Financial Ombudsman Service

Annual report and accounts

for the year ended 31 March 2019

Financial Ombudsman Service Limited

Annual report and accounts for the year ended 31 March 2019

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Any enquiries related to this publication should be sent to us at:

Stakeholder team
Financial Ombudsman Service
Exchange Tower
London
E14 9SR

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Contents

Overview

Welcome to our 2018/2019 *annual report and accounts*. This overview gives key information about our service and our work, as well as commentary from our chairman and chief ombudsman & chief executive about the year we've had.

About us

We were set up by Parliament under the *Financial Services and Markets Act 2000* to resolve individual complaints between financial businesses and their customers – fairly, reasonably and as informally as possible. On 1 April 2019, our remit extended to include more complaints made by small and medium-sized enterprises (SMEs) about financial businesses, and to complaints made by customers of claims management companies (CMCs).

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 an answer that helps both sides move on. And if someone's been treated unfairly, we'll use our powers to make sure things are put right. This could mean telling the business to apologise, to take action or to pay compensation – in a way that reflects the particular circumstances. In resolving hundreds of thousands of complaints every year, we see the impact on people from all sorts of backgrounds and livelihoods.

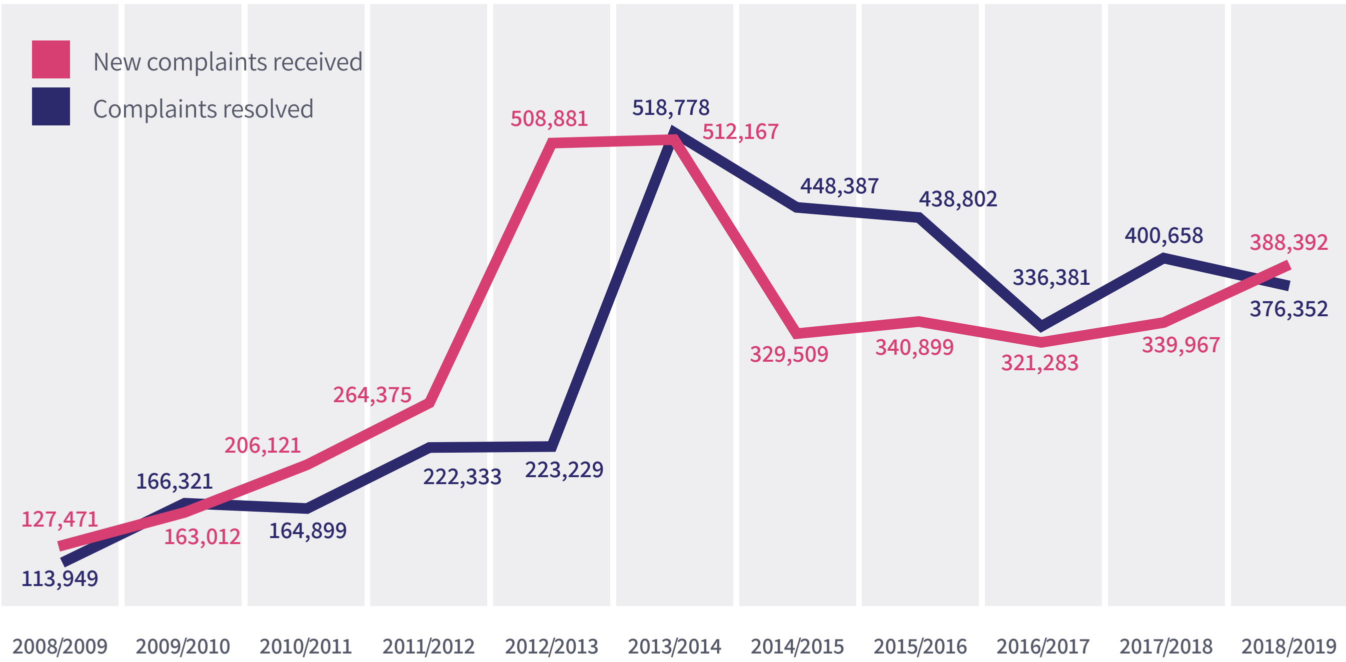
We're committed to sharing our insight and experience to encourage fairness and confidence in the different sectors we cover.

Our workload

Since we were established

3,625,166 complaints received

3,509,788 complaints resolved



In January 2019 we received our

2 millionth

complaint about payment protection insurance

Chairman's statement

I am writing this introduction – some might call it a valedictory statement – with a mixture of pride and sadness, as it is my last one as chairman of the Financial Ombudsman Service. As such, it provides an opportunity to think back over what has been an extremely eventful and enjoyable seven years, and look at the kind of organisation we are today.

Over that time, our service has grown and changed – we tripled in size to handle PPI complaints. I have seen, as we all have, the world quickly adopt and adapt to transformative technology, and the impact that it has had on all aspects of our lives. Back in 2012, all our cases were on paper – and our case-handling is now paper-free.

In my first introduction to our annual report back in 2012, I said: "One of my priorities in the coming year is to ensure we continue to embrace change – reflecting on our approach, our processes and our offering to ensure we remain as valuable to society in a decade's time as we are today." So, looking back over the last seven years, what challenges have we faced – and how have we done against that ambition?

During my first year as chairman, the financial services sector was still dealing with the fallout from the 2008 financial crisis. Awareness of mis-sold PPI was rising rapidly, and this contributed to the sense that consumer confidence was dwindling. The next year saw the Financial Services Authority become the Financial Conduct Authority (FCA), with a renewed focus on ensuring financial services companies were behaving in consumers' interests.

Today, I believe trust in the financial services sector has been restored to an appreciable extent – but as people bring new kinds of complaints to us, we are constantly reviewing whether we're handling them in the best way and achieving the right outcomes.

