activities		**10,684**	(28,500)
cash flows from investing activities			
purchase of property, plant and equipment	9	**(213)**	(1,623)
purchase of intangible assets	10	**(2,929)**	(3,551)
(increase)/decrease in short-term deposits	12	**(39,000)**	26,000
interest received		**1,759**	1,257
net cash used in investing activities		**(40,383)**	22,083
cash flows from financing activities			
movement in long-term borrowings		**–**	–
net cash used in financing activities		**–**	–
net decrease in cash and cash equivalents		**(29,699)**	(6,417)
cash and cash equivalents at beginning of the year	13	**119,512**	125,929
cash and cash equivalents at end of the year		**89,813**	119,512

notes to the statement of cash flows
for the year ended 31 March

	note	2017 £000	2016 £000
(deficit)/surplus for the year from operations before financing and corporation tax		**(11,412)**	2,911
adjustment for:			
depreciation	9	**4,379**	5,138
amortisation	10	**3,158**	3,165
loss on disposal of property, plant and equipment	9	**1**	167
loss on disposal of intangible assets	10	**–**	272
net adjustments in property, plant and equipment	9	**–**	(575)
net adjustments in intangible assets	10	**–**	100
increase in provisions	16	**1,289**	911
defined benefit pension costs	23	**(343)**	(343)
changes in working capital			
decrease/(increase) in receivables		**11,569**	(12,521)
increase/(decrease) in payables		**2,553**	(27,532)
cash inflow/(outflow) from operations		**11,194**	(28,307)

notes to the financial statements for the year ended 31 March 2017

1. status of the company

Financial Ombudsman Service Limited (the 'service') is a company incorporated and domiciled in the UK under the *Companies Act 2006* and is a company limited by guarantee with no share capital (company registration no: 03725015). The members of the company have agreed to contribute £1 each to the assets of the company in the event of it being wound up, as detailed in the company's memorandum of association.

The nature of the Service's operations is set out in the strategic report.

The address of its registered office is Exchange Tower, London E14 9SR.

2. significant accounting policies

basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with IFRS as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are also prepared in accordance with provisions of any applicable HM Treasury Accounts Direction under paragraph 7(5) of Schedule 17 to the *Financial Services and Markets Act 2000*.

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Service operates.

accounting policies

revenue recognition

The intent underpinning the design of the Service's funding regime is to charge on a basis that is transparent and fair, where firms pay broadly in proportion to their share of the Service's workload. Group fees and case fees are designed to achieve that aim. Standard case fees and supplementary case fees are charged on a fixed basis irrespective of the time and other costs incurred relating to the specific case. Costs directly incurred in dealing with cases are expensed as incurred.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services rendered. The Service recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; when the stage of completion at the end of the reporting period can be measured reliably, and when the costs incurred and the costs to complete can be measured reliably.

annual levy

Each business that comes within the jurisdiction of the Service is required to pay an annual levy based on the permissions given to that firm by one of:

- the Financial Conduct Authority (for the Compulsory Jurisdiction); or
- the Service (for the Voluntary Jurisdiction)

For both the Compulsory and Voluntary Jurisdictions, levy income is recognised in the period to which the levy relates.

2. significant accounting policies *continued*

group fees
The members of the group fee arrangement remained unchanged this financial year and comprised Lloyds Banking Group, Royal Bank of Scotland Group, Barclays Banking Group and HSBC Group, Aviva Group, Direct Line Group, Santander Group and Nationwide Group. Group fees are calculated as an annual charge for each group on the basis of their estimated proportion of the total work carried out by the Service, with reference to recent usage volume patterns. The group fee mechanism makes provision for a year end adjustment if a group's new PPI case volumes exceed the original budget estimate by more than 15% (and exceeds 10,000 cases) and if general casework resolution activity varies by more than 15% from the original estimate for any individual group. The component of the fee relating to resolved general casework and resolved PPI activity is recognised in the period charged as it represents a fee for work conducted within the year, and is not directly connected with individual case resolution.

The supplementary fee component of the group fee remains more closely associated with individual cases. As such we have applied the same approach taken for non-group supplementary case fees, with the income being released in the month in which the case is resolved.

standard case fees
Businesses that fall outside the group fee arrangement are required to pay a standard case fee of £550 upon closure of the 26th chargeable complaint referred for investigation to the Service and each subsequent complaint in any one financial year. Invoices and credits are issued on a monthly basis upon case closure.

General casework – for cases that do not form part of the group fee arrangement, revenue is recognised when certain stages of completion have been reached through our casework process. For those cases in progress at the end of the year an adjustment is made to revenue to reflect the overall assessment of the stages of completion at that time.

