annual report and accounts

for the year ended 31 March 2018

Financial Ombudsman Service

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about us

We were set up by Parliament to resolve individual complaints between financial businesses and their customers – fairly, reasonably, quickly and as informally as possible. We can help with most types of problems – from payday loans to pensions, and from 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.

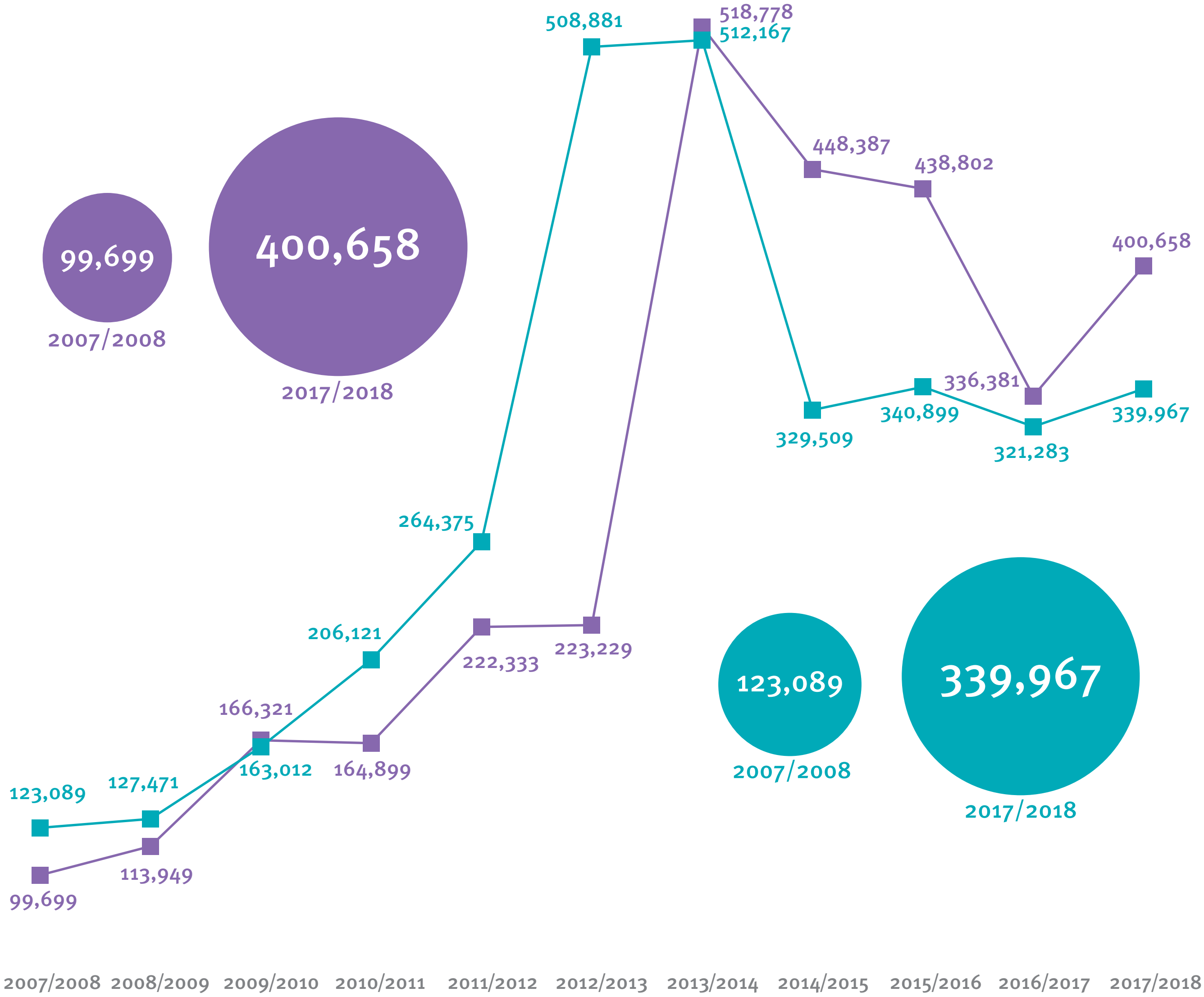
If we decide the business has acted fairly – or there's just been a misunderstanding – we'll explain how things stand. But if someone's been treated unfairly, we'll use our powers to make sure the business puts things right. That could involve anything from amending a credit file to reducing loan repayments,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

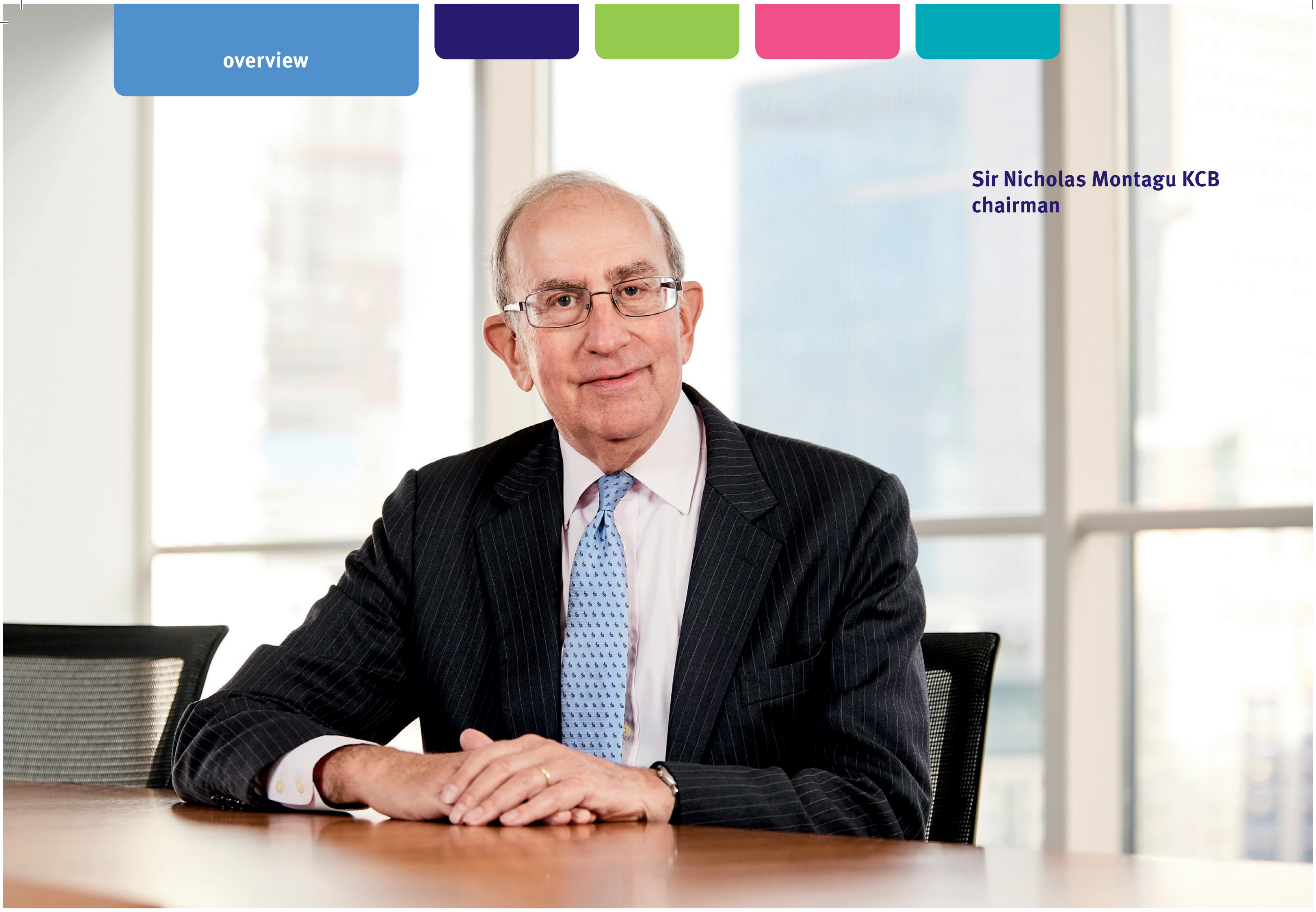
Since we were set up, we've seen the impact of financial concerns and complaints on people from all sorts of backgrounds and livelihoods. We're committed to sharing our insight and experience to encourage fairness and confidence in financial services – whether it's through our website and publications, or through our ongoing engagement with a wide range of our stakeholders.

We're also committed to working openly and to being accountable. Each year we consult publicly on our plans and budget, using the feedback we get from people who use and fund our service to help inform our response to the challenges of the year ahead. Our budget is subject to approval by the Financial Conduct Authority, and our *annual report and accounts* is laid before Parliament. We regularly attend Parliamentary committees to answer questions about our performance. And in April 2018 our non-executive board appointed Richard Lloyd to carry out an independent review of our service, to be published on our website.

our workload over the last decade

3,236,774 complaints received
3,133,436 complaints resolved





Sir Nicholas Montagu KCB
chairman

chairman's statement

This *annual report and accounts* looks at our performance over the past year. But, as we approach our twentieth anniversary, it's a good time to cast our eyes further back, over the whole period of our existence, and see what has and hasn't changed.

The list of what has changed could be endless. In 2000, much of the technology we now take for granted would have been unheard of. Smart phones, tablets, digital currencies and so much more simply didn't feature. And importantly, these aren't just technological advances – they've changed the way we all think, live and interact with each other.

For the Financial Ombudsman Service, that has meant rethinking how we work with our customers, both consumers and financial providers. The old paper-based model, often lasting weeks, increasingly won't work as the standard approach. That's why we have moved to doing far more electronically or by phone, stepping in earlier and trying to sort things out between consumers and their financial providers before they unnecessarily crystallise into bigger problems or harder-fought disputes.

What we deal with has changed too over the last 20-year period. Who back in 2000 could have foreseen the millions of payment protection insurance (PPI) policies sold and mis-sold, and what it would mean for both the buyers and the sellers? Our response to this unprecedented demand had to be quite different from anything before or since. Last year's figures show yet again the scale of PPI in our overall work, and, while focused on the task before us, we share the general relief that an end is now in sight. I am proud of just how many cases we resolved last year, and the dedication and professionalism of our people that made it possible.

Our people provide a good starting point for what has not changed. Our purpose and the values that underpin it remain as fundamental to our organisation as they were when we were founded, and we are lucky in having people who reflect this in all their work. Fairness lies at the heart of what we do, and we need our customers to have confidence in our unswerving commitment to it. With public trust levels and customer satisfaction at an all-time high over the year, we can take some reassurance that we are going in the right direction.

But we can and must do more. We are constantly seeking to improve the ways that businesses and their customers interact, so as to strengthen confidence in financial services. Playing a key role in rebuilding that confidence has been a major feature for us since the financial collapse of 2008, and I welcome the constructive way in which banks and other providers have worked with us to help achieve our common purpose of customer satisfaction.

Success in that shared endeavour means listening and recognising the particular circumstances of our consumers. The Chief Ombudsman in her introduction rightly lays emphasis on meeting the needs of vulnerable customers, for whom change and the growing complexity which it often brings can be challenging. The idea of meeting people's need in this way is intrinsic to the idea of fairness.

Our purpose and the values that underpin it remain as fundamental to our organisation as they were when we were founded

Change is challenging, too, for our own people, as they adapt to new ways of doing things, while still meeting the demands of our day-to-day casework. That is why fairness to our own staff, as well as to our customers, lies at the heart of the constant values that I have mentioned. This, like our outward-facing work, is something we can never let up on: we should celebrate our achievements, but recognise that we still have a way to go.

I end with thanks – to our staff, to the regulator and to the financial providers with whom we have worked to increase customer satisfaction and trust. And to my Board – whose support and wisdom have, as ever, been unfailing. During the year we have lost Maeve Sherlock, Pat Stafford and Gill Whitehead, all of whom had made terrific contributions – including Maeve as Senior Independent Director (SID). We were lucky to find three outstanding replacements in Jenny Watson, Diana Warwick and Sienne Veit, and Alan Jenkins has taken on the role of SID. The external board effectiveness review carried out this year found that the Board was operating effectively – and we will of course take forward the feedback from that review as we move into the new financial year.

We will be moving forward too with the benefit of the findings of Richard Lloyd, who – for the reasons the Chief Ombudsman outlines in her foreword – has carried out an independent and wide-ranging review of our service.

I am grateful to Richard – who has significant expertise and experience in the fields of dispute resolution and consumer protection – for the diligence and thoughtfulness with which he has carried out his work. While we are proud of what we do, we want to do better – and his review will point the way.

Sir Nicholas Montagu KCB
chairman
4 July 2018

chief ombudsman & chief executive's foreword

It's approaching 20 years ago now that discussions were underway about setting up a single ombudsman for financial services. This would replace eight existing schemes – each covering individual industries, whose members didn't always even have to sign up. Under the new arrangements, whatever the particular financial product or service involved, customers with complaints would have access to a "one stop shop" – with statutory backing – to get a quick and fair answer.

In 2018, the world looks very different to when the Financial Ombudsman Service was first established. The complaints we've seen over the last year give an insight into how new technologies, together with economic and social trends, have changed the game in terms of how people live day-to-day – often in ways that no-one anticipated back at the turn of the millennium.

For us – like for the financial services sector itself – standing still simply isn't an option. That's why, over the last couple of years, we've been through the biggest transformation of our service since we were set up – helping us ensure we're fit for purpose for 2018 and beyond.

keeping pace

This year we continued to see complaints in volumes we couldn't have anticipated when we were set up. In 2017/2018 we received over 1.4 million enquiries from customers of financial services, and took on 339,967 new complaints – including 186,417 about payment protection insurance (PPI). And we resolved 400,658 complaints, including 258,331 about PPI.

This year we once again kept our levy income at the previous year's level, as well as freezing our case fee for the fifth year running. While we've already explained that keeping our costs frozen isn't sustainable, we committed in *our plans for the year ahead* to consulting with our stakeholders on a new funding

1.4m

the number of enquiries from customers of financial services we received in 2017/2018

339,967

the number of complaints we took on in 2017/2018

Caroline Wayman
chief ombudsman & chief executive

model that's fit for a future beyond PPI, and where we're working increasingly flexibly.

In our *annual review*, we set out some of the themes and trends in the complaints we received in 12 months to 31 March 2018. As some of our stakeholders anticipated, we continued to hear from significant volumes of people telling us they'd had trouble after borrowing money: following an 89% rise in the previous year, complaints about consumer credit rose by a further 40% in 2017/2018. Alone, payday and instalment loans accounted for more than 18,000 complaints, compared with the 10,000 we'd expected – and now represent the biggest single type of product we're dealing with after PPI and current accounts.

For us – like for the financial services sector itself – standing still simply isn't an option

We were set up to resolve complaints as quickly and informally as possible. And while being ready to respond to volatility in our workload, we'll keep up our focus on resolving complaints at the earliest possible stage – always being mindful of the need to adapt our approach to the circumstances of the individual case in hand. Where disputes are complex and entrenched, reaching an answer that feels fair to both parties may necessarily take some time. On the other hand, where things are urgent or the people involved are vulnerable, stepping in early can make all the difference.

Increasingly, we've been able to help some people in days or even hours, rather than weeks or months down the line. This level of responsiveness is something we could never have achieved under our previous structure – where people could face a wait for our answer that in some cases wasn't just frustrating, but unacceptable. And reflecting the benefits our early involvement can have for both sides, a growing number of businesses have told us we can step in to complaints they haven't yet investigated themselves – not just on a case-by-case basis, but whenever their customers want us to.

Responsiveness isn't just important because it's what people need. As new technologies transform everyday life, it's also simply what people expect. Mobile banking and mobile payments – together with new payment services and open banking, introduced in early 2018 – have set new standards for speed, convenience and personalisation.

Over recent years, to ensure we remain relevant and accessible, we've been investing in the technology we use ourselves. 2017/2018 was a milestone year in our transforming our IT capabilities – and following significant testing and development with support from our stakeholders, our new case handling system and portal for consumers and businesses will be launched in 2018/2019. This progress reflects our commitment to provide a personal, convenient service – and also to run ourselves in a sustainable way, as we and financial businesses see benefits of more electronic engagement in the form of greater efficiency and reduced environmental impact. We've been mindful too of the principles of the new *General Data Protection Regulation* – and as we've developed our IT, and our service more widely, we've prioritised the privacy and security of the significant volumes of personal data that people trust us to use responsibly to resolve their complaints.

fairness: seeing the bigger picture

The increasing blurring of boundaries between financial services and other services – as well as the speed with which transactions happen – present new challenges for knowledge-based organisations like ours. They underline just how relevant the idea of a "one stop shop" remains – and how important it is that we're able to take a bigger-picture approach, where the problems people bring to us cut across traditional areas of financial services.

And whatever the nature of those problems, people need to be able to rely on the quality of our answers. While individual circumstances may lead to different outcomes, those outcomes need to be consistently fair.

In 2017/2018 we continued to invest in our people and their knowledge – to help them resolve not just the increasing range of problems we're seeing, but those problems that don't fit neatly into a single area. This includes launching our academy, where our new investigators receive six months' focused training and mentoring. Building on the work we've done over recent years to put our ombudsmen's experience at the heart of our case handling teams, we've continued to build our practice groups – networks of experts on the financial products and issues involved in the complaints we receive – and further developed our knowledge-sharing tools.

The investment we've made in our service and our people has been consistently supported by our stakeholders – and it's reflected in the feedback we get from those who are relying on our answers. A majority of financial businesses have confidence in us, including the complaints handlers who interact with us every day. And 69% of people who used our service said they were satisfied – including 90% of people whose complaints we upheld, and 50% of people who didn't get the answer they had initially been hoping for.

Even so, we know there's always more we can do to make our service better for everyone. It's essential we continue to ask for feedback – and, equally importantly, to show we've listened, learned and acted on what people have told us. This includes our own employees – and we've taken steps this year to ensure we understand what really matters to our people, so we can engage and motivate everyone to perform at their best.

We announced in April that our non-executive board had asked Richard Lloyd to carry out an independent review of our service, following concerns raised by Channel 4's *Dispatches* in March 2018. As we've already said publicly, we don't think the programme reflected the fair, professional service we firmly believe we are. However, we know we can always improve – and the review is a further opportunity for us to understand what more we can do to meet people's expectations of us. As I'm writing this, Richard Lloyd's work is ongoing – and I look forward to the valuable insight it will give us about the action we need to take in the next year and beyond.

We know there's always more we can do to make our service better for everyone

PPI: moving forward

As we've worked through these challenges – and looked ahead to the future – we've needed to continue to manage the fall-out of past mass mis-selling. In 2017/2018, we got more clarity about some of the uncertainties we've been facing in payment protection insurance (PPI) – which again accounted for well over half of all the complaints we received. In March 2017, the FCA announced that its new rules and guidance about PPI complaints – addressing the issue of undisclosed commission, following the case of *Plevin v Paragon Personal Finance Limited* – would come into effect in August 2017.

We'd made our plans for 2017/2018 based on the FCA's original published timetable –

69% of people who used our service were satisfied *including*

90% of people whose complaints we upheld *and*

50% of people whose complaints we didn't uphold

which involved its rules coming into effect at the beginning of the financial year. This change in timing meant that, for a significant part of the year, we weren't able to give our answer to people waiting to hear from us about the issues raised in *Plevin*. In the meantime, we were working with businesses to get the information we needed from them to resolve their customers' complaints as soon as we could.

At the start of 2017/2018, we budgeted to resolve 280,000 PPI cases – 52,000 in the first half of the financial year, and the remaining 228,000, representing over 80% of the total, in the second half of the year. Meeting this target represented a significant operational challenge – especially in light of operational delays with certain businesses and ongoing legal issues. As we delayed planned recruitment of PPI case handlers, and weren't able to resolve these complaints, there was also an impact on our finances, resulting in a small operating deficit.