We are busier than we have ever been – even though we are only halfway through 2019, there are already plenty of matters occupying us. We are handling new types of complaints too, often resulting from new types of technology. We are looking at how we may need to re-shape our organisation now that the end of PPI is in sight, and how this will affect our staff and our budget.

2014 saw the peak of PPI. We resolved more cases that year than at any time before or since, reaching our two millionth case across all financial products overall. At one stage, we were receiving 12,000 PPI complaints each week, and it was in response to this demand that we tripled in size. Since then, PPI has continued to account for more than half our workload – and more recently, we have needed to manage the uncertainty and then the consequences of the Supreme Court's judgment in *Plevin v Paragon Personal Finance Ltd*.

> ...while notable for its unprecedented scale, PPI has only ever been part of the picture.

However, while notable for its unprecedented scale, PPI has only ever been part of the picture. We have handled a spike in people complaining about packaged bank accounts. Worryingly, we have seen a dramatic rise in people contacting us about borrowing: over the last three financial years, excluding PPI, these cases have made up one in five, then one in four, and now, in 2018/2019, one in three of all complaints that we received during the year.

We have continued to look for ways to improve our service. Our investigation model is now established, and throughout the transition our people maintained their professionalism and commitment to fairness. We published the findings and recommendations of Richard Lloyd, whom my board invited to provide an independent review of our service after the broadcast of a documentary about us in 2018 and who produced a diligent and thoughtful report. We accepted all his recommendations, which pointed the way to continued improvement, and which I am pleased to say we have now fully implemented and embedded in our plans for the future.

> ...we have seen some major themes dominate our work: like the growth of technology, and a growing recognition of the different ways in which vulnerability can manifest itself.

Over the years we have updated our website, including adding new channels for people to get in touch with us online – and have been planning for the launch of an entirely new website in 2019. But it would be foolish to get caught up in the acceleration of digital change without remembering that there are still many people who prefer to – or can only – deal with their finances offline. That is why reaching the people who need us, and making ourselves as accessible to as wide a cross-section of people as possible, is central to our work. Where necessary, that work involves reminding businesses of such responsibilities too.

So over those seven years, as well as the peaks and troughs of caseload, we have seen some major themes dominate our work: like the growth of technology, and a growing recognition of the different ways in which vulnerability can manifest itself. We put equal emphasis on our case-handlers having technical knowledge and on their knowing how to identify and respond to individual needs, including vulnerability. We have made good progress, but we know that there is always more to learn. There are also important things that have remained constant during my period of chairmanship, and will continue to do so. They include the need for trust, dependability, integrity, and of being accessible. There has been consistent demand for our service; in an ideal world there would be no need for us at all, but that does not look likely any time soon.

This year, our customer survey shows that 76% of adults in the UK trust our service, and 91% have some awareness of us. Customer satisfaction levels remain high, even among those whose complaint was not upheld. While we work on prioritising our caseload and the timeliness of our answers, we continue to strengthen our governance arrangements, our quality assurance and our close and collaborative relationships with other organisations, including the FCA.

That last point is an important one; when I arrived, there was, with a number of stakeholders, an adversarial element in our dealings. I welcome, and am grateful for, the new constructive relationships which have been built, and the existing ones that have been built upon, over my time at the ombudsman.

We all recognise the need for a proper distance between us and other organisations; but we recognise, too, that we are working to a shared purpose, and that cooperation is in all our interests.

So, reflecting back on the ambition I set out in 2012: yes, I think embracing change has characterised these past seven years, and yes – that we are still providing as valuable a service to society as we were in 2012. Our organisation looks very different from then, but I believe it is well positioned now for the challenges ahead, and for maintaining people's confidence in us and the decisions we make. The scrutiny of our work on the part of external reviewers, including our own independent assessor, ensures that we can constantly improve it.

For me the last seven years have been hugely rewarding in both personal and professional terms, and I should like to thank all those who have made them so. I have enjoyed close and cordial working relationships with a strong and talented executive team, and have been extraordinarily lucky in benefiting from the unfailing support and wisdom of successive board members. But perhaps the most impressively consistent theme throughout these years has been the dedication of the people who work at the Financial Ombudsman Service. As I prepare to hand over the chair to Baroness Manzoor CBE, I look back with pride over what our service has achieved, and I know that it has a bright future.

Sir Nicholas Montagu KCB
Chairman
3 July 2019

Chief ombudsman & chief executive's foreword

It's been said we're living through a time characterised by division and uncertainty. And whether or not that's your view, it's hard to disagree that it can sometimes feel balance and clarity are in short supply. As an ombudsman, bringing opposing sides together is what we're tasked with every day. So in 2019, the work we do feels more necessary – and perhaps more valuable – than it's ever been.

In taking the temperature of the year, our starting point is always the complaints we've seen. In 2018/2019, those trends have in many ways reflected the uncertainty and volatility that's characterised current affairs. The past twelve months have been our busiest for five years: we were asked to step into more than 388,000 complaints, up 14% on the year before. One of the major factors behind this increase is the rise in complaints about consumer credit products and services, which rose by 89%. Excluding PPI, they represented one in every three new cases we received.

> The past twelve months have been our busiest for five years: we were asked to step into more than 388,000 complaints, up 14% on the year before.

At the same time, we saw fewer PPI complaints than we and our stakeholders forecast at the beginning of the financial year. However, this may be the relative calm before the anticipated rise in volumes as the FCA's complaints deadline approaches this coming August. I say relative because we still received more than 180,000 PPI complaints and resolved more than 217,000 – volumes that, five years on from the peak of complaints, still feel remarkable.

The bigger picture

I'm proud of the wider impact our service has continued to have – in addition to dealing with the immediate challenge of resolving the complaints people have brought to us. This impact includes continuing to contribute to conversations about vulnerability, which is often a central feature of complaints about short-term lending. Looking just at payday loans – which alone represent more than 25,000 of the total complaints we resolved – the fact we've upheld six in ten cases suggests diligent lenders have been the exception. All in all, it's been disappointing for everyone involved – and it's essential we, regulators and lenders work together to ensure this type and scale of unfairness doesn't arise again.