PPI casework – given the prevailing uncertainties relating to PPI, the Service does not consider it is possible to reliably estimate the stage of completion of cases. We have therefore adopted a policy to recognise the revenue associated with a case only when a point of certainty is reached, which is deemed to be when the case is closed. This is applicable for all PPI cases outside the group fee arrangement.

supplementary case fees
The supplementary case fee was designed to collect sufficient funds to manage the costs associated with handling the unprecedented high volumes of PPI cases over multiple years. Businesses that fell outside the group fee arrangement and had chargeable PPI complaints referred to the Service were required to pay a supplementary case fee for the 26th and all subsequent complaints formally taken on for investigation in the two financial years 1 April 2012 to 31 March 2014. The supplementary case fee was set at £350 for the two years 1 April 2012 to 31 March 2014. From 1 April 2014, the supplementary case fee has been set at £0.

As noted above, the prevailing uncertainties relating to PPI prevent the Service from being able to reliably estimate the stage of completion of cases. Our approach to recognising income in relation to these cases therefore needs to reflect this. We have adopted a policy to defer the supplementary case fee until a point of certainty is reached. It is the view of the directors that, given the uncertainty, this is only reached when the case is resolved. As such the supplementary case fee is released in the month in which the case is closed.

property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated so as to write off the cost less estimated residual value on a straight-line basis over the expected useful economic lives. The principal lives used for this purpose are:

leasehold improvements and premises fees	over remaining period of the lease
Computer equipment	Over three years
Furniture and equipment	Over three to five years for furniture and equipment and over the remaining period of the lease for fixtures and fittings
Motor vehicles	Over four years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable value.

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific assets to which it relates and the cost of the item can be measured reliably. The carrying amount of the replaced part is written off. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals or retirements of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset, and are recognised in the income statement.

intangible assets

In accordance with IAS 38: Intangible assets, costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design, developing and testing of identifiable and unique software products controlled by the Service are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future benefits to the service
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured

Only costs that are directly attributable to bringing the asset to working condition for its intended use are included in the measurement of the intangible asset. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management.

Intangible assets are amortised on a straight-line basis over their expected useful lives, with the expense reported as an administration expense in the income statement. The expected useful lives for intangible assets are:

Computer software and licences	Over five years
Internally generated software	Over three to five years

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

When software is not an integral part of the related hardware, it is treated as an intangible asset.

Other development expenditure that does not meet the above criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2. significant accounting policies *continued*

impairment of property, plant and equipment and intangible assets

During the financial year the Service reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered any impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment.

The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment is immediately recognised as an expense.

When an impairment subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is immediately recognised as income. Prior impairment losses are reviewed for possible reversal at each reporting date.

financial instruments

trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method where felt appropriate. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that an asset is impaired. The allowance recognised is measured as the difference between an asset's carrying value and the estimated future cash-flows deriving from the continued use of that asset, discounted if the effect is material.

trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, where felt appropriate.

cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

leasing

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 treated as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

There are currently no finance leases.

provisions

The company exercises judgement in measuring and recognising a number of provisions – for dilapidations (see note 16) and for bad debts and credit notes (see note 15.2). The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

employee benefits

The Service is part of the Financial Conduct Authority (FCA) HMRC approved pension plan which is open to permanent employees (the 'Plan'). The Plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. The final salary section was closed with effect from 1 April 2010 to future accruals.

money purchase scheme (defined contribution)
The money purchase section of the Plan is a defined contribution plan where the Service pays contributions at defined rates to a separate entity.

Payments to the money purchase section of the Plan are recognised as an expense in the income statement, as they fall due. Prepaid contributions are recognised as an asset to the extent that a cost refund or reduction in future payments is available.

final salary section (defined benefit)
The final salary section of the Plan is a defined benefit plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement usually dependent on rate of accrual, age, years of service in the plan and compensation.

The net liabilities of the final salary section of the Plan are calculated by deducting the fair value of the assets from the present value of its obligations and they are disclosed as a non-current liability on the balance sheet.

The obligation of the final salary section of the Plan represents the present value of future benefits owed to employees in respects of their service in prior periods. The discount rate used to calculate the present value of those liabilities is the market rate at the balance sheet date of high quality corporate bonds having maturity dates approximating to the terms of those liabilities. The calculation is performed by a qualified actuary using the projected unit credit method at each reporting date.

Actuarial gains and losses arising in the final salary section of the Plan (for example, the difference between actual and expected returns on assets, effects of changes in assumptions and experience losses arising on scheme liabilities) are recognised in full in the statement of other comprehensive income in the period they are incurred.