However, from August 2017 to the end of the financial year, we resolved more than 100,000 PPI complaints that we hadn't previously been able to progress. This meant that, even though we ended the financial year having resolved around 20,000 fewer PPI complaints than we'd hoped, we still managed to resolve over a quarter of a million complaints about PPI this year overall.

At the end of March 2018, we had fewer PPI complaints waiting for our answer than we'd had for the best part of the last decade. Our commitment to help finally resolve PPI in a timely, efficient way – mindful of the uncertainties we still face – will be supported by our decision to open a new office in Coventry, where we've based a number of our contractor PPI case handlers.

building confidence

Accessible and effective dispute resolution schemes should make their sectors work better for everyone. And so, just as financial businesses have a responsibility to learn from past experience, we've got a responsibility to help prevent problems arising. This year we've continued to highlight patterns and trends in the complaints we're seeing – helping businesses do things better, so their customers don't need to use our service at all. This includes sharing examples of the growing number of complaints we're seeing about borrowing, and where the rising cost of insurance becomes a matter of fairness. Where appropriate, we've continued to share information with the FCA to inform its own programme of work.

We recognise that some of the most valuable insight comes from meeting people in the communities where they live and work. So we've also maintained our engagement with financial businesses and their trade bodies, consumer organisations and charities – helping us better understand different perspectives and concerns. Taken together with our regular media engagement, this can also help us reach people who wouldn't otherwise understand our role – or know about us at all.

doing things better

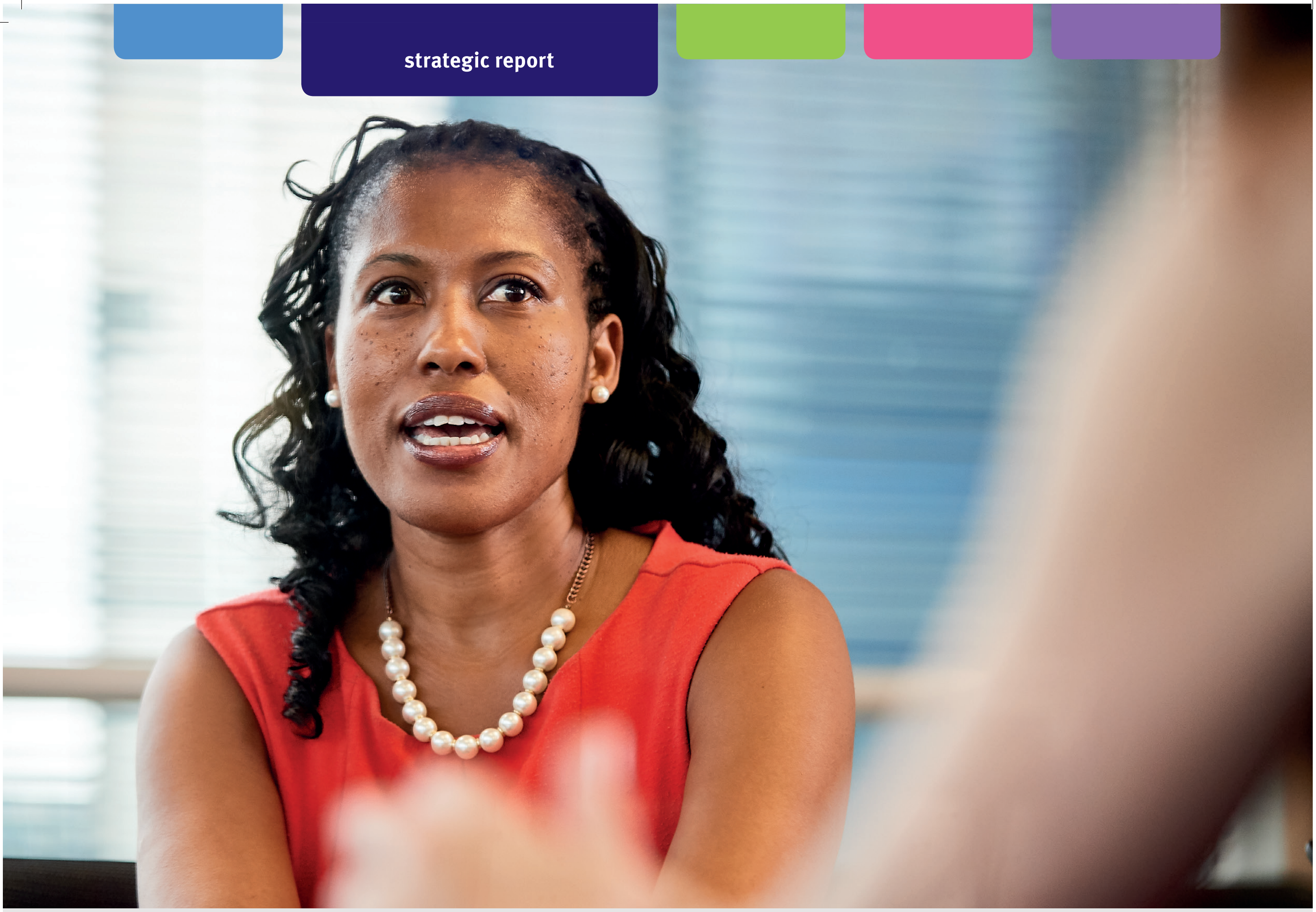
In 2018, at a time when the dispute resolution landscape continues to be scrutinised, the idea that people should have to navigate a fragmented system – or face what's likely to be the unaffordable cost of going to court – is a relic of the past in financial services. And there's no doubt that financial businesses and their customers alike are better off for that.

In fact, this *annual report and accounts* is full of things we can be proud of. And I'm really grateful to our people for all their commitment and hard work – without which that wouldn't be the case. In the year we published our first report on our equality, diversity and inclusion, it's a chance to reflect again on the diverse perspectives our people bring, the importance of that diversity in our job reaching fair answers, and the way our people support each other, as well as helping those using our service. In this report we've repeated our commitments to keep listening to our people's feedback, to keep investing in them, and to support them to perform at their best.

I know there's always more we can do to maintain and build people's confidence in us. As we look ahead to the next 20 years, staying true to our founding principles – and always being ready to listen and adapt – will stand us in good stead to do that.

Caroline Wayman
chief ombudsman & chief executive
4 July 2018

Accessible and effective dispute resolution schemes should make their sectors work better for everyone



This report sets out our progress against our strategic commitments, and gives other key information about our performance in 2017/2018.

Our *annual review** gives more information about the trends we've seen in complaints being referred to us, as well as how we've put them right and the wider impact we've had.

strategic report

Our commitments form our service's strategic aims and priorities. Before the beginning of each financial year – in *our plans for the year ahead* – we publish details about our aims for the coming year, as well as how we'll measure our progress towards them.

In 2017/2018, we made good progress toward meeting the commitments we set out in March 2017 – against a backdrop of putting in place substantial changes to how we deliver our service, as well as significant challenges in our operating environment. Overall, we resolved more complaints than we received – although, as a result of regulatory developments and challenges in PPI, we resolved fewer of these complaints than we'd planned to.

Levels of customer satisfaction remained high among financial businesses and their customers alike. This reflects our commitment to maintaining and improving the quality and consistency of our answers, while working in an increasingly streamlined and flexible way.

**www.financial-ombudsman.org.uk/publications/annual-review-2018*

our commitments for 2017/2018

our service

We'll run a service with fairness at its heart – one that's both relevant in a changing world and sustainable into the future. Working flexibly and efficiently, we'll make sure we're easy to use while being mindful of how we're using our resources.

commitments

we keep fairness at our heart – so everything we do is fair and feels fair

we're recognised as a well-run and efficient service

our customers

We'll earn people's trust by showing we've listened to their perspectives. Working flexibly, we'll combine expert knowledge with common sense and pragmatism – giving timely answers that are fair and feel fair too.

commitment

we are trusted and respected by our customers

our reach

We want everyone who needs us to know we're here and how we can help – and we'll adapt our service to people's lives and needs. By sharing our insight and experience, we'll help prevent complaints and promote confidence in financial services.

commitments

we reach and help those who need us

we provide insight to encourage fairness in all money matters

our people

We're expert problem-solvers who build each other's knowledge and are proud of the difference we make. Being diverse and inclusive gives us different perspectives, which gives us confidence in the fairness of the decisions we make.

commitment

we attract, develop and retain people who uphold our values

commitments for our service

we received

1.4m enquiries
against 1.7m projected in our 2017/2018 budget
9% fewer than expected

339,967 complaints
against 330,000 projected in our 2017/2018 budget
3% more than expected

186,417 PPI complaints
against 180,000 projected in our 2017/2018 budget
4% more than expected

we resolved

over 60,000
more complaints than we received

400,658 complaints
93% of our target
against 430,000 projected in our 2017/2018 budget

258,331 PPI complaints
92% of our target
against 280,000 projected in our 2017/2018 budget

we upheld

34%
of complaints overall
compared with 43% in 2016/2017

36%
of PPI complaints
compared with 52% in 2016/2017

2017/2018 figures exclude complaints affected by Plevin v Paragon Personal Finance Limited

we resolved

92%
of all complaints with an informal view, compared with 89% last year.

key financials

£244m our operating costs - £20m less than our budget of £264m

£243m our operating revenue - £1m higher than our budget of £242m

£550 we froze our case fee for the fifth year running

there's more about our financial performance in the next chapter

we reduced our carbon footprint by

2012

2018

67% per person

context and developments this year

- Following significant investment in previous years, we continued to modernise our IT capabilities, with a focus on efficiency and information security. Our new "customer-centric" case handling system, which is replacing our old "case-centric" system, makes it easier for our people to see a complete picture of information that's relevant to the person they're helping – supporting our aim of providing a flexible, responsive and personal service. We've been developing the system using an agile approach, so when we begin to roll it out in the summer of 2018 – in stages, and accompanied by extensive training – we can have confidence it will work for our people and our customers.

- Having continued to test and develop the technology over the course of the year, we expect to launch our online portal for consumers in 2018/2019, followed by a portal for businesses. These mean people will be able to share information with us in a way that's secure, paper-free and convenient – and check the progress of our investigation without needing to contact us directly.

- Since 2015, changes to the complaints-handling rules have meant we can get involved in complaints that businesses haven't yet investigated themselves, if we have both sides' permission. A number of businesses have now told us we can get involved whenever a customer wants this to happen. This year we've continued to work with businesses to understand how we can make greater use of this approach, reflecting our commitment to resolve complaints at the earliest possible stage.

- As we've transformed our ways of working, we've needed to review the way we manage and share knowledge. This year we've continued to build our networks of experts – practice groups – which help us ensure that we continue to resolve complaints consistently fairly, and effectively identify trends in what we're seeing. With the same focus on quality and consistency, we've used our case handlers' feedback to further expand and improve our online knowledge tools.

- We maintained our constructive relationship with the FCA, as we each carry out our separate but complementary roles. There's more about this in the section *working with the regulator* on page 26. We also maintained our relationship with the National Audit Office, who've audited our accounts since 2013/2014.

- We continued to look for opportunities to run our service in a cost-effective way, which also minimises our impact on the environment. The ongoing challenge of managing our PPI workload presented opportunities to make new choices about our premises. In October 2017 we opened a new office in Coventry's Friargate – a new development built by Coventry City Council, where we've now got around 250 contractor case handlers – helping us manage volatility in demand for our service in a flexible way, as well as having a presence outside London. This also meant we could end the lease on one of our buildings in East London – reducing the risks and costs associated with occupying an older building.

- We're long-standing members of the Ombudsman Association – the professional association for schemes like ours in the UK and Ireland. In 2017/2018 we contributed to the creation of the Association's new standards and adopted them as good practice. A thorough review of our existing procedures and processes has shown there's a very high level of compatibility between these standards and those we already have in place. We're committed to continuing to monitor how we comply with these important principles of what it means to deliver a high quality ombudsman service. So we'll regularly review, and report on, how we're doing and identify ways to continually improve the service we provide.

commitments for our customers

we resolved

40%

target 50%

of complaints in our general casework within 45 days

we answered

50%

target 50%

of complaints in PPI, packaged bank accounts and short-term lending within 45 days

73%

of complaints resolved in areas of mass complaints where people had been waiting more than 12 months

95% target

excluding complaints affected by Plevin

satisfaction with our service

69% of people who used our service *including*

90% of people whose complaints we upheld

50% of people whose complaints we didn't uphold

77% of people said they trusted our service - 76% last year

46% trust in financial services *(Edelman Trust Barometer)*

80% of people working at financial businesses told us they thought our decisions were fair and felt fair

context and developments this year

- In our general casework – which includes all types of complaints apart from PPI, packaged bank accounts and short-term lending – we resolved fewer complaints than the target we'd set. However, our performance was in line with 2016/2017. Over the coming months, we will continue to grow our case handling capacity – with more new investigators moving into our case handling teams, having received six-months' focused training and mentoring in our academy. We hold ourselves to higher timeliness standards than those required of us under the EU *Directive on Alternative Dispute Resolution* (ADR). As we highlighted in *our plans for the year ahead*, our performance in relation to these standards – which is measured from July to July – improved in the two years since the Directive was introduced.
- We weren't able to resolve complaints affected by *Plevin* for a significant part of the financial year, as we waited for the FCA's final rules and guidance. There's more about these challenges later in this section, under our *response to PPI*.
- For some cases where the people involved had been waiting more than 12 months for our answer, we faced challenges in moving things forward – including an ongoing challenge from a claims management company over our approach to resolving PPI complaints. We were able to begin progressing some of our oldest complaints in the final quarter of the year.
- To build trust and confidence in our service – as well as greater awareness of our role – we continued our engagement with financial businesses, the consumer advice sector, parliamentarians and other stakeholders, in communities across the UK and at a national level. We also attended FCA *live & local* events – recognising smaller financial businesses' particular concern that we speak with a consistent voice with the regulator on issues that matter to them, such as the suitability of financial advice.

commitments for our reach

20% of UK adults could name us unprompted

49% said they'd definitely heard of us when prompted

just 12% of people had no awareness of our service

overall awareness was **88%** (either unprompted or prompted), compared with 89% last year

(source: ICM)

we published

more than **27,000** final decisions on our decisions database, bringing the total to more than

160,000

we shared

1 *annual review* of complaints

2 sets of data about individual businesses

3 sets of quarterly data

4 issues of *ombudsman news*

we received

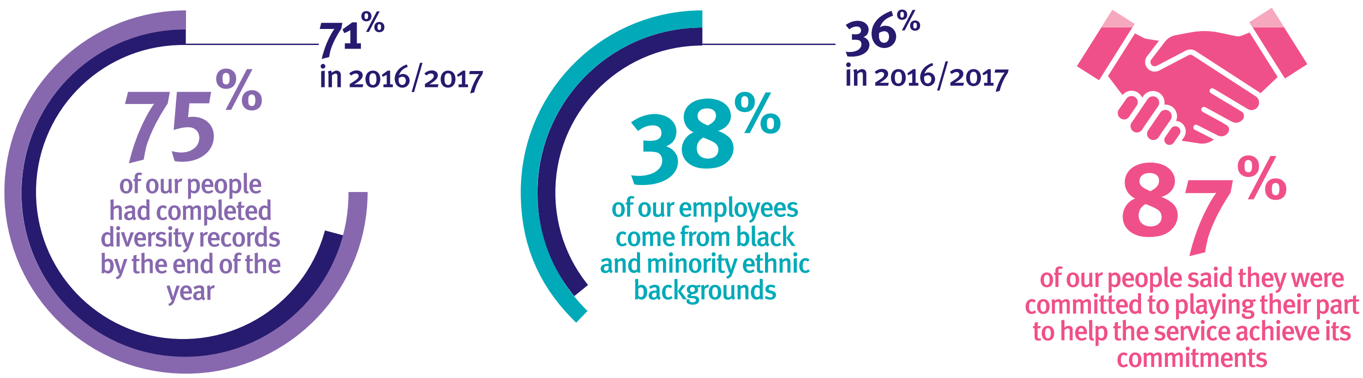
19,000

enquiries to our technical advice helpline, resolving problems without our needing to get formally involved

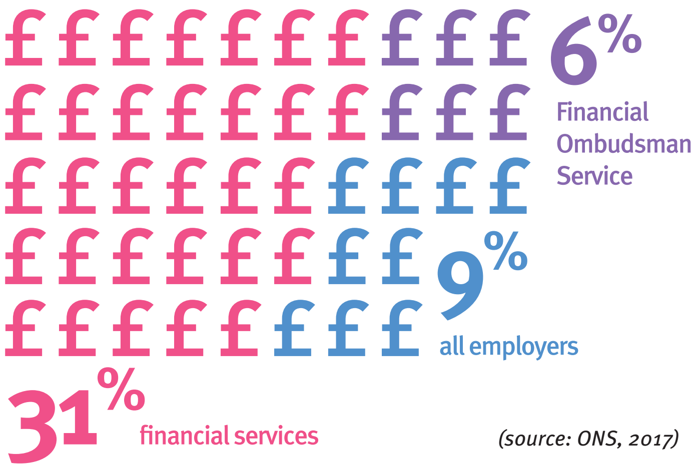
context and developments this year

- We're committed to making our approach open and transparent, so people can apply our thinking to prevent complaints arising. This year we shared insight into issues including credit and debt, PPI, travel insurance and the price of insurance premiums – engaging with the media and relevant stakeholders to ensure this insight had the widest possible reach and impact.
- For the first time, we used webinars to engage with our stakeholders – including running sessions with money advisers working for charities and for smaller businesses covered by our service. We also participated in a webinar run by a credit union trade body. This type of delivery – which meant we could still share perspectives face-to-face, while minimising time and financial costs for everyone involved – was well-received by participants.
- We use what we know about levels of awareness of our service to help inform our face-to-face and media engagement work. This in turn helps us reach people who might not otherwise use or know about our service, even though they have a problem we could help with.
- We recognise the challenges presented by vulnerability – including the complex and unpredictable nature of people's experiences, and the relationship between people's circumstances and how they're able to manage their money. In 2017/2018 the Money Advice Trust delivered bespoke training to 1,300 of our case handlers, so we can better identify and respond to signs of vulnerability among people using our service.
- We're committed to being accessible to everyone who needs us. In 2017/2018 we launched a new service-wide practice group aimed at supporting our people to provide the best possible service, including where people are vulnerable or have particularly complex or challenging needs. While this is primarily internally focused, we also recognise the growing emphasis on how financial businesses identify and take responsibility for customers who may be vulnerable. Our practice group will help us to gather insight to share with financial businesses, helping inform and influence the decisions they make about the service they provide to their customers.