Vulnerability and unfairness aren't only features of complaints involving debt. During the year, we warned insurers about penalising customers' loyalty – an issue that's developed in the form of a super-complaint, and ongoing focus from the regulator. We also challenged banks to deliver better outcomes for victims of fraud, pointing to the increasingly sophisticated nature of criminals' methods, and the high bar this sets for whether customers should be held liable. This issue too has moved on: new rules and codes should now offer better recourse for victims, as organisations both within and outside financial services continue their efforts to outpace fraudsters.

We also saw on a large scale the implications of the ongoing shift to online banking – as a major IT failure, as well as several smaller ones, affected millions of people and generated many thousands of complaints. Regardless of whether such problems are avoidable, we've stressed to banks that, in putting things right, they need to consider the impact on individual customers – which in some cases has been significant.

The scale of demand for our help has presented challenges for us. This annual report highlights pressures on the time it's taking us to look into complaints – for which we always set ambitious aims, recognising that people want and need their problems resolved as soon as possible. We've needed to work hard to prioritise people who need us most urgently – while continuing to encourage fairness on a wider level, so that other people don't end up in the position of needing our help.

In the face of these challenges, it's reassuring that people's satisfaction with our service has remained steady. More than six in ten people rated us positively, including both those whose complaints we upheld and those who didn't get the outcome they'd hoped for. We're trusted by more than three-quarters of the public, and only one in ten people has no awareness of who we are. In turn, feedback shows that businesses' confidence in us remains robust.

> I'm proud of the wider impact our service has continued to have – in addition to dealing with the immediate challenge of resolving the complaints people have brought to us.

We never take this confidence for granted. This annual report gives very many examples of how we've worked to maintain it this year: from the frequency and quality of our engagement with both firms and with representatives of their customers, to the role of our excellent technical helpline in resolving complaints informally; and from the significance we place on supporting people's individual needs, to our strategic awareness-raising work across all sorts of media.

These examples also include the improvements we've made to our technology, including developing a new, more accessible website and case-handling system, both of which will make using our service easier and more convenient. Our office in Coventry has now seen a full year of operation – and since April 2019, it's been home to our operations for our new claims management company (CMC) jurisdiction. I'm really grateful to the businesses, consumer organisations and others who've shared their own insight and feedback so freely and constructively as we've put these plans into action.

Staying effective and essential

In considering the year we've had, it's important too to look ahead to what's next. We've already set out our *strategic plans* for the coming financial year – in the context of our three planning horizons, which provide a framework for our thinking about the future. Within these plans are embedded the recommendations and observations of both Richard Lloyd's independent review of our service and Carol Brady's review of a sample of complaints, which we commissioned during 2018/2019.

While scrutiny's never easy, the reviews' conclusions confirm the commitment of our people to doing the right thing by those who rely on our service. I'd like to thank everyone for their focus, hard work and sense of what matters during what's been – in places – an incredibly challenging few months. This report has space only for selected highlights of the additional fantastic work many of our people have done outside their day jobs: from helping shape our approach to diversity and wellbeing as part of our employee networks, to contributing to causes in our community.

> I'm really grateful to the businesses, consumer organisations and others who've shared their own insight and feedback so freely and constructively...

Finally, on behalf of the executive team, I'd like to thank Sir Nicholas Montagu KCB, whose final term as chairman ends next month – for his leadership and support, his belief in our service and our people, and his determination that we keep evolving. And I'm delighted to welcome Baroness Zahida Manzoor CBE, who will be our new chair from 2 August 2019.

As we move ahead into 2019/2020, I'm proud of the progress we've made, and excited about our plans for the future.

Caroline Wayman
Chief ombudsman & chief executive
3 July 2019

Strategic report

This strategic report sets out how we've performed against the strategic commitments we set at the beginning of the financial year 2018/2019, explains the context behind our performance, and provides other key information about the year we've had. Our annual review **gives more information about the trends we've seen in complaints being referred to us.**

Our strategy and our commitments

Our commitments – our annual organisational aims and priorities – form part of our *strategic plans*. We published our 2018/2019 commitments at the end of March 2018, following public consultation on our plans and budget for that year.

In 2018/2019 we experienced the highest level of demand for our service that we'd seen for five years, despite a small decrease in complaints about PPI. This demand was particularly pronounced in some areas – for example, we received more than double the number of complaints about short-term lending that we and our stakeholders had anticipated. Within our general casework, we received 27% more complaints than we expected at the beginning of the year.

To manage this workload, we needed to revise our plans and reallocate resources, and this had a significant bearing on our ability to meet some of the commitments we set out in March 2018. Against this challenging backdrop, however, we managed to maintain high satisfaction levels among financial businesses and their customers – reflecting our commitment to maintain and improve the quality and consistency of our answers.

> In 2018/2019... we received more than double the number of complaints about short-term lending that we and our stakeholders had anticipated.

In December 2018, we set out our thinking about how our service will need to adapt and develop as we move through the three planning horizons. At that point, these horizons covered the rest of the financial year 2018/2019, then looked beyond the FCA's PPI complaints deadline, through to the time when we'll no longer be dealing with PPI complaints in high volumes, and even further into the future. We set out the next steps for shaping our strategy in March 2019, including our commitments for 2019/2020 and our budget for the current financial year. A summary of our 2019/2020 commitments is on page 23.