Past service cost (including unvested past service cost) is recognised immediately in the income statement.

changes in accounting policy and disclosures:

a) new standards, amendments and interpretations adopted by the company
There are no new or amended IFRS or International Reporting Interpretations Committee (IFRIC) interpretations that would be expected to have a material impact on the company.

b) new standards, amendments and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods commencing after 1 April 2017, and have not been applied in preparing the Service's financial statements. None of these are expected to have a significant effect on the Service's financial statements in future years, except the following set out below:

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contract with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaced IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Service is assessing the impact of IFRS 15.

IFRS 16, 'Leases' deals with accounting for leases and requires companies to recognise future lease commitments by recognising the asset and the liability on their balance sheets. The standard is effective for annual periods commencing on or after 1 January 2019.

There are no other IFRS or IFRIC interpretations that are not yet effective but would be expected to have a material impact on the Service.

3. significant accounting judgements, estimates and assumptions

a) Accounting judgements
In the process of applying the Service's significant accounting policies as described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are explained below):

- Revenue – income is recognised in accordance with IAS 18. For case fees, other than PPI, revenue is recognised on the percentage of completion basis. For group fees, other than the PPI component, income is recognised in the period charged. For all PPI related revenue (group and non-group), revenue is recognised when a point of certainty is reached. For PPI related revenue, the income is therefore deferred until the closure of the case.
- Intangible assets – Under IAS 38, internal software development costs of £2,748,000 (2016: £3,152,000) have been capitalised as additions during the period. Internally developed software is designed to support the Service carry outs its statutory functions. These functions are particular to the Service, so this internally developed software has no market value. Management have made judgements over the service potential and expected benefits of the assets. Those expected benefits relate to the fact that such software allows the Service to carry out its functions more efficiently than before by using alternative approaches (for example, automated processing).

b) estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Defined benefit pension obligations – The quantification of the pension deficit is determined on an actuarial basis based upon a number of assumptions made by the directors (as listed in note 23) relating to the discount rate, inflation and retail price index (RPI), future pension increases and life expectancy. Any changes in these assumptions will impact the carrying amount of the pension obligation.
- Provision for bad debts – The provision for bad debts is carried out with reference to the age and recoverability of balances owed to the Service.
- Provision for credit notes – The provision for credit notes is prepared for standard case fee credits and supplementary case fee credits. The standard provision is calculated with reference to the run rate for invoices and credit notes and the supplementary provision is calculated based on the volumes of cases in particular categories where there is a likelihood of credits being requested and approved for those cases.

4. revenue

	2017 £000	2016 £000
annual levy	**25,440**	25,142
standard case fees		
gross fees	**58,017**	58,636
movement in credit note provision	**208**	136
movement in general casework stock	**1,925**	(1,249)
supplementary case fees		
gross fees	**402**	(3,282)
movement in credit note provision	**(79)**	(652)
movement in deferred income	**1,414**	12,664
group fees		
gross fees	**144,074**	157,657
transfer to deferred income	**–**	(1,960)
release from deferred income	**3,970**	15,428
other income	**501**	279
total	**235,872**	262,799

5. administrative expenses

5.1. expenses by nature

	note	2017 £000	2016 £000
staff payroll costs	7	**155,256**	167,907
contractor and temporary staff costs*		**38,870**	38,823
other staff costs		**5,460**	3,359
consultancy and other professional costs		**5,980**	6,295
operating lease rentals: premises		**9,863**	9,705
operating lease rentals: other		**177**	240
other premises and facilities costs		**15,751**	15,642
IT running costs		**7,779**	6,864
depreciation and amortisation	9 and 10	**7,537**	8,303
loss on disposal of fixed assets	9 and 10	**1**	439
bad debts		**(218)**	958
other costs		**765**	1,286
total		**247,221**	259,821

* Contractor and temporary staff costs are shown net of £913,000 costs capitalised as internally generated software costs (2016: £1,182,000).