commitments for our people



median gender pay gap

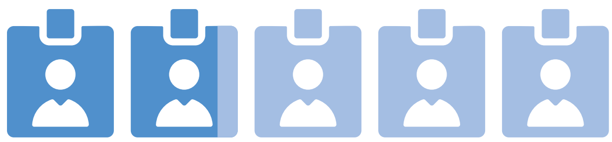


(source: ONS, 2017)

we employed

320 new employees 2017/2018

our average headcount



175 fewer than our plan 2017/2018

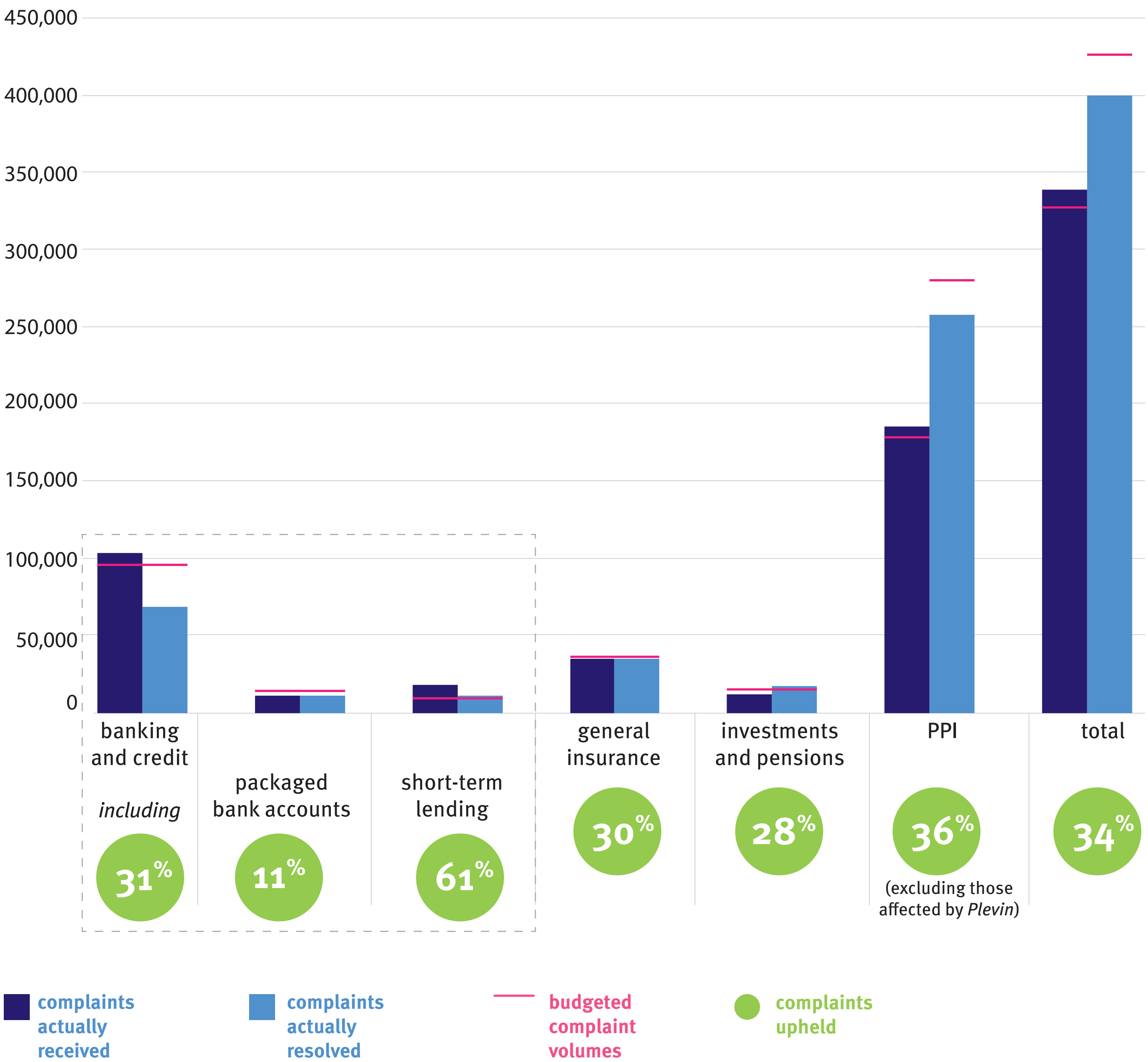
context and developments this year

- We continued to put our ombudsmen's knowledge and professional leadership at the heart of our investigation teams. We launched our new investigator academy, where new investigators receive six months' bespoke training and mentoring, and which involves a robust quality assurance framework. There's more about how we've supported our people's learning and development more broadly in the section *learning and development* on page 44.
- We published our first comprehensive report on our equality, diversity and inclusion. This highlighted a number of achievements – including the launch of policies to support carers and trans employees – as well as the areas we need to focus on, such as improving black and minority ethnic representation in more senior roles. We're pleased that we're already in a position where women fill half of many senior roles – and have set a target to reflect this as part of being signatories to the Women in Finance Charter. There's more about our work in this area in the section *equality, diversity and inclusion* on page 42.
- We continued to take action in response to our people's feedback, carried out an audit of our internal communications channels and strengthened our internal communications team. There's more about this work in the section *employee engagement* on page 46.

the complaints we resolved in 2017/2018

In March 2017, following a public consultation, we set out our projections for the volumes of complaints we expected to receive and resolve in the year ahead.

Our *annual review* gives more information about the themes and trends we saw in the complaints people referred to us – and how we responded to these issues, both on an individual basis and on a wider scale.



Volumes of new complaints were broadly in line with our expectations in PPI and across our general casework (complaints about all types of financial products other than PPI, packaged bank accounts and short-term lending). However, we received over 80% more complaints about payday and instalment loans than we expected – and 61% more than we received in 2016/2017.

We also received 22% fewer complaints about packaged bank accounts than we'd expected – reflecting the downward trend we've seen in these complaints over recent years. As a result, we resolved fewer of these complaints than we'd budgeted for. This was also the case for complaints about investments and pensions.

Following a consultation with our stakeholders about the data we publish, we decided that we'd take a different approach to reporting on the outcome of complaints affected by *Plevin*. To recognise the fact the *Plevin* rules and guidance weren't in place when the complaints were originally referred to us, we'll be publishing only the volume – and not the uphold rate – of complaints affected by *Plevin* that we received by 29 August 2017, and that we resolve by 30 June 2018.

We saw a significant drop in the uphold rate for PPI complaints that weren't affected by *Plevin* – as businesses continue to resolve PPI complaints in line with our well-defined and established approach to the issues involved. While our uphold rate for other types of complaints remained broadly similar, the reduction in the uphold rate for PPI had a bearing on our overall uphold rate.

our response to PPI

We explained in March 2017 in *our plans for the year ahead* that regulatory developments around PPI would continue to have an impact on our ability to move complaints forward.

We consulted on our plans for 2017/2018 on the assumption that the FCA's new *Plevin* rules and guidance would be in force at the beginning of that financial year. However, in March 2017, the FCA announced that these wouldn't take effect until 29 August 2017 – which meant we needed to revise the operational and financial assumptions we'd made.

The new rules and guidance stem from the case of *Plevin v Paragon Personal Finance Limited* – which means that people whose PPI wasn't mis-sold might be able to get a refund of some of the commission they paid on their policy. At the beginning of 2017/2018, *Plevin* considerations were relevant to 140,000 of the 170,000 PPI complaints that were waiting for our answer. And although we were able to tell the people involved whether we thought their PPI had been mis-sold, we weren't able to say if they were due compensation relating to commission.

While we were waiting for the rules and guidance to be published at the end of August 2017, we were working closely with businesses to ensure we'd got all the information we needed about their PPI policies – so we could settle their customers' individual concerns about *Plevin* as quickly as possible. We also continued to engage with trade bodies representing smaller businesses, who we know have particular concerns and questions about PPI – as well as with organisations representing consumers, who've taken an active interest in these developments.

Since the *Plevin* rules and guidance came into effect on 29 August 2017 – a date that also marked the start of a two-year deadline for complaining about PPI – we were able to begin giving answers to the people who had been waiting to hear from us. In the six months from 1 April 2017, we saw the first increase in new PPI complaints since 2013/2014 – a time when complaints were being referred to us at a rate of up to 12,000 a week. PPI still accounted for 55% of all the complaints we received in 2017/2018.

At the same time as introducing its new PPI rules and guidance and deadline, the FCA launched a public awareness campaign – to help ensure everyone with concerns about PPI makes an active choice about whether to take action. To coincide with the FCA's campaign, we updated our website to help people understand why they might have cause to complain – and to emphasise that it's straightforward for people to do it themselves, without unnecessarily losing a cut of any compensation to a claims management company. In 2017/2018, more people complained to us directly about PPI – with claims managers involved in 80% of the PPI complaints we received, down from 85% last year.

We knew at the beginning of the financial year that our progress in resolving PPI complaints would be dependent on a number of factors:

- How far claims management companies – who are involved in the majority of PPI complaints – pursue complaints through our service, even where it's clear they won't ultimately be upheld.
- How far businesses continue to cooperate with us in sharing information we need to settle the *Plevin* aspect of their customers' complaints – and agree with the answers we give.
- How far businesses apply the new *Plevin* rules and guidance consistently in the first instance – and satisfy their customers that they've got a fair answer.
- How well businesses manage their operations and answer PPI complaints in a timely way.

We expect these factors – along with a number of others, including the complexity of the complaints we see – will continue to have a bearing on the volumes of PPI complaints we receive and are able to resolve into 2018/2019 and beyond.

There's more information in *our financial performance* about the impact of developments in PPI on our operations – including how we plan to manage any volatility in demand for our service in a flexible, cost-effective way.

our commitments for 2018/2019

In March 2018 we set out our plans and budget for the financial year 2018/2019. Reflecting the strategic themes within our commitments, we've put in place a range of measures to track our performance – and we'll report on our progress in *our annual report and accounts* next year.

In summary, in 2018/2019:

- We expect to receive 380,000 new complaints in total, of which 220,000 will be about PPI. And we plan to resolve a total of 410,000 complaints, of which 250,000 will be about PPI.
- We'll maintain and build people's satisfaction with our service, as we resolve complaints increasingly quickly and flexibly. Following the introduction of the *General Data Protection Regulation* (GDPR) in May 2018, we've changed the way we ask people about their experience – to ensure we can balance the need to get feedback about our service with the need to get people's specific "opt-in" consent. And we'll maintain or improve upon our internal quality assessments, including how proud our people are of the service we've provided.
- We'll resolve the problems people bring to us quickly and flexibly – sorting out 50% of complaints (except PPI) within 45 days by the end of the financial year.
- We'll maintain our aim to resolve 95% of complaints where people have been waiting more than 12 months.
- We'll continue to focus on minimising our cost to the businesses we cover – keeping our levy income at £25m, our "free case" allowance at 25, and our case fee at £550 for the sixth year in a row. We expect our total cost per case (unit cost) to be below £706.

We give more detail from page 60 about the risks we have identified to meeting our commitments, as well as our plans for managing them.

working with the regulator

As the financial services regulator, the Financial Conduct Authority has a number of responsibilities in relation to the ombudsman service.

This includes appointing non-executive directors to our board; making rules that determine the scope of our compulsory jurisdiction; approving our annual budget; and acting as our "competent authority" in relation to our obligations under the EU *Directive on Alternative Dispute Resolution* (ADR). The relationship between our service and the FCA is explained in more detail in our memorandum of understanding, which is published on our website.

We regularly share insight with the FCA about the themes and trends we're seeing in complaints being referred to us – to help inform its own programme of work.

In 2017/2018, this has included sharing information about the complaints we're seeing about self-invested personal pensions (SIPPs), high-cost credit and the pricing of insurance policies.

We also work closely with the FCA on issues and developments that will have a bearing on our own role and work. This year, these issues included the deadline for making a PPI complaint; the consultation on widening access to redress for small business customers of financial services; and the transfer of claims management regulation to the FCA, and of complaints about claims managers to our service.

Following a public consultation, our budget for 2017/2018 was considered and approved by the FCA's board.

our financial performance

The nature of our work means we need to respond to whatever number and nature of complaints people bring to us.

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.

For the whole of 2016/2017, we weren't able to progress complaints affected by the judgment in *Plevin v Paragon Personal Finance Limited* – as the FCA's consultation on its new rules and guidance was ongoing. When we consulted on our plans for 2017/2018, we expected that the rules and guidance – relating to the potential unfairness of high levels of undisclosed commission – would be published at the beginning of the financial year.

However, in March 2017 the FCA announced that its final rules and guidance wouldn't come into effect until 29 August 2017. This meant we had to revise our operational plans to account for the fact that, until that date, we wouldn't be able to finally resolve complaints affected by *Plevin*.

At the start of 2017/2018, we budgeted to resolve 280,000 PPI cases in 2017/2018 – 52,000 in the first half of the financial year, and the remaining 228,000, representing over 80% of the total, in the second half of the year. Meeting this target represented a significant operational challenge – especially in light of operational delays with certain businesses and ongoing legal issues. We ended the year having resolved just over 20,000 fewer complaints than our target. Approximately 45,000 complaints affected by *Plevin* were waiting for our answer at the end of 2017/2018, compared with 140,000 at the start of the financial year.

We also experienced volatility in other areas of our work. In particular, we've seen continued and rapid growth in complaints about short-term lending, including payday and instalment loans. In 2017/2018, we received 8,000 more complaints than we'd expected about these types of borrowing – receiving a total of 18,378 complaints, of which 40% were received in the final quarter of the financial year.

Since 2015/2016, we've seen a substantial increase in complaints about short-term lending – making it the third largest area of our work about a single type of product after PPI and current accounts. In this fast-changing landscape, we've needed to ensure we've got the capacity to respond quickly and flexibly to demand for our help. We will need to continue to manage this volatility in the coming years – at the same time as helping to bring the fall-out of mass PPI mis-selling to a conclusion fairly and efficiently.

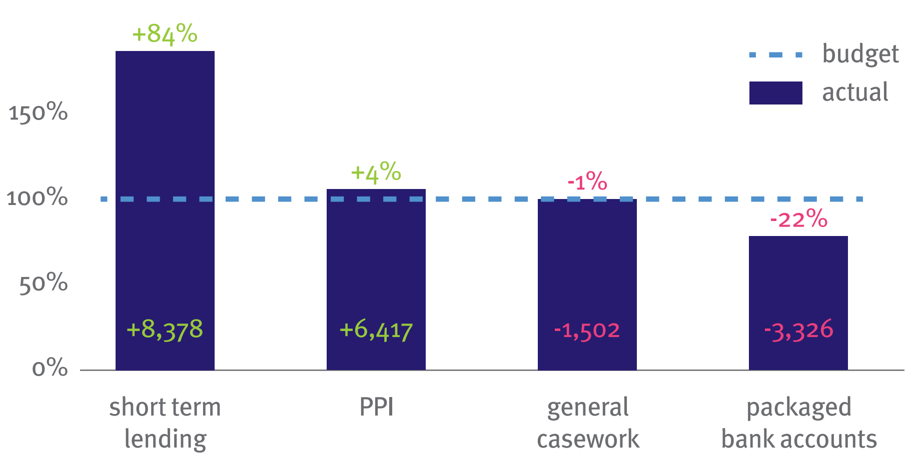
In 2017/2018 our operating revenue (total revenue excluding net released deferred income) was £243m – £11m higher than in 2016/2017. At £244m, our cost base was broadly the same as in the previous year. This meant – in line with our medium-term financial plans – we made an operating deficit of £0.7m before the release of deferred income. However, due to delays in our being able to progress significant volumes of complaints affected by *Plevin*, we didn't draw on our reserves to the degree we'd expected at the beginning of the year. There are more details about our operating plans and our reserves policy to fund the deficit on page 32.

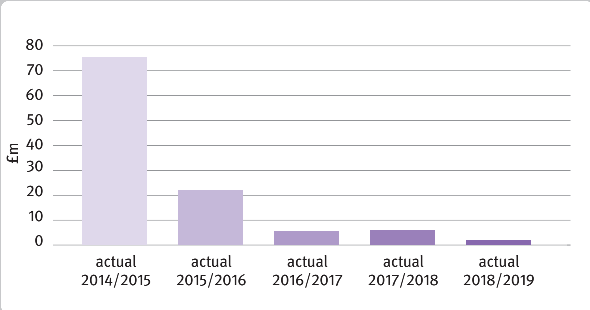
income

The ombudsman service is funded by a combination of levies, individual case fees and fees from our group-account fee arrangements paid by the financial businesses we cover.

The chart opposite gives more detail about these different sources of income.

new cases against budget



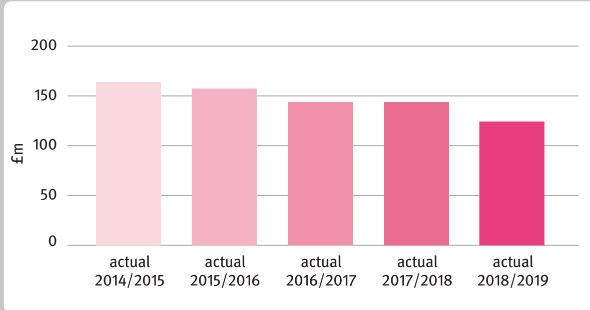


deferred income release

2% of our income

In 2012/2013 we introduced a supplementary case fee as a way of funding the upfront investment that we needed to make to deal with the fall-out 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.

As at 31 March 2018 we were holding approximately £2.5m as deferred income – of which £1.3m related to supplementary fees and £1.2m to the group account fee arrangement. We expect the majority of this to be released during 2018/2019.



58% of our income

group-account fee arrangement

We have a group-account 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 demand volumes. This arrangement helps provide predictability and stability in our funding – so we can plan ahead while responding flexibly to demands on our service.

our total income

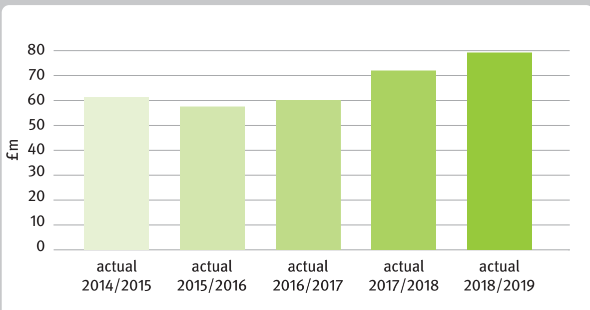
£249m

For the fifth year in a row our case fee was £550 per case, with a "free case" allowance of 25 cases per firm. This meant that firms were only charged a case fee for the 26th and each subsequent complaint 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 2018/2019.

case fees

29% of our income

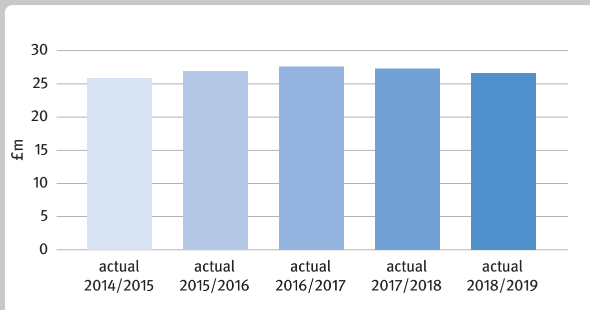


The compulsory jurisdiction levy has remained at £24.8m and is charged and collected by the FCA according to the amount of work we expect from each industry sector. £0.8m of levy income related to our voluntary jurisdiction.

We also generate income from interest receivable and publications.

11% of our income

levy and other income



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.

We responded to the fact we couldn't resolve PPI complaints affected by *Plevin* in 2016/2017 by changing our recruitment plans – which meant we started the 2017/2018 financial year with fewer staff in post in comparison to our budget assumptions. Average staff numbers for the year were almost 175 below those in our plans, which contributed to a £7.4m underspend in people costs, including our contingent resources. Employee and employee-related costs, including costs relating to our contractors, accounted for 80% of our overall expenditure in 2017/2018.

In last year's *annual report and accounts*, we set out some of our plans for continuing to make efficiencies. The challenge of needing to manage high and potentially volatile volumes of PPI complaints presented us with an opportunity to review our property needs. In October 2017 we opened an office in Coventry's Friargate development – and by the end of March 2018, we'd recruited approximately 250 contractor case handlers into Friargate, as well as seconding some of our own employees to support the new office.