Our commitments for 2018/2019

Commitments for our service

We're flexible, resilient and well run, providing better and quicker answers

Commitments for our customers

We're trusted and respected by our customers, keeping fairness at our heart and delivering what they expect

Commitments for our people

We're a great place to work, attracting and developing committed and professional people, who are motivated by our values

Commitments for our reach

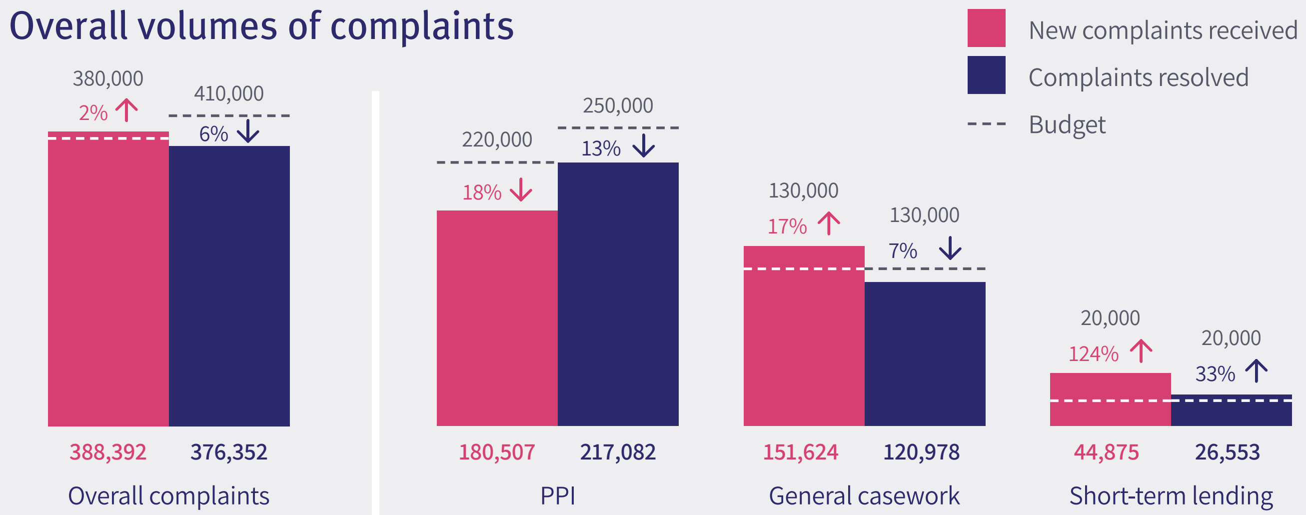
We're accessible and help those who need us, providing a human voice in an increasingly digital world

Commitments for our impact

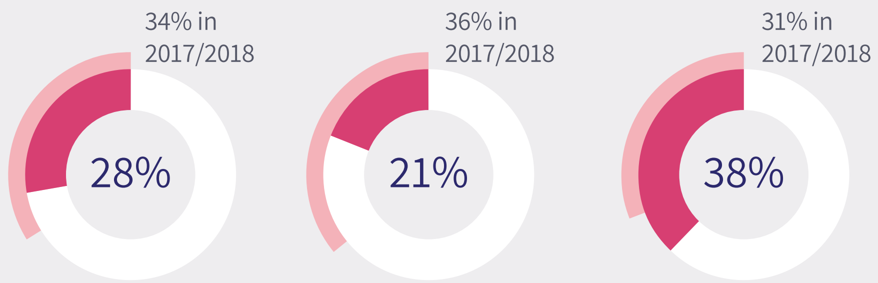
We help shape the conversation about fairness in money matters, sharing insight on what we see

Commitments for our service

Overall volumes of complaints



We upheld

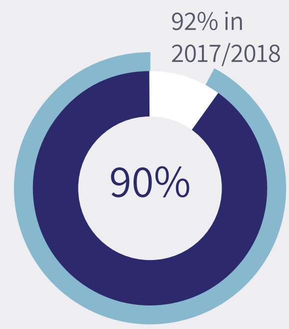


28% of complaints overall

21% (excluding complaints affected by *Plevin v Paragon Personal Finance Ltd*) of PPI complaints

38% of all complaints excluding PPI

We resolved



90% of complaints with an informal view

We ran

a pilot of our new **case-handling system** in autumn 2018

We handled

more than **19,000** technical advice enquiries (similar level to 2017/2018)

Key financials

£226m
our operating income (2% less than our budget of £230m)

£270m
our operating expenditure (7% lower than our budget of £290m)

£713
our cost per case (1% higher than our forecast of £706)

We began to consult with stakeholders about our future funding model

Context for our performance

- Overall, we experienced the highest demand for our service for five years. Although we received fewer PPI complaints than we anticipated, future volumes remain uncertain as the FCA's complaints deadline approaches. There's more information about the complaints we dealt with on page 24, as well as in our *annual review*.
- To help us manage unanticipated demand for our help in short-term lending, we diverted resources from other areas of work – and prioritised resolving complaints from people who needed our help urgently. A number of legal issues in both PPI

and short-term lending have affected our ability to move high numbers of complaints forward as quickly as we would have liked.