5.2. auditors' remuneration

	note	2017 £000	2016 £000
external audit fee			
national Audit Office		**63**	67
total		**247,284**	259,888

6. finance income and costs

	2017 £000	2016 £000
finance income		
bank interest	**1,657**	1,773
total finance income	**1,657**	1,773
finance costs		
bank interest	**–**	(17)
interest on net defined benefit liability	**(185)**	(238)
total finance cost	**(185)**	(255)
net finance income	**1,472**	1,518

7. employees

7.1 employee benefit expense

	note	**2017 £000**	2016 £000
wages and salaries		**123,543**	132,919
social security costs		**13,796**	14,630
other employer's pension costs – money purchase scheme		**13,378**	13,612
flexible benefit costs		**4,974**	7,057
staff costs capitalised as internally generated software costs		**(435)**	(311)
		155,256	167,907
other employer's pension costs – defined benefit scheme included in interest payable	23	**185**	238
total employment costs		**155,441**	168,145

7.2 monthly average number of people employed:

	2017	2016
ombudsmen	**291**	234
case-handlers	**1,902**	2,134
other	**1,172**	1,332
total	**3,365**	3,700

8. board remuneration

The board comprises non-executive directors only. Board remuneration payable during the year amounted to £212,470 (2016: £209,355). The chairman, who is also the highest paid director, was paid at a rate of £74,970 per annum (2016: £74,970), the senior independent director, the audit committee chairman and the remuneration committee chairman were paid at a rate of £29,500 per annum (2016: £29,500) and the other directors were paid at a rate of £24,500 per annum (2016: £24,500). Further details are provided in the remuneration report on page 42.

No payments were made on behalf of any of the above directors in respect of pension scheme contributions and no directors are accruing any benefits within the pension scheme.

9. property, plant and equipment

	leasehold improvements and premises fees £000	computer equipment £000	furniture and equipment £000	motor vehicle £000	total £000
cost					
at 1 April 2016	3,445	9,980	15,114	9	28,548
additions	–	5	208	–	213
disposals	–	(6)	(567)	–	(573)
reclassifications	–	–	–	–	–
write downs	–	–	–	–	–
at 31 March 2017	**3,445**	**9,979**	**14,755**	**9**	**28,188**
accumulated depreciation					
at 1 April 2016	503	8,204	7,916	9	16,632
charge for the year	344	1,589	2,446	–	4,379
disposals	–	(6)	(566)	–	(572)
reclassifications	–	–	–	–	–
write downs	–	–	–	–	–
at 31 March 2017	**847**	**9,787**	**9,796**	**9**	**20,439**
net book value at 31 March 2017	**2,598**	**192**	**4,959**	**–**	**7,749**
at 31 March 2016	2,942	1,776	7,198	–	11,916

The fair value of property, plant and equipment does not materially differ from the carrying amount of property, plant and equipment disclosed above.

10. intangible assets

	computer software and licences £000	internally generated software £000	work in progress* £000	total £000
cost				
at 1 April 2016	3,608	8,230	2,221	14,059
additions	181	–	2,748	2,929
assets placed in use*	–	829	(829)	–
disposals	(6)	–	–	(6)
reclassifications	–	–	–	–
at 31 March 2017	**3,783**	**9,059**	**4,140**	**16,982**
accumulated amortisation				
at 1 April 2016	2,276	4,224	–	6,500
charge for the year	584	2,574	–	3,158
disposals	(6)	–	–	(6)
reclassifications	–	–	–	–
at 31 March 2017	**2,854**	**6,798**	**–**	**9,652**
net book value at 31 March 2017	**929**	**2,261**	**4,140**	**7,330**
at 31 March 2016	1,332	4,006	2,221	7,559

* Work in progress comprises direct staff costs and sub-contractor costs used to develop software for the Service's use. When the asset is placed in use, the associated costs are transferred from work in progress to the appropriate asset category.

11. trade and other receivables

	31 March 2017 £000	31 March 2016 £000
trade and other receivables due within one year		
trade receivables	**4,613**	8,850
less: provision for bad debts	**(468)**	(864)
less: provision for credit notes	**(1,032)**	(1,161)
trade receivables – net	**3,113**	6,825
prepayments	**11,207**	8,699
other receivables	**981**	1,149
accrued income	**10,891**	21,266
trade and other receivables due within one year	**26,192**	37,939
trade and other receivables due after more than one year		
prepayments – after more than one year	**526**	450
trade and other receivables due after more than one year	**526**	450

12. short-term deposits

	2017 £000	2016 £000
short-term treasury deposits	**153,000**	114,000
short-term deposits	**153,000**	114,000

As at 31 March 2017, the Service held Treasury deposits with a maturity of greater than three months with nine different institutions (31 March 2016: five) for periods between four and twelve months maturing between 19 July 2017 and 23 March 2018.

13. cash and cash equivalents

	31 March 2017 £000	31 March 2016 £000
cash at bank and in hand	**1,563**	6,512
short-term treasury deposits (deposits with a maturity of less than three months)	**88,250**	113,000
cash and cash equivalents	**89,813**	119,512

As at 31 March 2017, the Service held Treasury deposits with a maturity of less than three months with seven different institutions (31 March 2016: seven) for periods between one and three months maturing between 3 April 2017 and 14 June 2017.