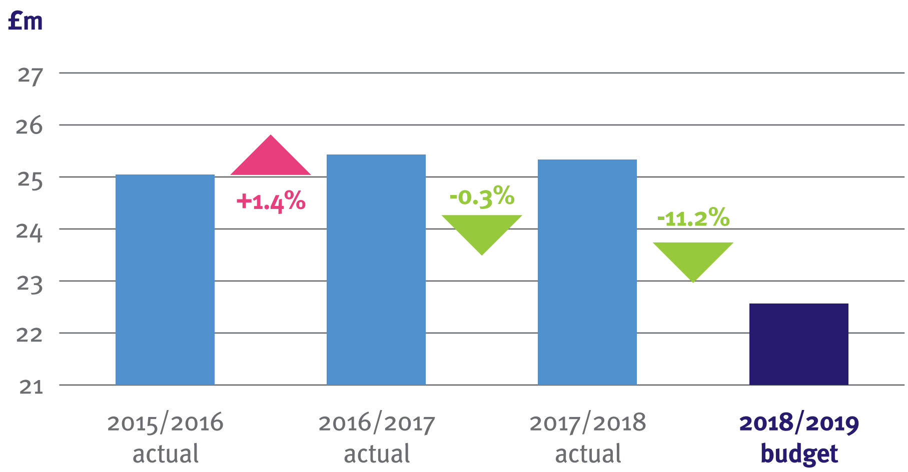
The expiry of our lease on Independent House in East London at the end of February 2018 also provided an opportunity to reduce our rent bill – as we moved our employees into our main building, Exchange Tower. We estimate the full year saving of these property-related efficiencies to be in the region of £3m in 2018/2019.

Other expenditure – including professional fees and IT costs – is broadly in line with what we expected this year. Included in our expenditure in 2017/2018 is an investment in developing a new case handling system. This is based on the Microsoft Dynamics platform, and replaces our own system, developed in-house, that we've used for over a decade.

We've also invested in an online portal for people bringing complaints to us, as well as a portal for financial businesses handling complaints that have been referred to us. This means both parties will be able to share information with us online in a secure, convenient and paper-free way. We expect to launch both our new case-handling system and our portals in 2018/2019. These investments will allow us to take a more customer-centric approach to complaint handling, as well as helping us make efficiencies from greater use of online channels.

Our budget for 2017/2018 had a contingency provision of £10m, which we retained to allow us to respond to any material changes in demand for our service, or in the external environment. We didn't use the contingency in 2017/2018. For 2018/2019, we think it's appropriate to retain a level of central contingency – so we've retained the same allowance of £10m.

property and facilities costs



unit cost

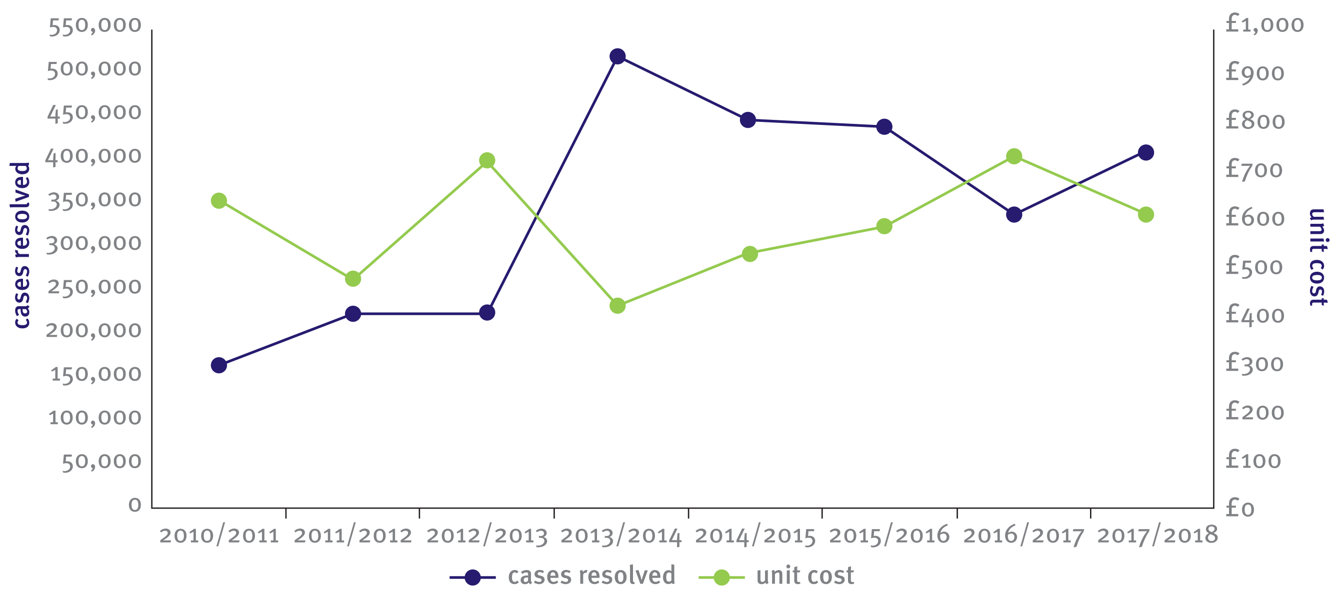
We calculate the "unit cost" of resolving a complaint by dividing our total running costs – not including financing costs and bad debts – by the total number of complaints we resolve during the year.

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, in 2016/2017, 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, we had approximately 140,000 unresolved complaints. Reflecting the reduction in resolved complaints, our unit cost increased to £736 in that year. This year, as we have now resolved a large volume of complaints affected by *Plevin*, our unit cost has fallen to £608.

Looking ahead, we expect the unit cost of PPI complaints to rise until the volume reduces to a level where we're able to fully integrate our PPI operation with other areas of our work. However, significant uncertainty remains about the scale of any future rise in PPI complaints, and the degree of complexity we'll see. As we explained in *our plans for the year ahead*, and in this report under *developments in PPI*, our ability to deal effectively with PPI complaints won't just be a question of our own internal plans – but will also be influenced by the way businesses and claims management companies handle complaints themselves, including whether they work with us cooperatively.

unit cost and cases resolved



reserves

We maintain a level of reserves that's appropriate to support the continued operation of our 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 our reserves at a higher level over the past few years.

Our audit committee undertakes periodic 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*. As well as using our reserves to help fund our operating costs, we have also been using them to fund the transformation of our service, ensuring we're ready for the future.

Taking account of the current environment and the ongoing uncertainty we face in PPI – and in line with our stakeholders' feedback this year – we consider 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 reserves and deferred income balances carried forward at 31 March 2018 are £232m, of which £2m is deferred income and £230m is reserves. 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.

Deferred income has reduced from £8m to £2m during the year, as complaints were closed and income was released from the provision. We anticipate that the remaining £2m deferred income will be released in 2018/2019 as we resolve the remaining complaints affected by *Plevin*.

cash management

We review our cash balances daily and update our forecasts on a quarterly basis. Our closing cash balance at 31 March 2018 was £229m. This was £14m lower than at the end of the previous financial year.

In accordance with the investment strategy approved by the audit committee, at 31 March 2018 we had £219m of our funds split between 11 institutions for periods for up to 7 months at rates between 0.45% and 0.92%, and £10m overnight with Lloyds at 0.37%. Total interest received over the year amounted to £1.3m. Since December 2014 – when the audit committee approved the investment strategy – the service has received over £6m of interest income.

creditors' payment terms

We have a policy to pay creditors within agreed terms.

outlook

Between 13 December 2017 and 31 January 2018, we consulted publicly on our proposed plans and budget for the financial year 2018/2019.

We highlighted themes and trends we'd been seeing in complaints, identified developments we thought could have a bearing on our work in the future, and explained how we plan to manage the challenges these presented while continuing to improve our service.

Consistent with recent years, a key operating assumption is our ability to continue to successfully handle complaints on a mass scale about PPI and other emerging trends. As the final phase of PPI begins, expanding our contractor workforce will help us manage demand as flexibly as possible. This is especially important as we approach the FCA's PPI complaint deadline of 29 August 2019. Our current working assumption is that demand could spike as the deadline approaches – and we'll need to build capacity to respond in a cost-effective way.

In addition to building our capacity to handle an uncertain PPI landscape, we also need to continue to meet the expectations of all our stakeholders. A key part of this is ensuring we're providing a service that's not only effective, but convenient and accessible. As we've explained, we've been investing in our IT capabilities – and in 2018/2019, and following development and testing in previous years, we'll be launching our new case handling system and our online portals.

These new channels will mean people with complaints will have an even wider choice in how they engage with us – and financial businesses will be able to benefit from the efficiency of sharing information with us online. We expect that these investments in technology will provide us with further improvements in how efficiently we're able to meet our commitments in the years ahead.

Looking beyond PPI, we recognise that our service may be smaller into the future – and that we'll need to change our funding model as a result. We have previously agreed with our stakeholders a set of funding principles that we will use to ensure that our funding arrangements meet the needs of all of our stakeholders.

These principles are that our arrangements should:

- be fair
- be broadly proportionate (that is, the cost to firms broadly relates to the workload they generate for us)
- not create perverse behavioural incentives
- not create the incentive for our service to reach a particular outcome
- be transparent
- be easy to understand
- be simple to administer (for us and for firms)
- be free to consumers
- be sustainable over time
- provide (within reason) predictable/stable revenue flow
- promote price predictability (as far as possible)
- be sensitive to our operating/political environment (eg budget cuts across public services)
- not subsidise between (compulsory and voluntary) jurisdictions
- have no, or minimal, transitional difficulties if the system is changed

Over the coming year we will continue to review our options – actively engaging with our stakeholders about a fair and sustainable future funding model, so we're ready for a time when our work isn't dominated by PPI.

our 2018/2019 budget

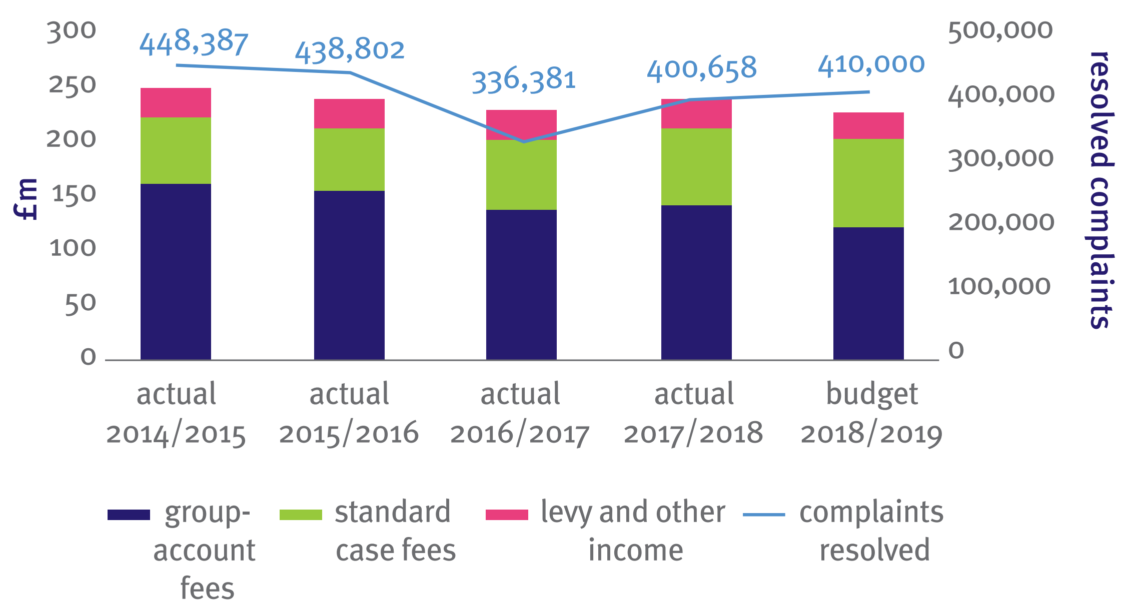
On 28 March 2018 we published *our plans for the year ahead*. This included the feedback we'd got from our stakeholders in response to our public consultation, as well as our detailed budget plans. Following final approval by the board and the FCA, we adopted the budget, along with the fees and rules instrument, on 1 April 2018.

We expect to collect £230m of operating income, including £25m of levies, in relation to our activity for the year. To achieve this we're budgeting to resolve 2% more complaints in 2018/2019 than we did in 2017/2018.

For the sixth 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-account 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 explained in our plans that continuing to freeze our case fee at this level isn't sustainable in the medium term – and we'll be engaging with relevant stakeholders on a fair and sustainable new funding model for the future.

operating income



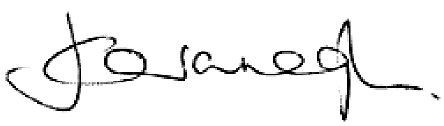
We anticipate that demand for our service will grow as the deadline for PPI complaints approaches. As well as an increase in the volume of new complaints, we also expect that the complaints will be increasingly complex to resolve. These factors will have an impact on how much we spend – and we expect our costs to increase above their 2017/2018 levels by approximately £46m, up to £290m, in 2018/2019.

The key driver for this cost increase is the expansion of our contractor workforce – which is in line with our approach of using contractors rather than employing permanent staff to resolve PPI complaints. The additional cost relating to this workforce is estimated to be approximately £33m in 2018/2019. We've again retained a central contingency of £10m to be drawn down in the event of changes to the operating environment.

As we move towards our aim of integrating our PPI casework into our general casework, we'll continue to challenge ourselves to work more efficiently and to bear down on our cost base. To maximise value for money, our internal procurement function reviews our contractual arrangements annually. For example, retendering our telephony and networking services will save us £0.5m over the next five years – and negotiating contractual terms with one of our technology programme consultancy partners has saved us over £0.6m over the life of the programme. We continue to assess the effectiveness of our contracts to either maximise the value we get or, where possible, to bring down the cost.

Consistent with our multi-year strategy, we have budgeted to make a deficit in 2018/2019 of approximately £60m. In line with our plans, in 2018/2019 we'll continue to use the reserves we've accumulated to help us move forward from PPI mis-selling in a timely, stable way.

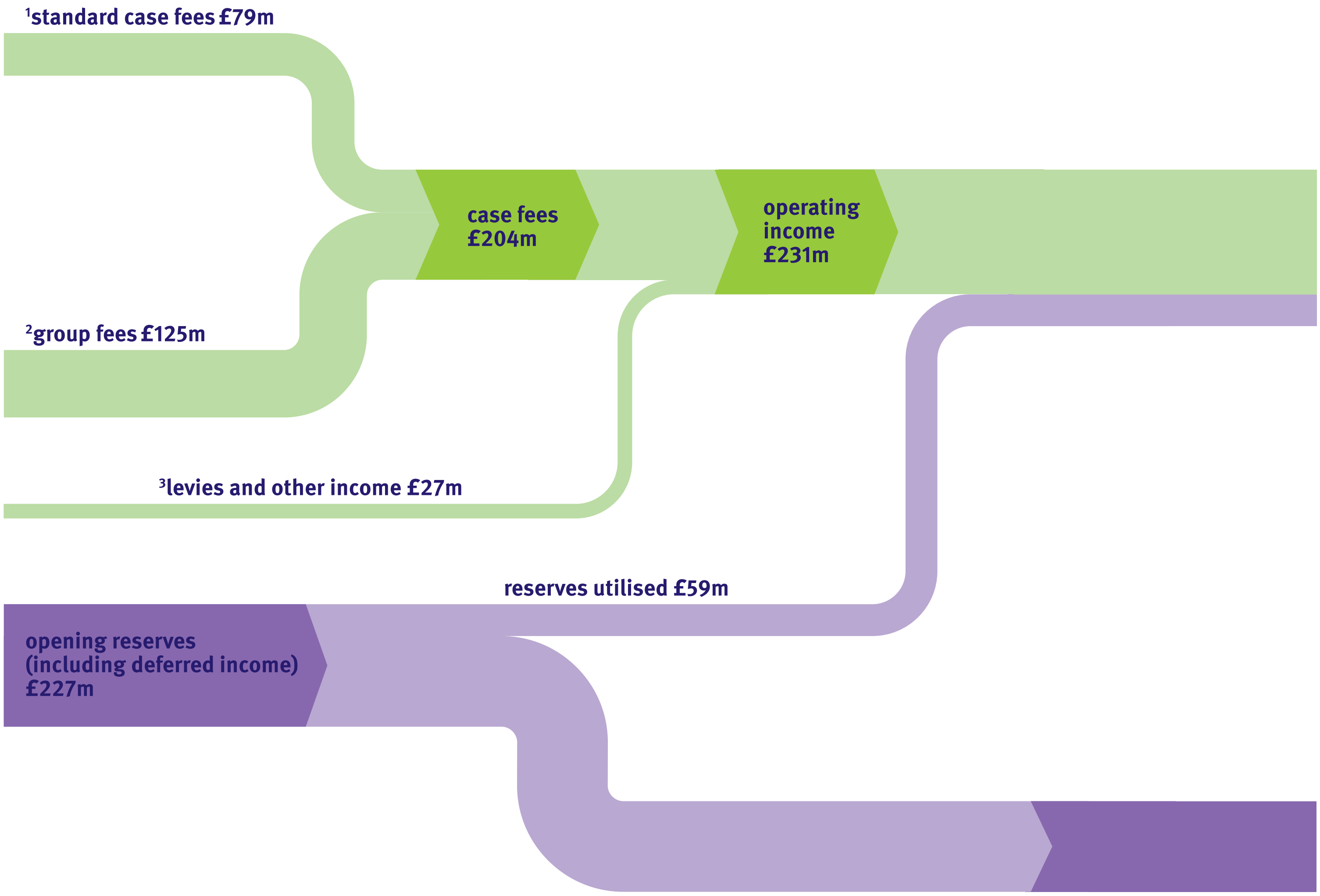
by order of the board



Julia Cavanagh
company secretary
4 July 2018

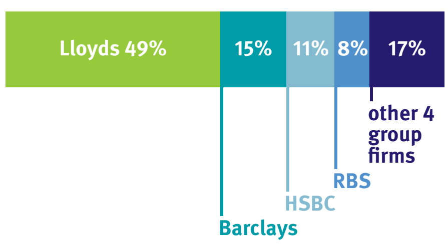
the financial flow of our resources in 2018/2019

income



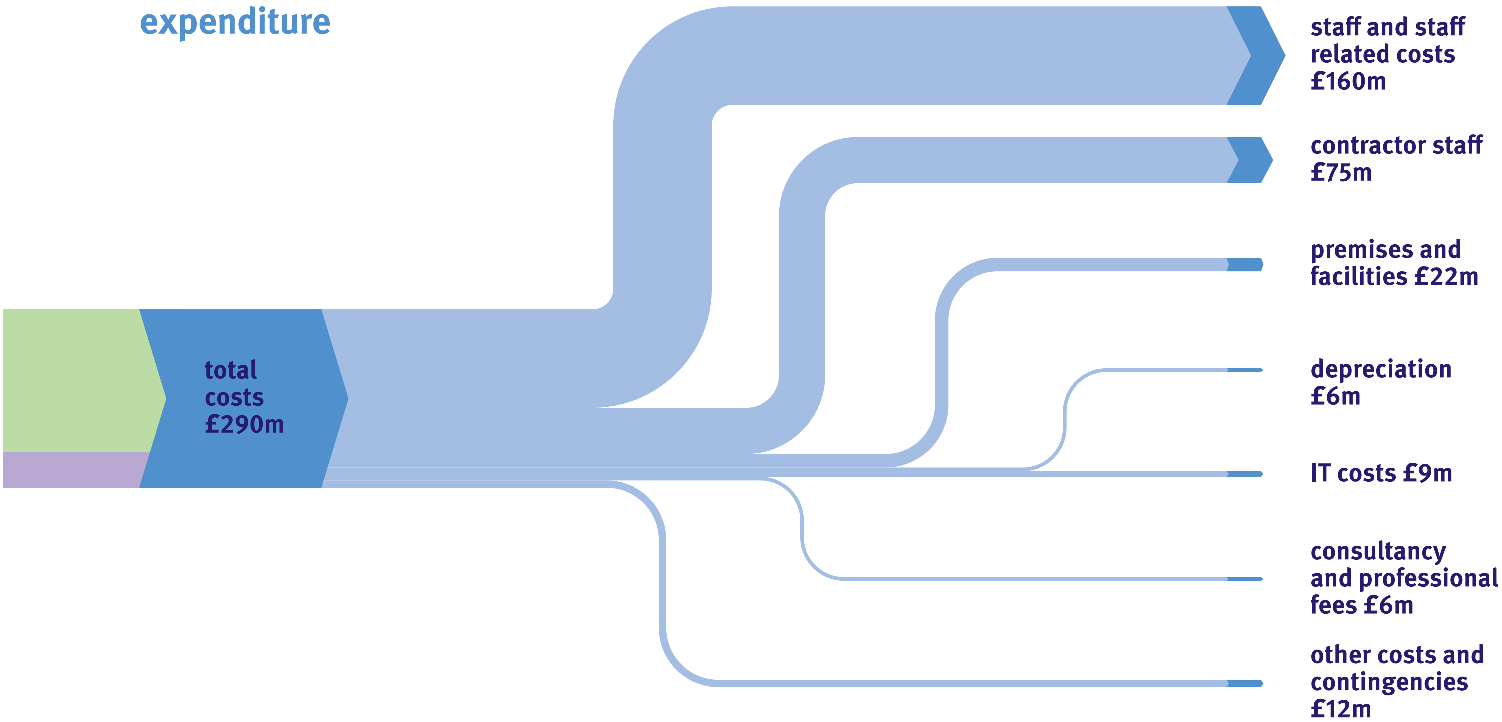
[1]standard case fees

[2]group fees



[3]levies and other income

expenditure



> The Ombudsman has made a great achievement in far exceeding their relative emissions reduction target and should continue to take action to avoid emissions where practical
>
> *Carbon Trust*

directors' report

environmental performance and sustainability

We're committed to running our service responsibly and sustainably. This includes ensuring we're operating in a cost-effective way and doing all we can to minimise our impact on the environment.