- Our uphold rate reflects the proportion of complaints in which we tell the business to take action to resolve the complaint fairly. The decrease in the uphold rate for PPI reflects the way businesses have embedded our approach into their own front-line complaints handling. Figures exclude complaints affected by *Plevin v Paragon Personal Finance Ltd*, to which a different reporting approach applies, as we explained in an update in August 2018.
- An informal view involves an investigator or adjudicator giving an answer about a complaint. Each party then has the right to ask an ombudsman for a final decision, which is binding if the business's customer accepts it. Our technical advice desk provides free, informal support for people working to resolve complaints, including businesses, claims handlers, the consumer advice sector and MPs' caseworkers.
- Our investigation operating model is supported by a contractor workforce to help us deal flexibly with changing demand. Continuously improving the way we work is central to our Horizons programme of work, as we look to make our service the best it can be while ensuring we're ready to handle the changing mix and volume of complaints we'll see in the future. We have rolled out our investigation model to our contractor case-handlers, reviewed how we measure performance and productivity, and developed our knowledge database.
- Shortly before we published our 2017/2018 annual report and accounts, Richard Lloyd published his independent review of our service, which included recommendations relating to our complaints handling. In response to review recommendation nine, we asked our independent auditors and Carol Brady MBE to review a sample of our casework from the early period of our new operating model. We published a detailed update on our progress against Richard Lloyd's recommendations in December 2018, together with the results of Carol Brady's review, which confirmed that our approach to casework is robust.
- From 1 April 2019, our jurisdiction extended to complaints about claims-management companies (CMCs), and to complaints from more business customers of financial services, with around 210,000 more small and medium-sized enterprises now having access to our service. The transfer of responsibility for resolving complaints about CMCs was confirmed in the *Financial Guidance and Claims Act*, which received Royal Assent in May 2018. The extension of our jurisdiction to more small business customers of financial services was confirmed by the FCA in the final quarter of 2018/2019. We published our proposed operating models in March 2019 in our **strategic plans and budget**, following public consultation.
- Following significant testing, we delayed the launch of our new case-handling system to ensure we resolved all issues before its launch. Our portal technology is linked to our case-handling system, meaning we have also revised our launch date for this to later in 2019/2020. The portal will allow people to log in and share information with us securely – and to check the progress of our investigation without needing to contact us. We have also needed to factor into our IT projects the requirements of parties involved in our two new jurisdictions, which weren't confirmed at the beginning of 2018/2019 when we set our plans.
- We maintained our existing funding model in 2018/2019, and have also done so for 2019/2020 – reflecting the need for stability while we help bring PPI to a conclusion. In July 2019, following initial consultation during 2018/2019, we began consultation on our future funding model, and will publish the feedback we received and the next steps later in the year. There's more information in the section 'Our financial performance' on page 28.
- We maintained our constructive relationship with the FCA, as we each carry out our separate but complementary roles. This included regular meetings to discuss our performance and trends in complaints – as well as preparations for our two new jurisdictions. There's more about this in the section 'Working with the regulator' on page 27.
- We're long-standing members of the Ombudsman Association – the professional association for schemes like ours in the UK and Ireland. We've maintained our commitment to monitor and review our existing procedures and processes in line with the Association's standards, regularly considering how we're doing and ways we can continue to improve the service we provide.
- We continued to focus on sustainability, building on our success in reducing our carbon footprint by 67% per person over five years. We're in the process of putting in place a new five-year plan with the Carbon Trust.

Commitments for our customers

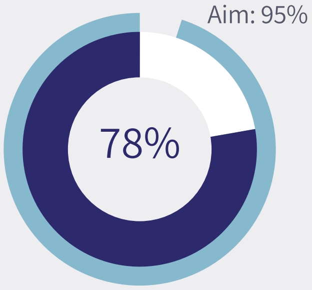
How we performed

63%
of people said they were satisfied with our service (aim: 65%)

76%
of the public said they'd trust us (77% in 2017/2018)

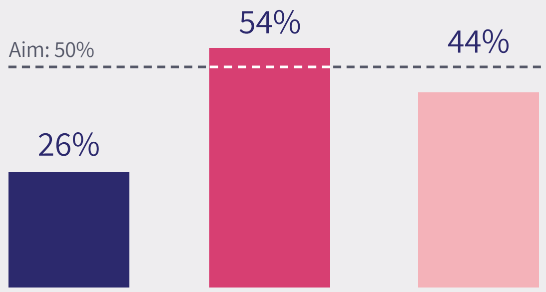
79%
of business respondents said they had confidence in our service (aim: 80%)

We resolved



of complaints more than 12 months old

Timeliness



of general casework complaints resolved within 45 days

of PPI complaints answered within 45 days

of all mass claims complaints answered within 45 days

We added

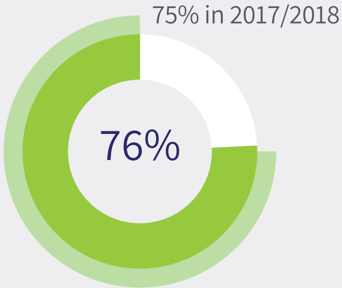
335
new notes to our online knowledge database and updated a further
1,221

More information about our performance

- We know that the length of time we take to resolve complaints is very important to the people involved – and for this reason, we set stretching timeliness targets. This year we experienced higher than expected demand for our help, at the same time as working to develop a new case handling system. Taken together with ongoing challenges in some areas over our approach to resolving complaints, these factors had a bearing on our ability to resolve complaints as quickly as we'd aimed to. However, in a very challenging year, we're pleased to see that our customer confidence and quality measures have remained at similar levels to previous years'. To minimise the impact of pressures on our timeliness, we've continued to prioritise cases where people urgently need our help. Our work under Horizon One of our strategic plans includes taking steps to optimise our processes, helping our casework teams to work "smarter" and more efficiently and at the same time improve people's experience of using our service. We've also continued to work to stop complaints at source by engaging with businesses about what fairness looks like in key areas, including fraud and scams. During the year we continued to recruit new investigators and contingent workers to build our capacity for 2019/2020.
- As last year, an ongoing challenge from a claims management company over our approach to resolving PPI complaints meant we weren't able to resolve certain complaints where the people involved had been waiting more than 12 months for our answer. We experienced similar challenges with complaints about short-term lending and SIPPs.
- We regularly survey both complaints handlers and managers at financial businesses, to ensure they have confidence in the fairness of our answers and the quality of our service. And we also regularly monitor whether, and how much, members of the public trust our service – as part of ensuring there are no barriers, whether practical or attitudinal, to people using our service. As we take on new areas of work, we're pleased that trust has remained at similar levels to last year.