14. trade and other payables

	31 March 2017 £000	31 March 2016 £000
trade and other payables due within one year		
trade payables	**4,793**	4,512
other taxes and social security	**3,228**	3,471
deferred income		
supplementary case fees	**3,234**	4,647
group fees	**5,163**	9,133
CJ levy received in advance	**12,551**	1,656
other creditors	**351**	2,209
accruals	**18,441**	18,278
trade and other payables due within one year	**47,761**	43,906
trade and other payables due after more than one year		
accruals	**2,805**	4,107
trade and other payables due after more than one year	**2,805**	4,107

15. financial instruments

financial risk management

Financial risk management is carried out by the Service's central finance department under policies approved by the board to minimise potential adverse effects of risks on the Service's financial performance. The Service's investment policy provides written principles covering market, credit and liquidity risk.

a) market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

The Service's financial instruments do not expose it to market risks. In line with the Service's investment policy, investments are only made through sterling fixed-term deposits, which are not subject to price or foreign exchange risk. Furthermore, the Service's operations are carried out in sterling and there is no exposure to foreign exchange from currency exposures. The Service does not have borrowings and therefore is not exposed to cash flow and interest rate risk in respect of borrowings.

b) credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The Service is exposed to credit risk through its cash and short-term deposits with financial institutions and credit exposure to customers through outstanding receivables. The Service reviews prevailing credit ratings annually, to produce a counterparty list, which is approved by the Service's audit committee. To further manage credit risk, the maximum total principal that can be invested in a single counterparty or multiple counterparties that are under common ownership is based on Standard & Poor's rating of the counterparty. The Service monitors the collection of receivables from its customers and the ageing of debts.

c) liquidity risk

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities.

The Service monitors its cash balance on a daily basis. Cash flow forecasting is performed and monitored on a monthly basis to ensure the Service has sufficient liquid cash to meet its operational needs. Surplus cash held above that needed for operating purposes is held on call or in short-term deposit accounts with financial institutions in line with the Service's investment policy. Such cash is only invested in sterling investments with approved financial instruments.

15. financial instruments *continued*

c) liquidity risk *continued*
At the reporting date, the Service held money market funds of £153,000,000 (2016: £114,000,000) and other liquid assets of £89,813,000 (2016: £119,512,000) that are expected to readily generate cash inflows for managing liquidity risk.

15.1 financial instruments by category
As at 31 March 2017, trade and other receivables, short-term deposits and cash and cash equivalent balances of £269,531,000 were classified as loans and receivables (2016: £271,901,000).

As at 31 March 2017, trade and other payables of £50,566,000 were classified as loans and payables (2016: £48,013,000).

15.2 credit quality of financial assets
credit quality of financial assets
The fair value of the trade and other receivables, cash at bank and short-term deposits and borrowings is equivalent to the amortised cost balances presented in the financial statements.

The total of past due receivables is £2,757,000 (2016: £5,678,000)

The Service makes provision for impairment as follows:
a) Provision for credit notes – this is calculated with reference to the past 12 months actual credit notes issued.

Movement in the Service's provision for credit notes is as follows:

	2017 £000	2016 £000
at 1 April 2016	**1,161**	645
change in provision for the year	**(129)**	516
at 31 March 2017	**1,032**	1,161

b) Provision for bad debts – the ledger is reviewed for bad and doubtful debts.

Movement in the Service' provision for bad debts is as follows:

	2017 £000	2016 £000
at 1 April 2016	**864**	169
change in provision for the year	**(396)**	695
at 31 March 2017	**468**	864

The carrying amount of the receivables is all denominated in pounds sterling.

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement (note 5).

Amounts are generally written off when there is no expectation of recovering additional cash. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Service does not hold any collateral as security.

16. provision for liabilities

	2017 £000	2016 £000
provision brought forward at 1 April	**1,415**	504
release in the year	**–**	–
receipts in the year	**–**	320
payments in the year	**–**	–
new provision in the year	**1,289**	591
provision carried forward at 31 March	**2,704**	1,415

The provision for dilapidations at 31 March 2017 and 31 March 2016 reflects the recommendations made following property reviews undertaken by external consultants. During 2016/2017, we commissioned new reports for all properties, including Walbrook House where no provision had previously been made. Provisions exist for all the properties we currently occupy as set out below.

	31 March 2017 £000	31 March 2016 £000
SQP3	**514**	508
independent House	**863**	330
walbrook House	**81**	–
exchange Tower	**1,246**	577
	2,704	1,415

17. financial commitments

As at 31 March 2017 there were no capital commitments contracted for but not provided (31 March 2016: £nil).