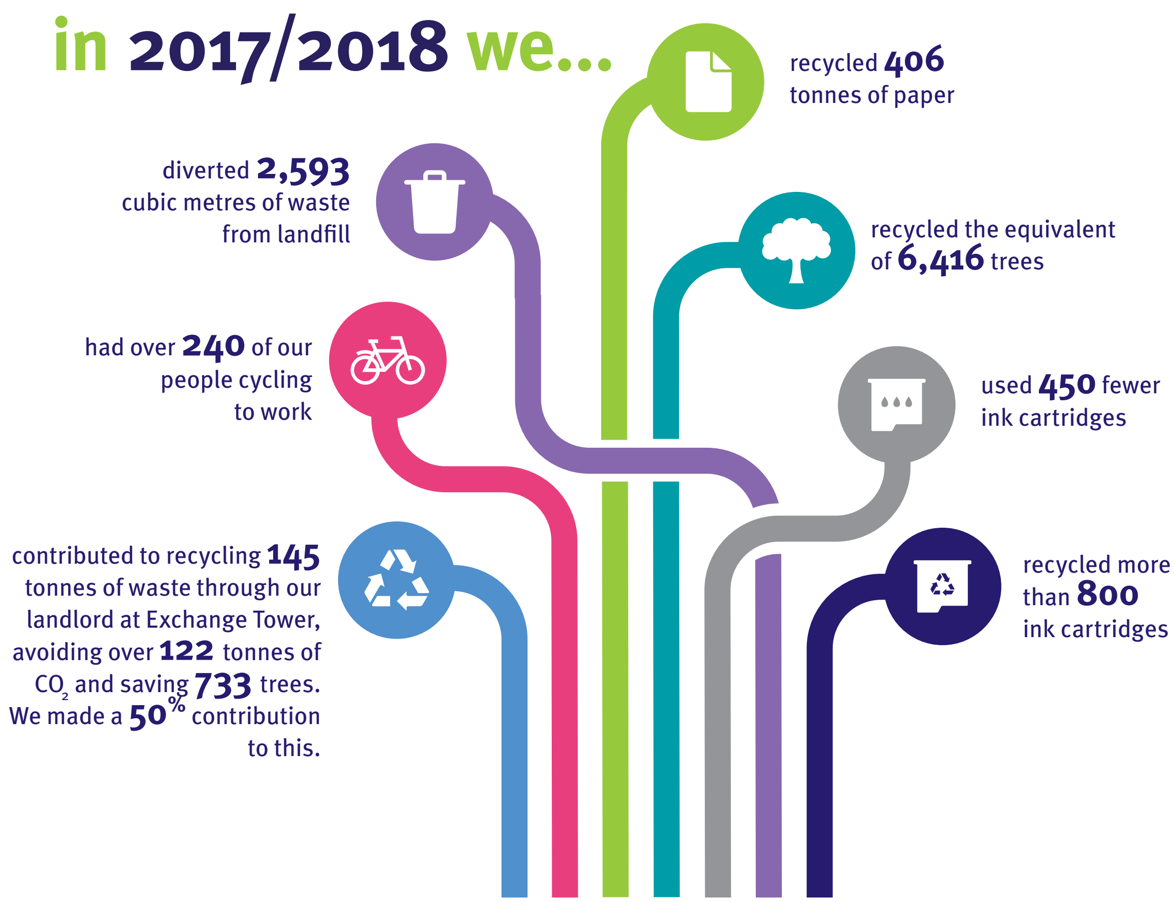
During the year we've continued to increase the use of digital technology – for example our online complaint form and enquiry form – helping us to reduce the environmental cost of printing and transportation. In addition, in February 2018 we moved out of one of our buildings, which will help reduce our carbon footprint even further – and we have had a double benefit of moving out of an old and relatively inefficient building while using our space more efficiently.

Since 2012, we've been working towards our five-year carbon management plan, which we put in place with support from the Carbon Trust. During the year the Carbon Trust has undertaken a review of our progress and concluded that we've significantly exceeded our target, reducing our emissions by 67% per employee against our target of 30%.

our progress in 2017/2018

We are very pleased with the progress we've made this year toward our environmental and sustainability commitments. Our key activities and achievements include:

- In addition to the 67% reduction in our carbon emissions since 2012 we are now working with the Carbon Trust to set new goals and objectives for the next three years.
- Continuing to increase the use of digital channels, including our online complaint form and enquiry form, as alternatives to paper-based contact – reducing the financial and environmental costs associated with processing paper, such as printing and transportation. There is more information about the IT improvements we are due to launch in 2018/2019 in our *strategic report* from page 16 and *our financial performance* from page 27.
- Reducing our property portfolio to help reduce our carbon footprint while using our space more efficiently. There is more detail about this under *our properties* on page 40.
- Running awareness campaigns to ensure our people know how they can contribute to our sustainability goals and feel they can make a difference.
- Continuing to engage with our suppliers to ensure we're working collaboratively to reduce our impact on the environment.
- Reducing the amount of stationery and other consumables we bought.
- Procuring a new catering supplier, who we will be working with to explore how we can make greater use of recyclable packaging and reusable cups.
- Reviewing our policy around personal mail deliveries coming into our offices and stopping these deliveries.
- Increasing the number of our people cycling to work.
- Making a 50% contribution to the environmental savings achieved by our landlord at Exchange Tower.



our properties

At the end of 2017/2018, we had three offices in the South Quay area of Tower Hamlets, East London. The majority of our estate – where most of our people are based – is Exchange Tower, where we are a tenant. We moved into Exchange Tower during the autumn of 2014, having carried out a major refurbishment that was certified with a "silver Ska" rating for fit-out sustainability.

In October 2017, we opened an office in Coventry to house our contractor PPI case handlers. We lease two floors within the Friargate building, which is owned by Coventry City Council. This building was designed with environmental sustainability in mind, and has a BREEAM rating of "excellent".

In February 2018, we moved out of Independent House, where we were sole occupiers of the 74,000 sqft building. This will help reduce our carbon footprint even further, as we will have the double benefit of moving out of an old and relatively inefficient building, whilst using our remaining space more efficiently.

All the service's offices are located in the UK and we don't have any overseas branches.

business travel

Our use of business travel is relatively low – and where it is used, we encourage the use of public transport. The majority of our people don't routinely need to travel as part of their work, and typically most of our business travel is for the purposes of stakeholder engagement.

However, this year we saw a significant increase in mileage and carbon emissions due to our opening of our new office in Coventry's Friargate – as permanent staff supporting the office set-up travelled to and from Coventry. We don't expect this level of travel in future years.

waste and recycling

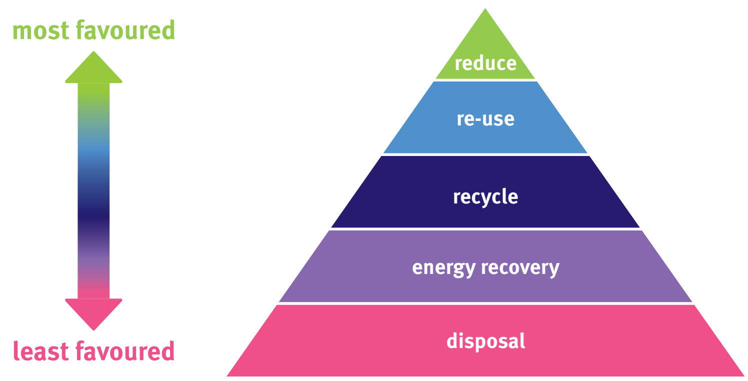
We encourage our people to be mindful of the waste they're generating and how they dispose of it. All our kitchen areas have separate bins for recycling, non-recycling and food waste.

As a tenant within the majority of our buildings, our landlord disposes of the waste we generate – as part of our service charge – under their own waste strategy. In addition, we use suppliers to recycle confidential papers and any paper correspondence we have with people using our service.

	2017/2018	2016/2017	2015/2016
miles	**85,197**	5,257	9,243
CO_2 e kg*	**25,011**	1,543	2,713

*Our figures include mileage allowance and taxis booked through our corporate account. Transport costs claimed through individual employee expenses are not included. *CO_2 calculated using the National Energy Foundation formula.*

preferred environmental option



	2017/2018	2016/2017	2015/2016
paper recycled (kg)	**657,391**	950,895*	657,111
waste diverted from landfill (cubic metres)	**2,661**	3,502	1,348

All data in this table is provided by our contractors – SITA, Restore and MITIE.
**In 2016/2017 we changed our retention period for scanned correspondence – which led to a one-off increase in the amount of paper we recycled.*

paper consumption

Over the past few years we have aimed to reduce our paper through a greater use of digital technologies. We scan every item of correspondence we receive. And in the last few years we've worked with a number of businesses so we can receive increasing numbers of files electronically – reducing the environmental impact of needing to transport paper files, as well as saving time and money.

Increasing the number of non-postal channels through which people can contact us – including our online complaint form and enquiry form – has helped to further reduce the financial and environmental costs associated with paper consumption. This is something we expect to continue following the launch of our online portals in 2018/2019, as people will be able to share information with us securely online.

sustainable procurement

The ombudsman service is committed to sustainable procurement. This means providing socially, environmentally and economically sustainable procurement solutions that deliver better value for money for our customers and minimise the impact on our environment.

In practice sustainable procurement isn't just about buying "green" products. It also includes:

- planning ahead to manage demand
- effective ongoing contract management
- identifying and dealing with supply chain risks

Through our procurement processes, we assess suppliers based on their social responsibility policies. As part of our supplier selection processes we make sure that our service providers undertake their activities in line with our values.

Our current initiatives include:

- encouraging a diverse base of suppliers and using small to medium-sized enterprises
- promoting fair employment practices (including the London Living Wage)
- ethical sourcing practices
- promoting greater environmental sustainability.

health and safety

We're committed to protecting the wellbeing of everyone who works for us and with us. In 2017/2018 we:

- Continued to provide our people with training and support, covering fire awareness, general first aid, working at heights and general workplace safety.
- Trained more than 40 of our people to be mental health first aiders, reflecting our commitment to our people's mental as well as physical wellbeing.
- Maintained our 2016/2017 result of 98% for our internal HSG65 audit (the Health and Safety Executive's model for managing health and safety at work), as well as carrying out an independent health and safety audit.
- Continued to engage and raise awareness through our health and safety committee – looking at innovations and where we can do things even better.
- Provided over 350 of our people with workplace adjustments such as ergonomic chairs and desks.

In November 2017 we asked Assurity Consulting to undertake an independent review of our health and safety. We are pleased with the outcome of the audit, which demonstrated a high level of compliance and advanced stage of health and safety management across the service with a positive general attitude towards health and safety, and are committed to providing safe working environments for our people. The report found some minor areas of improvements which we are working towards delivering.

During the year our people reported:

- 30 work-related incidents – slips, trips and falls (compared with 30 in 2016/2017)
- 52 incidents of ill health requiring first aid assistance (compared with 92 in 2016/2017)
- 1 RIDDOR incident (under Reporting of Injuries, Diseases and Dangerous Occurrence Regulations) (compared with 0 in 2016/2017).

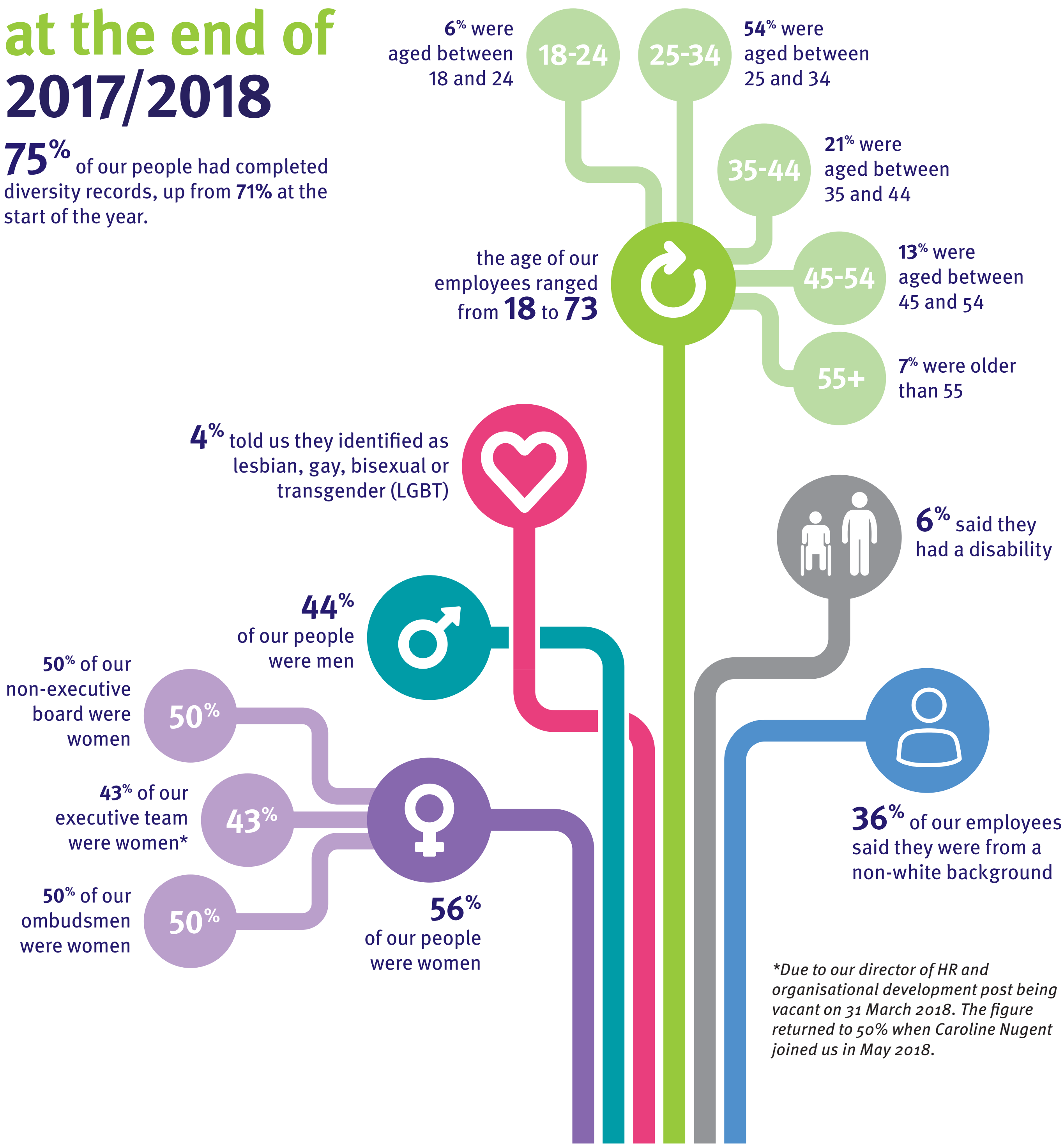
equality, diversity and inclusion

Our commitments to equality, diversity and inclusion (EDI) are at the heart of our aim to treat everyone fairly and equally – people who use our service, as well as our own employees. In 2017/2018, we continued to promote the importance of EDI through our learning and development, our HR processes, and our wider strategy and commitments.

In our role making fair decisions about complaints, we need to understand different perspectives, different backgrounds and needs. So we've continued to focus on ensuring our service is made up of people who, as far as possible, reflect the people across the UK that we're here to help.

In January 2018, we published our first standalone report on EDI – reflecting our aspiration to set the standard in this area, as well as to be transparent about our progress. In summary, some of our achievements this year, and our ongoing plans, include:

- In November 2017 we introduced our new carer policy, giving people up to five days' paid leave for caring



**Due to our director of HR and organisational development post being vacant on 31 March 2018. The figure returned to 50% when Caroline Nugent joined us in May 2018.*

responsibilities. At the event launch, Carers UK said that this puts us at the forefront of employers who support carers at work.

- We introduced our transgender policy, with the help of our LGBT+ network, Outright – underlining our commitment to supporting our trans employees.
- We launched our parents' network, with fortnightly drop in clinics and regular events to help working families and promote a healthy work life balance.
- We developed and rolled out resilience and dignity at work training for our people, as well as diversity and inclusion e-learning.
- We appointed senior sponsors for each of our eleven employee networks: our carers network, disability network, ethnic minority network, giving something back committee, interfaith network (including our Christian Fellowship, Islamic network and Jewish network), mental wellbeing network, LGBT network, women's network and the newly launched parents' network. And we put in place plans for our reverse mentoring programme, which was launched in May 2018 – where our executive team are mentored by our employees, helping them to better understand different backgrounds and experiences and to make more inclusive decisions.
- We renewed our commitment to an updated *Time to Change* pledge to reduce mental health stigma – as part of our workshops and events for Mental Health Awareness week.
- Our accessibility manager, Anne Leader, was nominated for the National Centre for Diversity's 2018 *UK employee of the year* award – in recognition of her commitment to supporting the individual needs of people using our service.
- Reflecting our commitment to gender equality, we maintained our commitment to having 50% of our senior roles filled by women – which we're already achieving in many areas. We also published our gender pay gap. At 6.0%, our median pay gap is significantly lower than the Office for National Statistics' most recent figures the time of writing for all employers (9.1%) and financial businesses (30.9%) – but we will be taking steps to reduce it further.
- We achieved and maintained external accreditations, reflecting our commitment to doing the right thing by our people. We are accredited by the Living Wage Foundation, Leaders in Diversity, listed in the National Centre for Diversity top 100 index 2018, Investors in Diversity, a gold standard diversity-assured organisation, and Stonewall Workplace Champions.

corporate social responsibility

Our people make a difference every day in their role resolving financial complaints – which may have a significant impact on people's lives and livelihoods. Our employees' willingness to volunteer their free time to help other people, including in the local community in which we're based, speaks to the values we share about doing the right thing by other people, both inside and outside our workplace.

In 2017/2018 – with support from our Giving Something Back committee – our people volunteered their lunch breaks to teach English to women who don't speak it as a first language, and ran career insight days for local schoolchildren, attended by our chief ombudsman & chief executive and chairman. Our people have also raised funds and donations in support of local food banks, homeless shelters and the East London Business Alliance's Christmas toys appeal.