Commitments for our people

How we performed



of our people had completed diversity records by the end of the year

88%

of our people said they were committed to helping us achieve our commitments

We published our

2nd

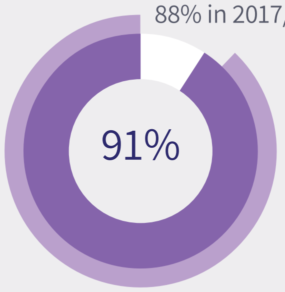
comprehensive report on equality, diversity and inclusion at our service

More information about our performance

- Understanding different perspectives is central to resolving complaints, so we're committed to attracting, retaining and developing people from the widest possible range of backgrounds. This year we've continued to try to create a culture where people feel comfortable telling us more about themselves, so we have a rich picture of our diversity and of people's needs.
- As well as reporting publicly on our progress, we've reviewed more of our policies and practices, including our approach to workplace adjustments, to ensure they're inclusive. Once again, our employee networks have been key partners in this work. There's more information about the diversity of our people, as well as our wider work in this area, in the section 'Equality, diversity and inclusion' on page 42 and in our separate report, published on our website.
- Last year we began work to strengthen our internal communications function. This year the team delivered a range of staff engagement activities and events, including those which focused on our Horizons programme of work (see page 26 for more information). We were pleased that, in response to our staff survey, nearly nine in ten of our people said they were committed to helping us achieve our commitments. People also named a number of areas, including change management, for our internal communications and engagement team to prioritise in the coming months. There's more information in the section 'Employee engagement' on page 49.
- We rolled out a new sickness absence policy in autumn 2018, with an emphasis on effectively managing absence and supporting people back to health. In the last year sickness absence levels fell to 9.8 days per full-time equivalent (FTE) employee (10.4 days in 2017/2018). There's more information in the section 'Sickness absence' on page 50.

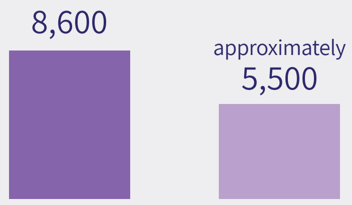
Commitments for our reach and our impact

How we performed



of people had some awareness of us

Consumer requests for support our accessibility team handled



We visited 14 towns and cities across the UK as part of our regular outreach work

We published more than **33,700** final decisions, bringing the total to more than **194,000**

More information about our performance

- Monitoring people's awareness of our service helps us ensure we're reaching everyone who might need us. Awareness remained high across all different groups of people, with just 9% saying they definitely hadn't heard of us, even when prompted with our name. There's more information about awareness and the people who used our service in our *annual review*.
- 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. This practice group has continued to shape our response to these issues. Around half the requests handled by our accessibility team related to translating correspondence, while the rest related to providing general advice, support with prioritisation and making adjustments for different needs.
- We're required to publish our ombudsmen's final decisions – and businesses are required to learn from them, so the mistakes of the past can help prevent future complaints. And more generally, we're committed to being open and transparent, so people can apply our thinking to prevent complaints arising. In the last year we published an *annual review* of complaints, two sets of data about individual businesses and three sets of quarterly data. We shared insight into issues including fraud and scams, pension transfers and debt collection – featuring these in our newsletter, *ombudsman news*, and engaging with the media and other stakeholders to give our insight the widest possible reach and impact.
- Building effective relationships with stakeholders is essential to our work preventing complaints and encouraging fairness. This year we continued to engage with people representing financial businesses, their customers and the wider public interest – ranging from trade associations and industry forums, to consumer organisations, charities and the media. This engagement included discussing our role with smaller financial businesses, organising with HM Treasury a "Meet the Financial Ombudsman Service" drop-in event for MPs, as well as meeting local consumer advice organisations and charities to share insight and experience.
- We also engaged with the different parties involved in, or affected by, extensions to our jurisdiction from 1 April 2019. There's more information about our preparations for our new jurisdictions from page 21.
- Our operational contact team visited businesses to improve mutual understanding of our processes and complaints issues – including vulnerability and compensation for trouble and upset – helping us both to work together more effectively and to ensure front line complaints are dealt with fairly.

Preparing for extensions to our remit

In 2018/2019, Parliament and the FCA considered and finalised proposals to extend our service's jurisdiction from 1 April 2019

During the year, we focused on ensuring we would have the appropriate people, infrastructure and governance arrangements in place to fulfil our new responsibilities effectively.

Complaints from small business customers of financial services

We've previously been able to consider complaints brought to us by the very smallest businesses – those with fewer than 10 employees and an annual turnover or balance sheet of €2 million or less, in line with the definition of a "microenterprise". In each recent financial year, we've received around 4,000 complaints from microenterprises. Recognising the benefits to businesses of free informal dispute resolution as an alternative to the courts, from April 2019 around 210,000 more small and medium-sized enterprises can complain to us about financial providers if they need to.

Our previous research into complaints from microenterprises identified that, in many cases, these very small businesses had no access to legal or accounting support, and little or no greater knowledge than individual personal customers about financial services. However, we recognise that complaints made by businesses can involve particular complexities, and our operating model centres on specialist knowledge, including the facility to draw on external expertise.

We set out our proposed operating model for our expanded small business remit when we consulted on our *strategic plans and budget* for 2019/2020.

During 2018/2019, our preparations for our new responsibilities included:

- Recruiting for and establishing four dedicated SME teams, made up of a specialist ombudsman leader, ombudsman managers and investigators.
- Establishing a specialist professional practice group – a network of subject experts – to develop our service's approach to complaints involving SMEs. This will help us to ensure fairness and consistency in our answers, as well as to identify trends and insight to feed back to financial providers and other stakeholders.
- Putting in place additional legal support for our investigation teams, as well as establishing an external expert panel to provide specialist support on a case-by-case basis.
- Establishing an SME advisory group, made up of a range of stakeholders from small business customers and financial providers, to provide insight and experience of the SME market. This group doesn't get involved in individual complaints, but is a forum for discussion about strategy, trends and policy issues, to help inform our work.
- Putting in place a robust quality assurance framework – comprising front, second and third line assurance, involving our specialist ombudsmen and practice group, quality specialists and executive and non-executive directors.
- Developing our technologies to enable efficient handling of SME complaints – using our customer-centric case-handling system to provide a flexible and personal service, and developing decision-making tools to ensure jurisdiction thresholds are applied correctly.
- Commissioning research to understand SMEs' expectations of our service, and how we can ensure we continue to provide the type of dispute resolution service they expect from us.
- Engaging with the Federation of Small Businesses (FSB), including facilitating discussions between the FSB's experts and members and our new SME teams.
- Engaging with relevant stakeholders as our plans developed, including regular discussions with the FCA and HM Treasury.
- Hosting a visit from the Economic Secretary to the Treasury.
- Developing a distinct identity for our SME work, including a separate microsite, online resources and dedicated phone line for SME customers – providing clear distinction between this area of our jurisdiction and our existing consumer jurisdiction.