18. events after the reporting period

There are no events after the reporting period that require disclosure.

19. operating lease commitments

The Service leases its operating premises. The length of these leases varies from between 2 and 26 years. These leases are renewable at the end of the lease period at a market rate. The Service has also entered into a sub-lease in the year for a part floor in Exchange Tower.

The Service also leases various plant and machinery under operating agreements. The lease expenditure is charged to the income statement during the year is disclosed in note 5.

19. operating lease commitments *continued*

The future aggregate minimum lease payments expected to be paid under non-cancellable operating leases are as follows:

	premises 31 March 2017 £000	**other 31 March 2017 £000**	premises 31 March 2016 £000	other 31 March 2016 £000
payments due				
not later than one year	**10,726**	**92**	10,820	180
later than one year and not later than five years	**28,835**	**5**	29,995	97
later than five years	**39,842**	**–**	45,245	–
total	**79,403**	**97**	86,060	277

These amounts are stated inclusive of VAT.

The future aggregate minimum lease payments expected to be received under non-cancellable operating sub-leases is £116,062, exclusive of VAT, all receivable within one year. This is in respect of a sub-lease of part of one floor of Exchange Tower with a lease expiry date of February 2023 and a break clause in March 2018.

Details of the terms of the leases of the premises are as follows:

floor	**start of current lease**	**future break clauses**	**end of lease**
SQP 3			
3	June 2015	*	October 2019
8	November 2014	*	October 2019
Independent House			
	February 2015		February 2018
Exchange Tower			
various	various between March 2013 and September 2014	various	various between January 2019 and August 2029
The Walbrook Building			
4	January 2016		March 2018
5	September 2015		March 2018

* There is a rolling break clause from May 2017 with six months' notice.

20. related party transactions

a) The Financial Conduct Authority is required under various statutes to ensure the Service can carry out its functions. The Financial Conduct Authority has to ensure that the terms of appointment of the directors secure their operational independence from the Financial Conduct Authority. Accordingly, the Service is not controlled by the Financial Conduct Authority but considers it to be a related party.

b) The Service entered into an agency agreement with the Financial Conduct Authority whereby, with effect from 1 April 2004, the Financial Conduct Authority collected tariff data, issued levy invoices and collected levy monies on behalf of the Service, at a cost of £120,000 for the year ended 31 March 2017 (2016: £96,000).

c) At 31 March 2017 the net balance due from the Financial Conduct Authority is £1,147,000 (31 March 2016: due to the Financial Conduct Authority £1,656,000). This balance has been netted off against CJ levy received in advance included in 'Trade and other payables' (see Note 14).

d) The Financial Conduct Authority bill the Service administration charges in respect of the pension scheme. The charge for the year ended 31 March 2017 was £176,000 (2016: £217,000).

e) The Financial Conduct Authority is a party to the lease agreements for Exchange Tower as guarantor of performance from 1 September 2014 for a lease term of 15 years.

f) A former member of the board, Gwyn Burr, is a non-executive director of Sainsbury's Bank, a firm covered under the Compulsory Jurisdiction. Gwyn received fees from the Service in 2015-2016 of £8,167. Further details are provided in the remuneration report (page 42). Gwyn Burr left the Service on 21 July 2015.

Other than disclosed above, there were no related party transactions during the year (31 March 2016: none).

21. accumulated surplus

	31 March 2017 £000	31 March 2016 £000
accumulated surplus before net pension liability	**231,248**	241,583
net pension liability	**(7,664)**	(5,457)
accumulated surplus after net pension liability	**223,584**	236,126

22. losses and special payments

	2017 £000	2016 £000
losses	**178**	263
claims waived*	**–**	1,130
special payments	**718**	662
total	**896**	2,055

* As part of our ongoing commitment to make sure that supplementary case fees were only charged to businesses that sold PPI policies, we issued a number of credit notes during 2014/2015 and 2015/2016. The figure disclosed above represents credit notes raised against invoices issued to the wrong businesses in 2012/2013 and 2013/2014. We have recorded these credits as a loss because we have not recharged the fee to the correct business. This is because either we consider that it would be inequitable to charge (under FEES 5.5B.27) or because the consumer did not refer a complaint to us against the correct business until after 1 April 2014 when the supplementary fee was set to £0.