Our people also make a difference through fundraising payroll schemes. Our "Pay it Forward" scheme allows our people to make contributions to their choice of charities, direct from their salary. They can also take part in a "pennies" scheme, where their salaries are rounded down to the nearest pound and the difference donated to our shortlisted charities. For the second year in a row, we received a silver award from Pennies from Heaven in recognition of our contribution this year and a bronze award from the Charities Aid Foundation. Over the last 12 months, we haven't made any political donations, but our people have donated over £12,000 to our current charity partner, London Air Ambulance – raised through social events and fundraising events organised by our people.

learning and development

We are committed to attracting, developing and retaining people who share our values. In doing so, we're helping to ensure we provide the best possible service for people relying on us for an answer about their complaint – as well as creating a workplace where our people feel engaged and supported to perform at their best.

This is especially important, but also particularly challenging, at a time when we've been transforming the way our service is organised and delivered. As well as meeting our people's ongoing learning and development needs, we've had to anticipate and respond to individual and strategic needs that have arisen as a result of the significant changes we've made.

In 2017/2018, as part of a wider restructure and streamlining of our human resources functions, we rebuilt our internal learning and development function. We improved and increased the amount of personal and professional development available for our people – updating and adding to the training and learning we offer, through an extensive blend of classroom-based and on-the-job learning, e-learning and coaching.

Our work this year included:

- Launching our in-house academy for investigators joining our service – involving six months' intensive training and mentoring to gain both knowledge related to financial services and customer service skills.
- Supporting our existing employees who successfully applied for new roles as investigators and ombudsmen. This included 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 – while being mindful of the need for specialist knowledge where the financial products involved in complaints, or the nature of the disputes themselves, are particularly complex.
- Growing our ombudsmen's professional leadership and management skills, to support them in their role at the heart of our investigation teams and our service as a whole.
- Continuing to support our people to gain externally-recognised qualifications relevant to their work.
- Contributing to our commitment to creating an equal, diverse and inclusive workplace by developing new learning covering dignity at work, resilience, and diversity and inclusion.
- Further developing our knowledge-sharing networks and tools – which, in our more flexible structure, will help us continue to provide consistently fair answers to individual complaints, and to identify patterns and trends within and across different areas of our work.
- Supporting our people working in areas of mass claims such as PPI – where complaints volumes remain high at the moment, but will decline following the FCA's deadline in August 2019 – to explore their options and develop skills that will help them take their next steps in their careers.

In the coming year, we will continue to develop our learning and development to align with our service's strategic commitments. We will focus in particular on introducing new management development programmes, reviewing the coaching we offer our people, growing the number and range of apprenticeships we offer (which we've discussed in more detail on page 45), introducing further skills development, and continuing to develop the way we share knowledge across our service.

apprenticeships

As an organisation with more than 250 employees, we fall within the scope of the Government's Public Sector Apprenticeship Target. This section represents our Data Publication Return, which we're required to publish.

Over the course of the year we've been developing a strategy for planning and managing apprenticeships into the future, to help us ensure we're using levy funds as effectively as possible. This strategy has four key objectives:

- To offer a variety of apprenticeship programmes to upskill and develop colleagues at different points in their careers.
- To concentrate on creating robust and effective development for investigators.
- To prioritise the development of some skills over others, depending on business need and the future requirements.
- To broaden and support all entry routes into our service – whether at an entry level, experienced hire, career changer or returner.

As we put in place and further develop this strategy over the coming year, we expect to be able to meet the Government's target in the next reporting period.

reporting requirement	description	our data for 2017/2018
figure A	the number of employees whose employment in England by the body began in the reporting period in question.	320
figure B	the number of apprentices who began to work for the body in that period and whose apprenticeship agreements also began in that period (this includes employees who were already working for the body before beginning their apprenticeship, as well as new apprentice hires).	37
figure C	the number of employees employed in England that the body has at the end of that period.	2,951
figure D	the number of apprentices who work for the body at the end of that period.	37
figure E	figure B expressed as a percentage of figure A.	11.6%
figure F	figure D expressed as a percentage of figure C.	1.3%
figure G	the number of apprentices who worked for the body immediately before that period.	0
figure H	headcount on the day before the first day of each reporting period in the target period.	31 March 2017: 3,053
figure I	figure B expressed as a percentage of figure H.	1.2%

employee engagement

Resolving individual complaints involves understanding different perspectives and applying sound judgement – sometimes in very challenging or complex circumstances.

We also have a wider part to play in encouraging fairness, and a responsibility to run our service sustainably as we do so. Our success in all these things depends on the talent, hard work and commitment of our people – from our casework teams to our support roles.

The changes we've made over recent years – transforming the way we handle complaints, and preparing for a time when PPI isn't part of our landscape – has been very challenging for people who work for us. In 2017/2018 we have continued to focus on ensuring we're giving our people the support they need to perform at their best – so that, together, we continue to provide the high-quality service our stakeholders need and expect from us.

We carried out a survey for all employees in June 2017, and published the results internally and on our external website. 78% of our people took part, with 87% telling us they were committed to playing their part to help the service achieve its commitments.

Further feedback from the survey clearly highlighted areas where we need to improve. In view of this feedback, groups made up of employees across the service met with a specific focus on themes arising from the survey results – covering responsibility, accountability and decision-making; better communication; reward and recognition; wellbeing; and recruitment, progression and development. These groups – each led by a sponsor from our executive team – act as forums for ideas, discussion and feedback. The action being taken as a result of the groups' discussions has been published on our intranet.

As our organisation has continued to change, it's been essential to give people the opportunity to voice their feedback directly to our senior managers and executive team. Individual executive team members hosted open drop-in sessions, where employees were able to air any concerns or suggestions they had. These were well-attended and the feedback people gave helped inform senior managers' understanding of a wide range of perspectives.

We also held larger events in December 2017, which were attended by representatives of teams across the service. As well as providing an update on recent developments, we used a live Q&A tool so unattributed views could be given there and then – helping ensure the sessions addressed the questions and concerns that really matter to people.

The broadcast of Channel 4's *Dispatches* in March 2018 was also understandably very worrying for our people. Both before and after the broadcast, our executive team gave regular updates about what was happening and the action being taken to respond to the issues raised. Face-to-face support was available to anyone wanting to talk through their concerns, whether they were directly or indirectly affected by the programme's allegations.

During the year, and as part of our focus on communicating effectively with our people, we carried out an audit of the channels we use for internal communication. We will be taking forward the outcome of this audit in the coming year. We're also currently in the process of procuring an engagement tool that will enable us to better understand employee engagement at a team and service-wide level.

Recognising the importance of effective internal communication, we're currently looking how this can be achieved and further improved in the future – as part of which we're investing in a strengthened internal communications team. Our new director of HR and organisational development, Caroline Nugent, joined our service in May 2018 – bringing significant experience and expertise in engagement through change in large organisations.

sickness absence

For the year ending 31 March 2018, the number of working days we lost due to sickness absence was 10.4 days per full time equivalent employee (10.3 days in 2016/2017).

Our current absence levels reflect the significant change and uncertainty our people have experienced as we've been transforming our service – which has involved substantial changes to both our structure and our ways of working. In 2017/2018, as we've continued to embed our new operating model, it has remained a challenging time for our people.

As we have explained in the section *employee engagement* on page 46, we've been taking steps to ensure we have effective forums and channels in place for feedback and discussion around the issues that matter to our people. These include working groups focused on key themes arising from our 2017 staff survey – one of which is wellbeing, led by our director of engagement, Annette Lovell. Over the next few months, we will continue to ensure we're taking a holistic approach to managing sickness absence – including providing greater support to our line managers around absence management, making sure we do all we can to support people back to work after they've been absent, and improving the range of wellbeing resources we offer. We have set up a dedicated project group to deliver this work.

managing information

This year we helped resolve over 400,000 complaints – which means we've necessarily needed to handle significant amounts of personal and financial information about people across the UK.

We have a legal duty under the *Data Protection Act 1998* to ensure that all the personal data we hold, including information about our own people, is protected at all times.

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 or data breaches, including those made by other organisations. Our data protection officer reports regularly to our executive and the board and audit committee on our data protection performance.

We have spent the last two years preparing for the EU *General Data Protection Regulation* (GDPR) which came into effect in May 2018 – and we've put new processes in place to ensure we're compliant with the new regulations. These changes include updating our complaint form to include a GDPR-compliant declaration and privacy notice. We have also designed our new case management system to ensure compliance with GDPR and to reduce the risk of accidental data breaches. Our new system has an improved process for carrying out caller verification which will allow us to better protect the personal information we hold.

We've reduced our email retention period so that, unless they are saved to a specific place as part of the official record, emails sent or received are deleted after 24 months. This means that emails containing personal data won't be stored for longer than they need to be.

freedom of information

Following stable volumes of formal requests in the previous two financial years, the volume of requests decreased in 2017/2018.

We answered 378 requests last year – 38% fewer than in 2016/2018. 96% of these were responded to within 20 working days, compared to 95% in the previous year.

The two most common requests continue to be for information about volumes and outcomes of complaints that isn't available in our regular data publication, and for information relating to our publications, processes or guidance.

We've maintained our commitment to publishing information in our regular publications and on our website. We signpost people to this published information when what they've requested is already publicly available.

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.

governance

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 2018, 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 53).

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 58), 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. Three new non-executive directors were appointed during the year. Details of remuneration paid to non-executive directors can be found in the remuneration report on page 65.

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

HM Treasury approved the reappointment of Sir Nicholas Montagu for a final term to 1 August 2019 and Gerard Connell was reappointed by the FCA for a further term to 11 December 2020.

We have said goodbye to three board members during the year. Due to increasing demands on their time in other roles, Pat Stafford left at the end of July 2017, and Gill Whitehead at the end of August 2017. Maeve Sherlock then left towards the end of February 2018, having served the maximum 10 years permitted under our articles of association. The chairman and the board are very grateful to Pat, Gill and Maeve for the scrutiny they brought to board business, their commitment and their invaluable contribution.

Three new board members joined during the year: Jenny Watson, in June 2017, and Diana Warwick and Sienne Veit, in September 2017. Between them, they bring a diverse set of skills and backgrounds that span strategic leadership, operational management, customer service, the public sector, social policy, technology and digital innovation.

During the year Alan Jenkins was appointed as Senior Independent Director, and Jenny Watson as chair of the remuneration committee.

our board

Sir Nicholas Montagu KCB
chairman

Baroness (Diana) Warwick

Alan Jenkins

Gerard Connell

Sienne Veit

Jenny Watson CBE

Sir Nicholas Montagu KCB (chairman)
appointed 1 February 2012
term expires 1 August 2019

Nick is chairman of the Charity Tax Commission, an independent commission established by NCVO (the National Council for Voluntary Organisations).

Previously, Nick has been chairman of the Council at Queen Mary & Westfield Foundation. He is also a former chairman of the board of the Inland Revenue.

Baroness (Diana) Warwick
appointed 1 September 2017
term expires 31 August 2020

Diana is a member of the House of Lords. She is chair of the National Housing Federation, chair of the Property Ombudsman Council, a non-executive director of the Pension Protection Fund and a member of council at Nottingham Trent University.

Diana has been chair of the Human Tissue Authority, a non-executive director of Lattice (now National Grid Transco plc), founder member of the Nolan/Neill Committee on Standards in Public Life and member of the Employment Appeal Tribunal. She is also a former advisory council member of National Council for Voluntary Organisations (NCVO) and has been a member of the boards of the British Council and the Commonwealth Institute.

Diana has worked as chief executive of Universities UK (UUK), chief executive of Westminster Foundation for Democracy and general secretary of the Association of University Teachers.

Alan Jenkins
appointed 23 February 2011
term expires 22 February 2021

Alan is a non-executive director of the Pension Protection Fund; Northcourt Ltd; Gross Hill Properties Ltd; Sydney and London Properties Ltd; GPS Associates; GPS Malta Ltd; and chairman of the Roehampton Club Ltd. He is also a trustee of the charity, Kids for Kids.

During his career, Alan has been a non-executive director of the Crown Prosecution Service, chairman of the board of trustees of Mencap Trust Company Ltd and a trustee of the London Middle East Institute at the School of Oriental and African Studies.

Alan has also been 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.

Gerard Connell
appointed 11 December 2014
term expires 11 December 2020

Gerard is chairman of the Defence Infrastructure Organisation. He is also a non-executive director of the Nuclear Decommissioning Fund Company Ltd and a Council member and chair of the Remuneration and Finance Committees of the Science & Technology Facilities Council. He was previously a senior independent director and chair of audit committee at Pennon Group Plc, a non-executive director of Bournemouth Water Plc, a non-executive director and chair of the audit committee of the Defence Science & Technology Laboratory and a non-executive director of the Land Registry.

During his executive career, Gerard was the Group Finance Director and Managing Director Western Europe at Wincanton Plc, a regional director at Hill Samuel and a managing director at Bankers Trust.

Jenny Watson CBE
appointed 1 June 2017
term expires 31 May 2020

Jenny is chair of the Independent Complaints Panel at Portman Group, chair of House of St Barnabas, a non-executive director of the Financial Reporting Council and governor at Mossbourne Parkside Academy.

Previously, Jenny was chair of the Electoral Commission, chair of the Equal Opportunities Commission, deputy chair of the Banking Code Standards board (now Lending Standards board), deputy chair of the Money Advice Trust and a non-executive director of WRAP. She is former vice chair of Citizens UK Commission into Islam and participation in public life, commissioner at the Audit Commission and member of the Advertising Advisory Committee. Jenny served as chair of the Transparency Independent Review Panel of UK Nirex Ltd and as member and deputy chair of the Committee on Radioactive Waste Management.

Sienne Veit
appointed 1 September 2017
term expires 31 August 2020

Sienne is director, online product at John Lewis Partnership.

Previously, she has been head of mobile at Morrisons plc and head of mobile, research and development at Marks & Spencer Direct. Sienne is also a former member, mobile leadership council at Internet Advertising Bureau (IAB) UK.

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 strategic 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 ombudsman & chief executive 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 & 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 executive & chief ombudsman, 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 team, helping to role model the ombudsman service's culture and values.

The chairman and the 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.

board meetings

This year, the FCA introduced its rules and guidance on handling complaints affected by the case of *Plevin v Paragon Personal Finance Limited* – and confirmed a deadline of 29 August 2019 for PPI complaints.

While this has given some certainty to the service's planning, it has also brought into sharper focus the need to consider how the service might look and operate in a post-PPI world. Against this backdrop, discussions on key strategic issues have continued to focus on modernising and developing the ombudsman service to ensure it remains relevant and sustainable into the future, meeting our customers' needs and expectations. Minutes of board meetings are available on our website at www.financial-ombudsman.org.uk/about/minutes.html.

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.

For 2017/2018, the exercise was carried out by an external reviewer, in keeping with best practice which recommends an independent evaluation every three years. Following a tender exercise, the board appointed Richard Sheath, of Independent Audit, to undertake the review. This took the form of one-to-one conversations between the reviewer and the non-executive directors and the executive team; the head of risk and governance; John Griffith-Jones, chairman of the FCA (until 31 March 2018); our external auditors, National Audit Office; and our internal auditors, Deloitte.

The board welcomed the review findings which acknowledged that the board was working well and operating effectively. It struck the right balance between strategic leadership and operational oversight responsibilities, though, as with all boards, this was an area that should be kept under review. The review highlighted the good relationship between the board and the executive and the strong culture of openness.

There was a clear shared set of objectives, with a common intent of driving the right values and the board was careful to balance the interests of businesses and consumers in its deliberations.

The board accepted the need to address the areas of improvement in the report. Broadly, these centred around drawing out the service's strategic objectives more clearly in the business before the board, including by adapting the presentation of the agenda and by making the links more explicit in papers. The report also recommended the identification of themes or "touchstones" to guide and steer discussions. And it suggested a review of whether the approach to board and committee review of risks had the right balance. Other recommendations were more administrative in nature and some sought to help make sure actions were captured and followed up in a timely manner, not least to ensure accountability for delivery.

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 is committed to maintaining the highest standards of corporate governance in line with best practice.

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. The section on *our commitments* on page 17, together with our *annual review*, highlight examples of our engagement.

appointment of ombudsmen

Our board is responsible for appointing ombudsmen on terms that guarantee their independence.

As at 31 March 2018, the ombudsman panel was led by Caroline Wayman, as chief ombudsman & chief executive – supported by 2 principal ombudsmen, 6 lead ombudsmen and directors of casework, 4 lead ombudsmen, 24 ombudsman leaders, 2 managing ombudsmen, 3 senior ombudsmen and 320 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.

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 2017/2018. This table shows the number of meetings attended out of possible attendance, given board members' appointment dates.

board meetings

	board meetings
Sir Nicholas Montagu, chair	7/7
Gerard Connell	7/7
Alan Jenkins	7/7
Maeve Sherlock	6/6
Diana Warwick*	2/5*
Jenny Watson	6/6
Sienne Veit	5/5
Gill Whitehead	1/2
Pat Stafford	1/2

**Diana Warwick was unable to attend a number of meetings due to existing diary commitments prior to joining the service.*

board committees

audit committee

the committee's business

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 data protection – particularly our readiness for GDPR, managed operations, risk management, and the external landscape;
- reviewing updated schedule of matters reserved for the board, corporate policy framework and governance map – in advance of submission to the board for approval;
- monitoring progress against the annual internal audit plan and considering all completed internal audits in the year; and considering our internal audit requirements for future years (see section on *internal audit* for more details);
- monitoring progress against our GDPR readiness plans;
- 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 chair updates the board on the committee's activities and the minutes are also shared.

the committee

audit committee member	meetings attended
Gerard Connell, chair	4/4
Alan Jenkins	4/4
Gill Whitehead (until end of August 2017)	1/2
Jenny Watson (from August 2017)	2/2

Gerard Connell, chair

audit committee's terms of reference

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. 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* is subject to approval by the Comptroller and Auditor General.

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

board committees

remuneration committee

the committee's business

Following the resignation of Pat Stafford as a director and chairman of the remuneration committee, Jenny Watson was appointed chair with effect from August 2017.

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

- considering updated terms of reference, including the addition of succession planning which has been transferred from the nomination committee;
- reviewing the arrangements for allocating pay and collective reward;
- agreeing recommendations on the annual pay review and collective reward payment.

The chief ombudsman & chief executive and the director of human resources and organisation development are invited to attend the remuneration committee meetings. However, neither attends when their own individual performance is due to be discussed. The chair updates the board on the committee's activities and the minutes are also shared.

the committee

remuneration committee member	meetings attended
Jenny Watson (chair from August 2017)	2/2
Pat Stafford (chair to July 2017)	1/1
Sir Nicholas Montagu	2/3
Gerard Connell	3/3
Diana Warwick (joined the committee September 2017	1/2
Maeve Sherlock (left February 2018)	1/1

remuneration committee's terms of reference

succession planning
To consider executive development and succession planning, taking into account: the views of board members and the chief ombudsman & chief executive; the challenges and opportunities facing the service; and the skills and expertise required in the future.

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, including 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.

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

board committees

nomination committee

the committee's business

The nomination committee didn't 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.

As such, changes in membership reflect changes to board membership in 2017/2018. During the year, members of the committee were:

Nick Montagu (Chair)

Gerard Connell

Alan Jenkins

Maeve Sherlock (until end of February 2018)

Pat Stafford (until end of July 2017)

Gill Whitehead (until end of August 2017)

Jenny Watson (from August 2017)

Diana Warwick (from September 2017)

Sienne Veit (from September 2017)

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

- the appointment of three new members to the board;
- the appointment of a new senior independent director;
- the appointment of a new chair of the remuneration committee;
- reviewing the membership of all board sub-committees.