Complaints about claims management companies

Following a Government-commissioned review of the claims management sector in 2015, it was proposed that the regulation of claims management companies (CMCs) be transferred from the Ministry of Justice's Claims Management Regulator (CMR) to the FCA – and that responsibility for resolving complaints about CMCs be transferred from the Legal Ombudsman to our service.

This arrangement was confirmed in the *Financial Guidance and Claims Act 2018*.

During 2018/2019, our preparations for our new responsibilities included:

- Consulting jointly with the FCA on proposals relating to funding our CMC work.
- Establishing CMC investigation teams in Coventry, with separation from other areas of our work in which CMCs may be involved as representatives.
- Reviewing our conflicts of interest policy, introducing additional recording and reporting procedures to support the annual obligation on our ombudsmen and senior staff to declare any interests – and updating the policy to reflect the introduction of complaints about CMCs, to mitigate the risk of real or perceived conflicts of interests arising in this work.
- Arranging the transfer of case-handling knowledge from the Legal Ombudsman, including case-handlers and ombudsmen, so we can benefit from existing expertise relating to the issues involved in these complaints.
- Working with the Legal Ombudsman to ensure people involved in existing complaints that would be transferred to us wouldn't experience any disruption as a result of the changes.
- Engaging with CMCs in conjunction with the Legal Ombudsman, helping clarify future arrangements and expectations to ensure a smooth handover of complaints.
- Developing our technologies to enable efficient handling of CMC complaints within our complaint-handing tool.
- Developing a distinct identity for our CMC work, including a separate microsite and online resources, providing a clear distinction between this area of our jurisdiction and others.

Our commitments for 2019/2020

In March 2019 we set out our strategic plans and budget for the 2019/2020 financial year, which included more detail about the work we expect to carry out within each of our strategic horizons.

We'll report on our progress against these commitments in our *annual report and accounts* next year, and continue to engage with our stakeholders about our medium and longer-term strategy.

In December 2018, we reported on our progress against the recommendations of Richard Lloyd's independent review of our service, which concluded in July 2018. We have already taken action in response to these recommendations, and they have now been fully implemented and embedded in our plans for the future. We give more detail from page 64 about the risks we've identified to meeting our commitments, as well as our plans for managing them.

In summary, in 2019/2020:

- We expect to receive 460,000 new complaints in total, of which 250,000 will be about PPI. And we plan to resolve a total of 510,000 complaints. This includes 170,000 relating to our general casework (an increase of 40% compared to 2018/2019), and 270,000 relating to PPI (an increase of 24%).
- We'll maintain high levels of satisfaction with our service. 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 – improving on the proportion of complaints resolved 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 invest in performance management, quality, learning and development and wellbeing, so that our people are able to perform at their best and provide an excellent level of service.

The complaints we dealt with in 2018/2019

In March 2018, following a public consultation, we shared our projections for the number of complaints we expected to receive and resolve in the year ahead.

This year we received slightly more complaints than we expected – 388,392, compared to 380,000 in our plans. This was despite receiving fewer PPI complaints than we thought we would (180,507 compared to 250,000 in our plans). This means 2018/2019 is the first year since 2009/2010 that PPI made up less than 50% of the cases we received. The most recent FCA data shows that the number of PPI complaints received by businesses decreased by 8% between H1 2018 (1.72m) and H2 2018 (1.58m).

Complaints we received and resolved

For short-term lending – payday and instalment loans – we ended the year having received nearly double the volume of complaints we budgeted for. The collapse of lenders Wonga and Curo Translantic meant that many thousands of borrowers have needed to pursue their claims though the administrators, rather than through our service – and we haven't been able to collect case fees from these firms.

We also received a larger number of complaints about current accounts than we expected. We heard from a significant number of customers who were affected by IT issues at TSB bank. The number of people who contacted us about fraud and scams rose by around a half compared with 2017/2018 – in a year that we shared our insight into what we were seeing in this area, and regulation evolved to reflect the growing sophistication of criminals' methods.

> ...2018/2019 is the first year since 2009/2010 that PPI made up less than 50% of the cases we received.

Overall, we resolved around 8% fewer complaints than we budgeted for – which in some areas reflected our decision to redirect our resources into ensuring we have sufficient capacity to handle future demand for our service. However, we continued to prioritise complaints where our help was needed most urgently, as well as engaging with businesses to help prevent complaints at source, as we've highlighted elsewhere in this annual report. In PPI, our resolving fewer complaints than we budgeted for reflected the fact we didn't receive as many complaints as we thought we might. However, we still resolved nearly 37,000 more complaints about PPI than we received – exceeding our aim of resolving 30,000 more. We extended our alternative arrangement for publishing the uphold rate for PPI affected by the *Plevin* court judgment for a further period, with the continued fall in the uphold rate for other PPI complaints reflecting how businesses have built our fair and reasonable approach into their own case-handling.

Managing uncertainty

As we set out in our *strategic plans and budget*, a key part of our strategy continues to be managing unpredictability in our casework. On one hand, we need to maintain the ability scale up our operations to deal with spikes in demand for our help – and a growing overall caseload that's also increasingly complex. On the other hand, in some areas – notably short-term lending – the potentially heightened risk around the ongoing sustainability of some businesses could leave us unable to take forward significant volumes of complaints.