23. pension costs

introduction

The Service is part of the Financial Conduct Authority's (FCA) HM Revenue & Customs-approved pension plan open to permanent employees. The pension plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. The plan is administered by a separate board of trustees which is legally separate from the company. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Since 1 April 2000, all employees joining the Service have been eligible only for the defined contribution section of the plan. On 1 April 2010 the defined benefit section of the plan closed and those members who were previously earning final salary benefits had the option to earn future benefits under the defined contribution section. Members with a defined benefit pension are entitled to annual pensions on retirement at age 60, the majority of which increases with RPI inflation, subject to a cap of 5% per annum. Benefits are also payable on death and following other events. No other post-retirement benefits are provided to these employees.

profile of the plan

defined contribution scheme

The Service's core contributions (ranging from 6% – 12% of the employee's pensionable salary) to the defined contribution section depend on the employee's age. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan. The Service will pay matching contributions up to a maximum of 3% of the employee's pensionable salary.

defined benefit scheme

Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the FCA plan relating to those present and past employees of the Service.

The defined benefit obligation includes benefits for deferred members of the plan and current pensioners. At 31 March 2017 there are 100 (2016: 103) deferred members and 35 (2016: 34) pensioners.

The following table provides an analysis of the defined benefit obligation:

analysis of defined benefit obligation by membership category	31 March 2017 £000	31 March 2016 £000
deferred members benefits	**29,748**	23,337
pensioner members benefits	**7,320**	6,587
total defined benefit obligation	**37,068**	29,924

The plan duration is an indicator of the weighted-average time until benefit payments are made. For the plan as a whole, the duration is around 23 years, reflecting the approximate split of the defined benefit obligation between deferred members (duration of 25 years) and current pensioners (duration of 14 years).

funding requirements

UK legislation requires that pension schemes are funded prudently. The funding valuation of the plan as at 31 March 2016 is currently in the process of being finalised by a qualified actuary. The valuation shows a deficit in respect of the Service's liabilities of approximately £10.3m. It has been agreed that the Service will increase the contributions to the plan to £1,035,000 per annum from 1 April 2017 which is expected to remove the deficit by 31 March 2027.

risks associated with the plan

The plan exposes the Service to a number of risks, the most significant of which are set out below:

asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The plan holds a significant proportion of growth assets (equities and property) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the plan's long-term objectives.
changes in bond yields	A decrease in corporate bond yields will increase the value placed on the plan's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the plan's bond holdings.
inflation risk	The majority of the plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
life expectancy	The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

A contingent liability exists in relation to the sex equalisation of Guaranteed Minimum Payment (GMP) in the defined benefit section of the Plan. The UK Government intends to implement legislation which could result in an increase in the value of GMP for males. This would increase the defined benefit obligation of the plan. At this stage, it is not possible to quantify the impact of this change.

reporting at 31 March 2017

The figures below relate solely to the obligations of the Service in respect of the defined benefit section of the FCA plan. The principal assumptions agreed by the board and used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

main financial assumptions	**31 March 2017 % pa**	31 March 2016 % pa	1 April 2015 % pa
retail price index (RPI) inflation	**3.2**	3.0	3.1
pension increases (RPI maximum 5%)	**3.1**	2.9	3.0
pension increases (RPI maximum 3%)	**2.5**	2.3	2.5
discount rate for plan liabilities	**2.6**	3.5	3.3

The financial assumptions reflect the nature and term of the plan's liabilities.

23. pension costs *continued*

The main demographic assumptions are set out below:

main demographic assumptions		**31 March 2017 years**	31 March 2016 years	31 March 2015 years
life expectancy for member aged 60 at the balance sheet date	Males	**28.3**	28.9	28.8
	Females	**29.7**	30.2	30.1
life expectancy at age 60 for member aged 40 at the balance sheet date	Males	**29.5**	30.8	30.7
	Females	**31.0**	32.2	32.1

The base mortality table adopted for the last three years is the SAPS S1 light tables for normal health retirees with a scaling factor of 100%. At 31 March 2017, assumed improvements in mortality are in line with CMI 2016 "core projections", with a long-term rate of mortality improvement of 1.25% per annum which results in lower rates of mortality improvements compared to the assumptions adopted at 31 March 2016 and 31 March 2015 (which both assume improvements in mortality are in line with CMI 2013 "core projections" with a long-term rate of mortality improvement of 1.25% per annum).

Members are assumed to exchange 20% of their pension for a cash lump sum at retirement.

The plan assets are invested in the following asset classes (all of which have a quoted market value except the annuity policies):

asset allocation	**value at 31 March 2017 £000**	value at 31 March 2016 £000
equity	**15,686**	11,953
property	**2,131**	1,887
corporate bonds	**9,357**	10,500
bought-in annuity policies*	**1,716**	0
other	**514**	127
total	**29,404**	24,467

* Over the past year, the plan has invested in individual annuity policies for certain pensioners of the plan. These annuity policies are held in trustees' names and are an investment asset of the plan. These assets have been valued using assumptions consistent with those used to value liabilities.