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

Sir Nicholas Montagu KCB
chairman

nomination committee's terms of reference

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 re-appointment 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.

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 during in 2017/2018 – was published in May 2018 alongside our *annual review*. We also published our response to the report. The board has accepted the report's recommendations in full, and would like to thank Amerdeep Somal 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:

- propose and manage the budget, and approve major expenditure;
- plan, prioritise and oversee the delivery of the organisation's strategy and commitments;
- ensure the organisation is running effectively and efficiently; and
- manage risks.

As at 31 March 2018, our executive team were:

- 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
- *Vacant*, director of human resources and organisation development. Caroline Nugent joined the executive team with effect from 23 May 2018.

risk management and internal control

The ombudsman service's risk management framework is designed around principles that focus on ensuring that the right people are having the right conversations about risk.

To achieve this, and manage risks appropriately, it's important that we identify key risks for the organisation and agree how we want to respond to them, bearing in mind our statutory objectives and the resources we have.

The board has overall responsibility for the risk management framework; it sets the risk appetite for the service and agrees our corporate risk themes. Each quarter the risk and governance team bring together updated risk information from across the service to support an analysis for each theme. The audit committee undertakes a more detailed review, including carrying out "deep dives" – involving detailed discussion about relevant risks, to ensure they get to the heart of the issues concerned. The committee produces an annual report to the board setting out how they have discharged their responsibilities.

Our executive team sets the risk tolerance for their areas of responsibility, review mitigation plans and monitor risk movements. In 2017/2018 we created new bespoke risk reports for the executive team, providing an overview of their portfolios. This risk information facilitates the right people to have the right conversations, so we can develop mitigation plans – and is especially useful when risks cut across different areas of responsibility.

We undertake an annual "risk refresh" to make sure our ways of talking about risk remain relevant – given continuing changes in the external environment and our ways of working. The board and executive reviewed our thematic risks in April 2018 and agreed a new way of summarising our risk analysis. These amendments will come into effect from June 2018. There is more detail under *thematic risks for 2018/2019*.

Each thematic risk report is discussed at the appropriate committee or governance forum for approval – for example, operational risk is discussed quarterly at the service performance committee and policy committee. The risk and governance team is responsible for assessing the extent of risk coverage across the ombudsman service. It provides independent challenge in relation to risk assessments; collates risk information; monitors risk movement; and agrees the quarterly risk report with the executive team for the board.

The team undertakes formal quality risk reviews to provide feedback to risk register owners about the content of their registers, including whether risk mitigations and timeframes have been sufficiently defined. In 2017/2018, the team facilitated risk workshops within our casework operations, HR and IT, and also looked at external risks and anti-fraud measures. Across these individual areas, these workshops led to varying levels of change in our perception of risk, but provided assurance that our approach remains relevant.

A full risk management internal audit was carried out in 2017/2018, with substantial assurance being obtained. The audit recommended further development of our key risk indicators and risk scores, and a review of our training needs. This exercise will be complete in summer 2018.

thematic risks for 2017/2018

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

In 2017/2018, the executive team and board received quarterly reports about our position in relation to four thematic risks. 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 a quarterly basis at a minimum. 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 theme – 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 risk "deep dives" to review independently key areas of risk and how we're responding to them. In 2017/2018 the committee carried out deep dives on our managed operations function, our external environment, our risk-management framework, and GDPR implementation. The audit committee produced an assurance report to the board setting out how it had discharged its delegated responsibility.

thematic risks for 2017/2018

risk	what we've done in 2017/2018 to address the risk	what more we'll do in 2018/2019
We're impacted by **external factors** – for example, those of a regulatory, political, legal or societal nature.	We continued to regularly monitor the external environment to identify potential developments that could have a direct or indirect impact on our service. We maintained a constructive relationship with the FCA, regularly discussing areas of mutual interest. We developed an operational plan for dealing with PPI complaints affected by *Plevin* – and implemented these plans both before and following publication of the FCA's final rules and guidance. Our chief ombudsman & chief executive regularly engaged with our stakeholders. This engagement included appearing before the Treasury sub-committee to discuss our service's work (including changes to our operating model), engaging with the insurance industry about the fairness of premium pricing, supporting our engagement with independent financial advisers, and discussing the effectiveness of ombudsman schemes with relevant stakeholders in the consumer protection landscape. We set up a working group to review the impact of the UK's exit from the EU, as well as other legislative developments including the *Financial Guidance and Claims Bill*. This got Royal Assent in May 2018 and will result in our service taking responsibility for complaints about claims management companies.	We will continue horizon scanning and engaging with our stakeholders, to ensure we understand a range of perspectives and issues that are relevant to our operations.
We don't provide the right **support and infrastructure** to help meet our commitments.	We continued to proactively safeguard the personal data of our customers and our people, in line with relevant data protection legislation and our internal information security policies. We developed and put in place a programme to ensure our compliance with the GDPR. We transformed our HR function to ensure this meets our future needs, and will continue to embed the changes over the coming year.	We will continue to work on upgrading our support systems in HR and finance, to ensure we have the right capabilities in place to support our operations and our customers. We hope to implement these changes in 2019/2020. We will continue to strengthen our systems and processes across the service to ensure we are fully compliant with the GDPR.

risk	what we've done in 2017/2018 to address the risk	what more we'll do in 2018/2019
Our **service delivery** falls significantly below the expectations of our customers (consumers or businesses).	We continued to measure our performance against our commitments, making relevant business and management information available to our leaders and transparent to all employees. We assessed how well we dealt with complaints through our quality framework, with ombudsmen taking a central leadership role in our casework teams. We developed and put in place appropriate operational plans to deal with PPI complaints affected by *Plevin*, including providing training and sharing our ombudsmen's knowledge through our knowledge platform. We continued to monitor levels of customer satisfaction throughout the year – at all stages of our process, and among consumers and financial businesses. Our non-executive board commissioned Richard Lloyd to carry out an independent review of our service – looking in particular at, but not limited to, concerns raised by Channel 4's *Dispatches* in March 2018.	We will continue to embed our new investigation model – ensuring we have the capacity to deal with the very wide range of issues and scale of complexity in the complaints people refer to us, and that our people are supported to give fair and timely answers. We will launch our new case-management system and online portals, helping us provide a more customer-centric service and giving consumers and businesses more choice in how they engage with us. We will continue to identify and act on further opportunities to improve our service as our new operating model matures. This will include responding to the findings of Richard Lloyd's independent review.
We're unable to successfully implement **new ways of working** and make our service more **sustainable** for the future.	In October 2017, we opened an office in Coventry where we now have around 250 contractor PPI case handlers – helping us manage demand for our service in a flexible way, as well as reducing our premises costs. We continued to test, develop and roll out our new case-management system, which will be in place across the service by summer 2018. We launched an academy for all investigators who are new to our service – where they receive six months' training and mentoring from experienced colleagues, including ombudsmen. Money Advice Trust delivered bespoke training to 1,300 of our people, helping us better identify and respond to signs of vulnerability in our customers. And we launched a new practice group aimed at supporting customers' individual needs.	We will continue to embed our new investigation model – ensuring we have the capacity to deal with the very wide range of issues and scale of complexity in the complaints people refer to us, and that our people are supported to give fair and timely answers. We will launch our new case-management system and online portals, helping us provide a more customer-centric service and giving consumers and businesses more choice in how they engage with us. We will continue to identify and act on further opportunities to improve our service as our new operating model matures.

thematic risks for 2018/2019

As part of the ombudsman service's annual risk refresh, we have revised our thematic risks. These changes will be implemented for the 2018/2019 financial year, with reporting continuing on a quarterly basis in the same way as in 2017/2018.

The new themes are:

1. **Customer service**
2. **Being resilient and adaptable**
3. **Running the service**
4. **Our people**
5. **Our obligations**
6. **Our stakeholders**

In 2018/2019, we are committed to further develop our service's risk maturity model, taking forward the recommendations of our internal audit of risk management. This will include an enhanced set of reports to support decision makers, structured training and further development of risk analysis at a more detailed level.

internal audit

Our 2017/2018 audit plan was prepared by Deloitte and approved by the audit committee in June 2017. 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. The Deloitte partner on the audit contract has the role of our head of internal audit.

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 2017/2018 covered a range of areas across our risk profile. These included our service transformation programme; our governance; our HR strategy; our readiness for the GDPR; our contingent workforce framework; our key financial controls; and a follow up audit of business continuity.

Deloitte have completed the final year of their internal audit contract. We carried out a procurement exercise with the aim of appointing a new provider for 2018/2019, but weren't able to identify a suitable provider. We've reflected on this process and will carry out a second procurement exercise in 2018/2019, following further discussion with our audit committee about our strategy for internal audit work. In the interim, Deloitte have been appointed for a further twelve months.

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. Building on changes made during 2017/2018, further work needed to be undertaken embedding relevant processes and procedures arising from the HR transformation programme. And more assurance was required that processes for meeting the service's low appetite for information security risk had been sufficiently documented.

external audit

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

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 Financial Conduct Authority and adopted by the board. The remuneration committee considers and approves executive remuneration.

During 2017/2018 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 2018/2019 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 £103,382 for 4 days a week (2016/2017: £101,951), pension contributions of £15,507 (2016/2017: £13,526) and other benefits amounting to £3,656 (2016/2017: £3,444). In 2017/2018, the independent assessor didn't work any additional hours, so received £0 for additional hours worked (£1,846 in 2016/2017).

board pay

fees for the board (audited)	notes	total fees for year ended 31/3/18	total fees for year ended 31/3/17
		£	£
Sir Nicholas Montagu	1	**74,970**	74,970
Gerard Connell	2	**29,500**	29,500
Alan Jenkins	3	**25,000**	24,500
Maeve Sherlock	4	**27,042**	29,500
Pat Stafford	5	**9,833**	29,500
Gill Whitehead	6	**10,208**	24,500
Jenny Watson	7	**23,750**	-
Diana Warwick	8	**14,292**	-
Sienne Veit	9	**-**	-
total		**214,595**	212,470

notes

1 During the year, Nick Montagu was re-appointed as chairman for a further 18 months to 1 August 2019.

2 Gerard Connell's fee includes an additional fee for chairing the audit committee.

3 Alan Jenkins' fee includes an additional fee as the senior independent director from 23 February 2018.

4 Maeve Sherlock's fee includes an additional fee as the senior independent director. Maeve left the service on 22 February 2018.

5 Pat Stafford's fee includes an additional fee for chairing the remuneration committee. Pat left the service on 31 July 2017.

6 Gill Whitehead left the service on 31 August 2017.

7 Jenny Watson joined the service on 1 June 2017. Her fee includes an additional fee for chairing the remuneration committee from 1 August 2017.

8 Diana Warwick joined the service on 1 September 2017.

9 Sienne Veit joined the service on 1 September 2017. Sienne has elected not to receive a fee.

expenses incurred by board members

expenses incurred by board members (audited)	travel	accommodation	entertaining	total
	£	£	£	£
Sir Nicholas Montagu	75	211	314	**600**
Gerard Connell	-	211	273	**484**
Alan Jenkins	50	211	65	**326**
Maeve Sherlock	-	211	273	**484**
Pat Stafford	-	-	230	**230**
Gill Whitehead	-	-	208	**208**
Jenny Watson	212	211	166	**589**
Diana Warwick	-	211	243	**454**
Sienne Veit	-	211	207	**418**
total	**337**	**1,477**	**1,979**	**3,793**

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 expenses incurred by, or on behalf of, the directors during 2017/2018 are shown in the table.

executive remuneration

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.

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 former director of HR and organisational development, who was recruited on a fixed-term contract – 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.

pension scheme

Members of the executive team are eligible to join the non-contributory defined-contribution FCA pension plan (the "plan"), which is open to all employees except non-executive directors. The employer makes a core contribution to the plan calculated as a percentage of salary linked to age, at the rates in the table on page 67. 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 plan up to 3% of the employee's pensionable salary.

In 2016, the remuneration committee approved an alternative cash arrangement of 13% for those employees on higher salaries, including the executive team, who want to leave the plan. This alternative arrangement was 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 plan 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 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)	notes	salary*	pension**	other benefits***	total for year ended 31/3/18	total for year ended 31/3/17
			£	£	£	£
Caroline Wayman	1/2	260,205	29,136	6,831	**296,172**	302,355
Julia Cavanagh	2	196,645	22,019	11,060	**229,724**	229,643
David Cresswell		161,273	18,581	6,347	**186,201**	172,400
Annette Lovell	1/3	158,435	19,394	5,744	**183,573**	196,236
Chris McDermott	4	205,550	23,843	6,834	**236,227**	235,754
Richard Thompson		167,688	22,048	6,635	**196,371**	193,034
Garry Wilkinson		164,730	17,638	6,301	**188,669**	188,250
Sally Webster	5	196,434	28,077	5,526	**230,037**	149,795
total		**1,510,960**	**180,736**	**55,278**	**1,746,974**	**1,667,467**

* Salary cost comprises base salary including salary at risk (with the exception of the former director of HR and organisational development).

** Pension cost comprises employer pension contributions paid to the plan on behalf of the individual together with any payments made to the individual in lieu of pension following the changes in pension legislation on page 66.

*** Other benefits comprise the cost of providing core benefits 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. Annette Lovell was appointed as a Lay Member of the Office for Legal Complaints (OLC) on a three year term from 1 March 2018 – 28 February 2021. The role pays a fee of £10,000 a year.

2 Caroline Wayman and Julia Cavanagh have elected to allocate £10,000 of the employer pension contribution into the plan. The remaining employer contribution is paid as a non-pensionable cash supplement. The combined value of these amounts is calculated as 13% of the pensionable salary. Both amounts are included under "pension" in the table above.

3 Annette Lovell reduced her working pattern from 5 to 4 days per week from 1 December 2017.

4 Chris McDermott has elected to opt out of the plan and his contribution is paid as a non-pensionable cash supplement. The amount is calculated as 13% of the pensionable salary and is included under "pension" in the table above.

5 Sally Webster joined the service on 23 May 2016 as director of HR and organisational development and left the service on 23 February 2018. Her salary includes payments in respect of accrued holiday and pay in lieu of notice, all of which were pensionable.

expenses incurred by, or on behalf of, members of the executive team (audited)	travel	accommodation & subsistence	entertaining	professional subscriptions	total for the year ended 31/3/18
	£	£	£	£	£
Caroline Wayman	2,708	2,323	227	360	5,618
Julia Cavanagh	291	211	206	463	1,171
David Cresswell	851	1,565	153	-	2,569
Annette Lovell	209	1,069	206	-	1,484
Chris McDermott	146	211	206	-	563
Richard Thompson	681	211	32	328	1,252
Sally Webster	51	211	32	207	501
Garry Wilkinson	239	180	52	-	471
total	**5,176**	**5,981**	**1,114**	**1,358**	**13,629**

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 2017/2018 was £267,036 (2016/2017: £269,543). This was 6.92 times (2016/2017: 7.36 times) the median remuneration of the workforce, which was £38,579 (2016/2017: £36,643). 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 2017/2018 was 7.33 times, compared to 7.75 in 2016/2017.

*Remuneration includes salary, salary at risk, and benefits-in-kind. It doesn't include severance payments, pension related allowances 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)	2017/2018* number (redundancy)	2017/2018 number (other)	2016/2017 number (redundancy)	2016/2017 number (other)
less than £2,000	1	5	-	5
£2,001 to £5,000	10	1	-	8
£5,001 to £10,000	12	5	-	5
£10,001 to £25,000	14	5	3	4
£25,001 to £50,000	5	6	2	9
£50,001 to £100,000	4	-	2	3
total	**46**	**22**	**7**	**34**
total payments	**£816,597**	**£347,551**	**£258,890**	**£624,229**

* In 2017/2018, as part of the planned transition to our new ways of working, 27 colleagues working in our customer contact centre left the service as part of a redundancy programme. A further 57 colleagues remained in the service, moving to roles resolving complaints in our casework teams or to other areas.

The table above comprises the exit packages for leavers in 2017/2018. Further amounts totalling £69,078 have been accrued at 31 March 2018 representing payments due for leavers in 2017/2018 (31 March 2017: £10,000). The total charged within the financial statements for 2017/2018 is £1,223,226 relating to exit packages (2016/2017: £770,444). The highest payout during the year was £87,822 (2016/2017: £87,500).

statement of directors' responsibilities

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 2018/2019 and 2019/2020, which show year end reserves of £172m and £178m in the bank at 31 March 2019, reducing to £115m and £119m respectively by 31 March 2020. The financial statements have accordingly been prepared under the going concern accounting convention.

statement of disclosure of information to auditor

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
4 July 2018

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I have audited the financial statements of the Financial Ombudsman Service for the year ended 31 March 2018 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 the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, HM Treasury directions issued under the *Financial Services and Markets Act 2000*, and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of the surplus for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- 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 regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Financial Ombudsman Service in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Directors for the financial statements

As explained more fully in the statement of Directors' responsibilities, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Financial Ombudsman Service's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Financial Ombudsman Service's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Directors are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters prescribed by the *Companies Act 2006*

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 and the accounts directions issued by HM Treasury under the Financial Services and Markets Act 2000;
- 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; and
- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by the Financial Ombudsman Service, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the company.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **July 2018**

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

financial statements

statement of comprehensive income for the year ended 31 March 2018	notes	2018 £000	2017 £000
continuing operations			
revenue	4	**247,652**	235,872
administrative expenses	5	**(243,596)**	(247,284)
operating surplus/(deficit)		**4,056**	(11,412)
finance income	6	**1,347**	1,657
finance costs	6	**(186)**	(185)
surplus/(deficit) before income tax		**5,217**	(9,940)
corporation tax expense		**(230)**	(237)
surplus/(deficit) for the year from continuing operations		**4,987**	(10,177)

statement of other comprehensive income for the year ended 31 March 2018	notes	2018 £000	2017 £000
surplus/(deficit) for the year		**4,987**	(10,177)
other comprehensive income/(expense):			
items that will not be reclassified to profit or loss	23	**1,160**	(2,365)
re-measurements of post-employment benefit obligations			
total other comprehensive income/(expense)		**1,160**	(2,365)
total comprehensive income/(expense) for the year		**6,147**	(12,542)

All operations are continuing.

statement of changes in equity	notes	accumulated surplus
balance as at 1 April 2017	21	**223,584**
total comprehensive income/(expense) for the year		**6,147**
balance as at 31 March 2018	21	**229,731**

statement of financial position as at 31 March 2018	notes	2018 £000	2017 £000
non-current assets			
property, plant and equipment	9	**5,784**	7,749
intangible assets	10	**14,546**	7,330
trade and other receivables	11	**403**	526
		20,733	15,605
current assets			
trade and other receivables	11	**34,978**	26,192
short term deposits	12	**94,000**	153,000
cash and cash equivalents	13	**134,643**	89,813
		263,621	269,005
total assets		**284,354**	284,610
current liabilities			
trade and other payables	14	**43,189**	47,761
provisions for other liabilities and charges	16	**1,236**	-
current corporation tax liability		**110**	92
		44,535	47,853
non-current liabilities			
trade and other payables	14	**2,082**	2,805
provisions for other liabilities and charges	16	**2,351**	2,704
post-employment benefits	23	**5,655**	7,664
		10,088	13,173
total liabilities		**54,623**	61,026
total equity			
accumulated surplus	21	**229,731**	223,584
total equity and liabilities		**284,354**	284,610

The notes on pages 76 to 97 are an integral part of these financial statements.

The company is exempt from the requirement of part 16 of the *Companies Act 2006* as stipulated in schedule 17, s.7A of the *Financial Services and Markets Act 2000*.