There are no deferred tax implications of the above deficit as corporation tax is only payable by the Service on activities not directly related to its statutory activities.

The plan assets do not include any of the Service's own financial instruments, nor any property occupied by, or other assets used by the Service.

The amounts recognised in the statement of financial position are set out below:

reconciliation of funded status to statement of financial position	**value at 31 March 2017 £000**	value at 31 March 2016 £000	value at 1 April 2015 £000
fair value of plan assets	**29,404**	24,467	24,441
present value of defined benefit funded obligations	**(37,068)**	(29,924)	(31,829)
funded status	**(7,664)**	(5,457)	(7,388)
unrecognised asset due to limit in para 64	**–**	–	–
net pension liability recognised on the statement of financial position	**(7,664)**	(5,457)	(7,388)

The amounts recognised in comprehensive income are set out below:

breakdown of amounts recognised in the statement of comprehensive income and the statement of other comprehensive income	**year ending 31 March 2017 £000**	year ending 31 March 2016 £000
operating cost:		
service costs	**–**	–
financing cost:		
interest on net defined benefit liability	**185**	238
pension expense recognised in the statement of comprehensive income	**185**	238
re-measurements in other comprehensive income		
returns on plan assets (in excess of)/below that recognised in net interest	**(4,024)**	842
actuarial losses/(gains) due to changes in financial assumptions	**7,773**	(2,037)
actuarial (gains)/losses due to changes in demographic assumptions	**(781)**	585
actuarial (gains) due to liability experience	**(603)**	(1,216)
adjustments to the limit in para 64	**–**	–
total amount recognised in the statement of other comprehensive income	**2,365**	(1,826)
total amount recognised in the statement of comprehensive income and other comprehensive income	**2,550**	(1,588)

23. pension costs *continued*

Changes in the present value of the defined benefit obligation during the year are set out below:

	year ending 31 March 2017 £000	year ending 31 March 2016 £000
opening defined benefit obligation	**29,924**	31,829
interest cost on defined benefit obligation	**1,042**	1,045
actuarial (gains)/losses on plan liabilities arising from changes in demographic assumptions	**(781)**	585
actuarial losses/(gains) on plan liabilities arising from changes in financial assumptions	**7,773**	(2,037)
actuarial losses/(gains) on plan liabilities arising from experience	**(603)**	(1,216)
net benefits paid out	**(287)**	(282)
closing defined benefit obligation	**37,068**	29,924

Changes to the fair value of plan assets during the year are set out below:

	year ending 31 March 2017 £000	year ending 31 March 2016 £000
opening fair value of plan assets	**24,467**	24,441
interest income on plan assets	**857**	807
re-measurement gains/(losses) on plan assets	**4,024**	(842)
contributions by the employer	**343**	343
net benefits paid out	**(287)**	(282)
closing fair value of plan assets	**29,404**	24,467

Actual return on plan assets is set out below:

	year ending 31 March 2017 £000	year ending 31 March 2016 £000
interest income on plan assets	**857**	807
re-measurement gains/(losses) on plan assets	**4,024**	(842)
actual return on plan assets	**4,881**	(35)

analysis of amounts recognised in statement of other comprehensive income	period ending 31 March 2017 £000	year ending 31 March 2016 £000
total remeasurement (losses)/gains	**(2,365)**	1,826
change in irrecoverable surplus effect of limit in para 64	**–**	–
total (loss)/gain	**(2,365)**	1,826

sensitivity to key assumptions

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The increase to the net pension liability as a result of changes to the assumptions used is set out below:

	current value £000	change £000	new value £000
following a 0.1% decrease in the discount rate	(7,664)	(817)	(8,481)
following a 0.1% increase in the inflation assumption	(7,664)	(800)	(8,464)
following a one-year increase in life expectancy	(7,664)	(1,097)	(8,761)

The sensitivity information shown above has been prepared using the same method as adopted when calculating the liabilities at the balance sheet date. The sensitivity showing the impact of a 0.1% decrease in the discount rate reflects a change in assumptions, rather than a change in underlying bond yields, and therefore does not allow for the impact on plan assets, other than annuities held by the plan.

money purchase section (defined contribution scheme)

The total expense recognised in the income statement £13,378,000 (2016: £13,612,000) represents contributions payable to the plan by the Service at rates specified in the rules of the defined contribution scheme.

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