The financial statements on pages 73 to 97 were approved by the board of directors on 4 July 2018, and are signed on behalf of the board of directors by:

Nick Montagu

Sir Nicholas Montagu
chairman
4 July 2018

Company number: 03725015

statement of cash flows for the year ended 31 March 2018	notes	2018 £000	2017 £000
cash flows from operating activities			
cash (outflow)/inflow from operations		**(4,615)**	11,194
interest paid		**-**	-
corporation tax paid		**(212)**	(510)
net cash (outflow)/inflow from operating activities		**(4,827)**	10,684
cash flows from investing activities			
purchase of property, plant and equipment	9	**(1,057)**	(213)
purchase of intangible assets	10	**(9,642)**	(2,929)
decrease / (increase) in short-term deposits	12	**59,000**	(39,000)
interest received		**1,356**	1,759
net cash used in investing activities		**49,657**	(40,383)
cash flows from financing activities			
movement in long term borrowings		**-**	-
net cash used in financing activities		**-**	-
net increase /(decrease) in cash and cash equivalents		**44,830**	(29,699)
cash and cash equivalents at beginning of the year		**89,813**	119,512
cash and cash equivalents at end of the year	13	**134,643**	89,813

notes to the statement of cash flows for the year ended 31 March 2018	notes	2018 £000	2017 £000
surplus/(deficit) for the year from operations before financing and corporation tax		**4,056**	(11,412)
adjustment for:			
depreciation	9	**3,005**	4,379
amortisation	10	**2,426**	3,158
loss on disposal of property, plant and equipment	9	**17**	1
loss on disposal of intangible assets	10	**-**	-
net adjustments in property, plant and equipment	9	**-**	-
net adjustments in intangible assets	10	**-**	-
increase in provisions	16	**883**	1,289
defined benefit pension costs	23	**(1,035)**	(343)
changes in working capital			
(increase)/decrease in receivables		**(8,672)**	11,569
(decrease)/increase in payables	14	**(5,295)**	2,553
cash (outflow)/inflow from operations		**(4,615)**	11,194

notes to the financial statements for the year ended 31 March 2018

1. status of the company

Financial Ombudsman Service Limited (the "Service") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 and is a company limited by guarantee with no share capital (registered in England and Wales, 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.

A summary of the principal accounting policies is set out below:

revenue recognition

The intent under-pinning 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. 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.

sources of revenue

- 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.

- Group fees

The members of the group fee arrangement remained unchanged this financial year and comprised of Lloyds Banking Group, Royal Bank of Scotland Group, Barclays Banking Group, 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 cases are 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 twenty sixth 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. Our policy, therefore, is 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 twenty sixth 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 the remaining period of the lease**
computer equipment	**over three years**
furniture and equipment	**over three to five years**
fixtures and fittings	**over the remaining period of the lease**
motor vehicle	**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 or 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 two 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.

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 section (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 plan 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 Financial Reporting Interpretations Committee (IFRIC) interpretations that would be expected to have a material impact on the company in the current year.

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 on or after 1 January 2018 and beyond. We have chosen not to adopt these standards early and so have not applied them in preparing the Service's financial statements. We have listed the main standards below and have indicated whether we believe they will have a material impact.

IFRS 9, "Financial instruments" requires that financial assets and liabilities are measured at fair value but with a move from an "incurred loss" model to an "expected loss" model. This requires considering impairment from the moment a receivable is recognised rather than at a later point, for example when the debt falls overdue. The standard is effective for annual periods commencing on or after 1 January 2018. We do not consider this will have a material impact due to the relatively straightforward nature of our financial assets and liabilities.

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. The Service's revenue streams have been assessed to be within the scope of the new standard. We have considered the impact this standard will have on all of our revenue streams, and do not believe it will have a material impact.

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. We recognise that this standard will have a material impact on our balance sheet and will carry out further work during 2018/2019 ahead of being adopted from 2019/2020 onwards.

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 £9,487k (2017: £2,748k) have been capitalised as additions during the period. Internally developed software is designed to support the Service in carrying out 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. It will also make it easier to develop and maintain the software.

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	2018 £000	2017 £000
annual levy	**25,615**	25,440
standard case fees		
gross fees	**73,143**	58,017
movement in credit note provision	**(430)**	208
movement in general casework stock	**(709)**	1,925
supplementary case fees		
gross (credits) / fees	**(16)**	402
movement in credit note provision	**(35)**	(79)
movement in deferred income	**1,943**	1,414
group fees		
gross fees	**143,628**	144,074
transfer to deferred income	**-**	-
release from deferred income	**3,960**	3,970
other income	**553**	501
	247,652	235,872

5. administrative expenses

5.1. expenses by nature	notes	2018 £000	2017 £000
staff payroll costs	7	**153,348**	155,256
contractor and temporary staff costs*		**41,552**	38,870
other staff costs		**2,604**	5,460
consultancy and other professional costs**		**6,054**	5,980
operating lease rentals: premises		**10,084**	9,863
operating lease rentals: other		**121**	177
other premises and facilities costs		**14,955**	15,751
it running costs		**8,414**	7,779
depreciation and amortisation	9/10	**5,431**	7,537
loss on disposal of fixed assets	9/10	**17**	1
bad debts		**32**	(218)
other costs		**921**	765
		243,533	247,221

* Contractor and temporary staff costs are shown net of £2,175k costs capitalised as internally generated software costs (2017: £913k).

** Consultancy costs are shown net of £6,192k costs capitalised as internally generated software costs (2017: £1,484k).

5.2. auditor's remuneration	2018 £000	2017 £000
external audit fee		
National Audit Office	63	63
total	243,596	247,284

The National Audit Office has not provided any other services to the Service other than external audit.

6. finance income and costs	2018 £000	2017 £000
finance income		
bank interest	1,347	1,657
total finance income	1,347	1,657
finance costs		
bank interest	-	-
interest on net defined benefit liability	(186)	(185)
total finance cost	(186)	(185)
net finance income	1,161	1,472

7. employees

7.1 employee benefit expense	notes	2018 £000	2017 £000
wages and salaries		121,444	123,543
social security costs		14,323	13,796
other employer's pension costs - money purchase section		12,944	13,378
flexible benefit costs		5,582	4,974
staff costs capitalised as internally generated software costs		(945)	(435)
		153,348	155,256
other employer's pension costs – defined benefit section included in interest payable	23	186	185
total employment costs		153,534	155,441

7.2 monthly average number of people employed	2018 no.	2017 no.
ombudsmen	**351**	291
case handlers	**1,670**	1,902
other	**995**	1,172
	3,016	3,365

8. board remuneration

The board consists entirely of non-executive directors. Board remuneration payable to directors during the year amounted to £214,595 (2017: £212,470). The chairman, who is also the highest paid director, was paid at a rate of £74,970 per annum (2017: £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 (2017: £29,500) and the other directors were paid at a rate of £24,500 per annum (2017: £24,500). Further details are provided in the remuneration report on page 65.

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

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 2017	3,445	9,979	14,755	9	28,188
additions	-	666	391	-	1,057
disposals	-	-	(4,031)	-	(4,031)
reclassifications	-	-	-	-	-
write downs	-	-	-	-	-
at 31 March 2018	**3,445**	**10,645**	**11,115**	**9**	**25,214**
accumulated depreciation					
at 1 April 2017	847	9,787	9,796	9	20,439
charge for the year	344	264	2,397	-	3,005
disposals	-	-	(4,014)	-	(4,014)
reclassifications	-	-	-	-	-
write downs	-	-	-	-	-
at 31 March 2018	**1,191**	**10,051**	**8,179**	**9**	**19,430**
net book value at 31 March 2018	**2,254**	**594**	**2,936**	**-**	**5,784**
at 31 March 2017	2,598	192	4,959	-	7,749

During the year, the Independent House lease came to an end. This resulted in a major disposal of previously capitalised fixtures and fittings and other associated costs.

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 2017	3,783	9,059	4,140	16,982
additions	155	-	9,487	9,642
assets placed in use*	-	767	(767)	-
disposals	-	-	-	-
reclassifications	-	-	-	-
at 31 March 2018	**3,938**	**9,826**	**12,860**	**26,624**
accumulated depreciation				
at 1 April 2017	2,854	6,798	-	9,652
charge for the year	486	1,940	-	2,426
disposals	-	-	-	-
reclassifications	-	-	-	-
at 31 March 2018	**3,340**	**8,738**	**-**	**12,078**
net book value at 31 March 2018	**598**	**1,088**	**12,860**	**14,546**
at 31 March 2017	929	2,261	4,140	7,330

* 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. The £12,860k costs carried forward at 31 March 2018 comprise costs of our new customer-centric case handling system and new online portal which are expected to be placed in use during 2018/2019.

11. trade and other receivables	2018 £000	2017 £000
trade and other receivables due within one year		
trade receivables	**10,239**	4,613
less: provision for bad debts	**(202)**	(468)
less: provision for credit notes	**(1,497)**	(1,032)
trade receivables – net	**8,540**	3,113
prepayments	**11,385**	11,207
other receivables	**893**	981
accrued income	**14,160**	10,891
trade and other receivables due within one year	**34,978**	26,192
trade and other receivables due after more than one year		
prepayments – after more than one year	**403**	526
trade and other receivables due after more than one year	**403**	526

12. short-term deposits	2018 £000	2017 £000
short term treasury deposits	94,000	153,000
short-term deposits	94,000	153,000

As at 31 March 2018, the Service held Treasury deposits with a maturity of greater than three months with nine different institutions (31 March 2017: nine) for periods between four and seven months maturing between 6 July 2018 and 17 October 2018.

13. cash and cash equivalents	2018 £000	2017 £000
cash at bank and in hand	9,643	1,563
short term treasury deposits (deposits with a maturity of less than three months)	125,000	88,250
cash and cash equivalents	134,643	89,813

As at 31 March 2018, the Service held Treasury deposits with a maturity of less than three months with eight different institutions (31 March 2017: seven) for periods between one and three months maturing between 3 April 2018 and 29 June 2018.

14. trade and other payables	2018 £000	2017 £000
trade and other payables due within one year		
trade payables	1,990	4,793
other taxes & social security	3,316	3,228
deferred income		
supplementary case fees	1,291	3,234
group fees	1,203	5,163
compulsory jurisdiction (CJ) levy billed in advance	15,965	12,551
voluntary jurisdiction (VJ) levy	-	-
other creditors	963	351
accruals	18,461	18,441
trade and other payables due within one year	43,189	47,761
trade and other payables due after more than one year		
accruals	2,082	2,805
trade and other payables due after more than one year	2,082	2,805

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 monitors credit ratings on a daily basis to ensure the banks continue to meet our investment criteria. On an annual basis the counterparty list is reviewed, revised and presented to the Service's audit committee for approval. 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 institutions.

At the reporting date, the Service held money market funds of £94,000k (2017: £153,000k) and other liquid assets of £134,643k (2017: £89,813k) that are expected to readily generate cash inflows for managing liquidity risk.

15.1 financial instruments by category

As at 31 March 2018, trade and other receivables, short term deposits and cash and cash equivalent balances of £264,024k were classified as loans and receivables (2017: £269,531k).

As at 31 March 2018, trade and other payables of £45,271k were classified as loans and payables (2017: £50,566k).

15.2 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 £1,665k (2017: £2,757k).

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:

	2018 £000	2017 £000
at 1 April 2017	1,032	1,161
change in provision for the year	465	(129)
at 31 March 2018	1,497	1,032

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

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

	2018 £000	2017 £000
at 1 April 2017	468	864
change in provision for the year	(266)	(396)
at 31 March 2018	202	468

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	2018 £000	2017 £000
provision brought forward at 1 April 2017	2,704	1,415
release in the year	-	-
receipts in the year	-	-
payments in the year	-	-
new provision in the year	883	1,289
provision carried forward at 31 March 2018	3,587	2,704

This note refers to provision for dilapidations only. The provision for dilapidations at 31 March 2018 and 31 March 2017 reflects the recommendations made following property reviews undertaken by external consultants. Provisions exist for all the properties we currently occupy as set out below.

due within one year	2018 £000	2017 £000
Independent House	1,236	-
	1,236	-

due after one year	2018 £000	2017 £000
SQP3	514	514
Independent House	-	863
Walbrook House	141	81
Exchange Tower	1,685	1,246
Friargate	11	-
	2,351	2,704

17. financial commitments

As at 31 March 2018 there were no capital commitments contracted for but not provided (31 March 2017: £nil).

18. events after the reporting period

There are no events after the reporting period that require disclosure. These financial statements were authorised for issue on the date certified by the Comptroller and Auditor General.

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 also has a sub lease 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.

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

	premises 31 March 2018 £000	other 31 March 2018 £000	premises 31 March 2017 £000	other 31 March 2017 £000
payments due				
not later than 1 year	**10,933**	**54**	10,726	92
later than 1 year and not later than 5 years	**30,996**	**46**	28,835	5
later than 5 years	**40,072**	**-**	39,842	-
total	**82,001**	**100**	79,403	97

These amounts are stated inclusive of VAT, where applicable.

The future aggregate minimum lease payments expected to be received under non-cancellable operating sub-leases is £577k, exclusive of VAT, all receivable within five years. This is in respect of a sub-lease of part of one floor of Exchange Tower with a lease expiry date of February 2023.

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
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 2020	March 2021
5	September 2015	March 2020	March 2021
Friargate			
2	October 2017	October 2022	October 2027
3	October 2017	October 2022	October 2027

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 £121k for the year ended 31 March 2018 (2017: £120k).

c) At 31 March 2018 the net balance due from the Financial Conduct Authority is £3,251k (2017: due from the Financial Conduct Authority £1,147k). 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 plan. The charge for the year ended 31 March 2018 was £89k (2017: £176k).

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.

Other than disclosed above, there were no related party transactions during the year (2017: none).

21. accumulated surplus	2018 £000	2017 £000
accumulated surplus before net pension liability	235,386	231,248
net pension liability	(5,655)	(7,664)
accumulated surplus after net pension liability	229,731	223,584

22. losses and special payments	2018 £000	2017 £000
losses	298	178
special payments	545	718
total	843	896

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 section

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 section

Independent actuarial advice has been obtained in order to calculate the share of the assets and liabilities of the 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 2018 there are 93 (2017: 100) deferred members and 40 (2017: 35) pensioners.

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

analysis of defined benefit obligation by membership category	2018 £000	2017 £000
deferred members' benefits	28,066	29,748
pensioner members' benefits	8,146	7,320
total defined benefit obligation	**36,212**	37,068

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 signed funding valuation of the plan as at 31 March 2016 shows a deficit in respect of the Service's liabilities of approximately £10.3m. It was agreed that the deficit contributions that the Service will pay would increase from £343k per annum to £1,035k per annum from 1 April 2017 which is expected to make good this shortfall by 31 March 2027. The next funding valuation is due with an effective date of no later than 31 March 2019 at which time progress towards full-funding will be reviewed. A contribution of £1,035k is expected to be paid by the Service during the year ending 31 March 2019.

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 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 2018

The figures below relate solely to the obligations of the Service in respect of the defined benefit section of the 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	**31/03/2018 % pa**	31/03/2017 % pa	31/03/2016 % pa
retail price index (RPI) inflation	**3.1**	3.2	3.0
pension increases (RPI maximum 5%)	**3.0**	3.1	2.9
pension increases (RPI maximum 3%)	**2.4**	2.5	2.3
discount rate for plan liabilities	**2.6**	2.6	3.5

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

The main demographic assumptions are set out below:

main demographic assumptions		31/03/2018 years	31/03/2017 years	31/03/2016 years
life expectancy for member aged 60 at the balance sheet date	Males	**28.2**	28.3	28.9
	Females	**29.4**	29.7	30.2
life expectancy at age 60 for member aged 40 at the balance sheet date	Males	**29.6**	29.5	30.8
	Females	**31.0**	31.0	32.2

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 2018, assumed improvements in mortality are in line with CMI 2017 "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 2017 and 31 March 2016 (which assume improvements in mortality are in line with CMI 2016 and CMI 2013 "core projections" respectively 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 31/03/2018 £000	value at 31/03/2017 £000
equity	**6,261**	15,686
property	**2,588**	2,131
corporate bonds	**3,096**	9,357
liability driven investment funds*	**9,685**	-
diversified funds*	**6,841**	-
bought-in annuity policies**	**1,685**	1,716
other	**401**	514
total	**30,557**	29,404

*During the year to 31 March 2018, the plan trustees approved a change to their investment strategy. The plan now holds significantly less corporate bonds and equities, and has moved into holdings in diversified funds and liability driven investment ("LDI") funds. Diversified funds are managed investments which aim to achieve strong returns whilst benefitting from reduced risk by investing in a wide range of assets. LDI funds are designed to respond to changes in financial conditions in a similar way to the plan's liabilities with the aim of reducing the volatility of the funding position.

**In the year ended 31 March 2017, the plan invested in individual annuity policies for certain pensioners of the plan. These annuity policies are held in trustees' name 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 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 31/03/2018 £000	value at 31/03/2017 £000	value at 31/03/2016 £000
fair value of plan assets	**30,557**	29,404	24,467
present value of defined benefit funded obligations	**(36,212)**	(37,068)	(29,924)
funded status	**(5,655)**	(7,664)	(5,457)
unrecognised asset due to limit in para 64	**-**	-	-
net pension liability recognised on the statement of financial position	**(5,655)**	(7,664)	(5,457)

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 31/03/2018 £000	year ending 31/03/2017 £000
operating cost:		
service costs	**-**	-
financing cost:		
interest on net defined benefit liability	**186**	185
pension expense recognised in the statement of comprehensive income	**186**	185
re-measurements in other comprehensive income		
returns on plan assets (in excess of) that recognised in net interest	**(512)**	(4,024)
actuarial (gains) / losses due to changes in financial assumptions	**(783)**	7,773
actuarial (gains) due to changes in demographic assumptions	**(181)**	(781)
actuarial losses / (gains) due to liability experience	**316**	(603)
adjustments to the limit in para 64	**-**	-
total amount recognised in the statement of other comprehensive income	**(1,160)**	2,365
total amount recognised in the statement of comprehensive income and other comprehensive income	**(974)**	2,550

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

	year ending 31/03/2018 £000	year ending 31/03/2017 £000
opening defined benefit obligation	**37,068**	29,924
interest cost on defined benefit obligation	**949**	1,042
actuarial (gains) on plan liabilities arising from changes in demographic assumptions	**(181)**	(781)
actuarial (gains)/losses on plan liabilities arising from changes in financial assumptions	**(783)**	7,773
actuarial losses/(gains) on plan liabilities arising from experience	**316**	(603)
net benefits paid out	**(1,157)**	(287)
closing defined benefit obligation	**36,212**	37,068

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

	year ending 31/03/2018 £000	year ending 31/03/2017 £000
opening fair value of plan assets	**29,404**	24,467
interest income on plan assets	**763**	857
re-measurement gains on plan assets	**512**	4,024
contributions by the employer	**1,035**	343
net benefits paid out	**(1,157)**	(287)
closing fair value of plan assets	**30,557**	29,404

Actual return on plan assets is set out below:

	year ending 31/03/2018 £000	year ending 31/03/2017 £000
interest income on plan assets	**763**	857
re-measurement gains on plan assets	**512**	4,024
actual return on plan assets	**1,275**	4,881

Analysis of amounts recognised in statement of other comprehensive income:

	year ending 31/03/2018 £000	year ending 31/03/2017 £000
total re-measurement gains / (losses)	**1,160**	(2,365)
change in irrecoverable surplus effect of limit in para 64	**-**	-
total gain/(loss)	**1,160**	(2,365)

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	(5,655)	(767)	(6,422)
following a 0.1% increase in the inflation assumption	(5,655)	(758)	(6,413)
following a 1 year increase in life expectancy	(5,655)	(1,078)	(6,733)

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)

The total expense recognised in the income statement £13,046k (2017: £13,378k) represents contributions payable to the plan by the Service at rates specified in the rules of the defined contribution section.

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