In addition, we haven't yet seen a significant increase in PPI complaints – and it's as yet unclear how many people will choose to raise concerns, or at what stage before the 29 August 2019 deadline they'll do so.

Our current approach – which we will continue into 2019/2020 – is to use our contractor workforce to ensure we can respond flexibly to demand, including any short-term peak we might see.

In both of these potentially volatile areas, the volume of complaints that have required our involvement, and will require it in future, is a factor of:

- How well businesses manage their operations and answer complaints in a timely way.
- How well businesses apply the relevant rules and guidance, apply our well-established approach on their own front line, and satisfy their customers they've got a fair answer about their complaints. In both PPI and short-term lending, our ability to move complaints forward as quickly as we'd like has been affected by legal issues.
- How far claims management companies – who are involved in around eight in ten PPI complaints, and six in ten about short-term lending – pursue complaints through our service, even where it's clear they won't ultimately be upheld.
- How far businesses and claims management companies cooperate with us in sharing information we need, to the quality we expect, so we can settle their customers' complaints.

In view of these uncertainties, we will also need to ensure we continue to prioritise cases where our intervention is needed most urgently. This may be because individuals or groups of people are in serious financial hardship, have been the victim of fraud, or urgently need clarity about their financial position – for example, because the dispute involves their health, their livelihood or their retirement. We'll also prioritise areas where our stance on the particular issues involved may have a significant wider impact. In the area of short-term lending, the firms involved fall outside our group-account fee arrangement, and there's no protection from the Financial Services Compensation Scheme (FSCS) in the event firms can't meet their financial commitments. As we saw in 2018/2019, these factors affect not only customers' ability to get back money they're owed in redress, but also our service's finances.

There's more information in the chapter 'Our financial performance' about the impact of our 2018/2019 workload on our plans and budget. Our *annual review* gives more detail about some of the key themes and issues involved in the complaints we resolved.

Our strategic Horizons programme

In our *strategic plans and budget consultation* in December 2018, we explained that we're using three time horizons as a framework for thinking about and planning for the future. As we manage the uncertainties we've mentioned earlier in this section, this programme of work will help us to meet our commitments and improve our service in the short term, while also ensuring we're effective and sustainable in the medium and longer term.

Looking at our most immediate planning period – Horizon One – we've been focusing on improving our existing processes and ways of working to ensure we're providing excellent customer service now. This extends to our two new jurisdictions for complaints about CMCs and from more small businesses, as well as our existing areas of work. Over the last few months, we've continued to make improvements, including developing tools to support the progression of complaints through our service, and trialling the use of different channels of communication such as text messages to keep our customers updated. Improvements to our communication and accessibility will be supported further by our new website and by our customer portal when this is available later in 2019.

In our second time horizon, we've been developing plans to play our part in bringing PPI mis-selling to its conclusion, and to lay the foundations for our longer-term future as a service. The FCA's PPI deadline, 29 August 2019, will be a significant staging point: if a customer complains on that day, the business will need to give their final response within eight weeks – and then the customer will then have a further six months (other than in exceptional circumstances) to contact us if they remain unhappy. This means that by approximately April 2020, we'll have more clarity about how many people want an answer from us about their PPI.

As we explained in our *strategic plans* and earlier in this section, we need to maintain the capacity to deal with high volumes of complaints for some time yet. Looking further ahead, we don't expect that our service will need to be as large in the future – although we'll still need the flexibility to scale up quickly in response to fluctuations in demand. Getting our service to the right size and ensuring we have the right capabilities will involve changes both to our existing casework structures, as well as to our support and operational areas, where we've also been considering what capabilities we'll need in future. During 2018/2019, and continuing into the new financial year, we've provided support to employees who are affected by the transition in our casework model, including offering an enhanced training budget so they can gain new skills. Looking to the future we've also been exploring how we can offer increasingly "smart" and more flexible ways of working – which will enable us to run our operations in a more cost-effective way, and which many of our people tell us they value.

As previously mentioned, in July 2019, we opened a consultation process which explores alternative models for funding the service beyond the end of PPI. The new model, which will be both fair and sustainable, will need to be sufficiently flexible to support the different mix of complaints we'll be dealing with once PPI comes to an end. We anticipate this will include a bigger proportion of cases where the issues at hand, or customers' circumstances, involve greater complexity when compared with areas of mass complaint that have over recent years accounted for half or more of our overall casework.

The third planning horizon looks further into the future. Our programme of work in this area involves considering how our service will need to evolve in the next five to ten years, given the changes, challenges and opportunities we expect to see. The areas we're looking at include trends in financial services and other sectors, new technologies, changes in customers' attitudes and expectations, as well as trends in the employment market. We've already carried out a significant amount of engagement with our people and our stakeholders, and we will announce next steps later in 2019.

Working with the regulator

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

In turn, we have several obligations in relation to the FCA, including to provide information to it and a duty to cooperate with it. The relationship between our service and the FCA is explained in more detail in our memorandum of understanding, published on our website. We regularly meet the FCA's Oversight Committee to discuss issues of strategic importance to the service, including our annual budget and performance under the ADR Directive.

> 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.

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 2018/2019, this included sharing information about the complaints we're seeing about self-invested personal pensions (SIPPs), short-term lending, fraud and scams, and complaints relating to IT failures.

In addition to sharing regular reports about the volume and type of complaints we see, we share qualitative and quantitative information through regular and ad hoc meetings at all levels – as well as through exchanges of correspondence. In 2018/2019 we continued to share insight at the Coordination Committee, alongside the FCA, Financial Services Compensation Scheme, Competition and Markets Authority, the Money Advice Service (whose work has now been brought under the remit of a new single financial guidance body, the Money and Pensions Service), and the Claims Management Regulator (which existed until the end of March 2019). The meeting is an opportunity for each body to share information about emerging risks and to look collectively at the financial landscape.

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 have included the upcoming deadline for making a PPI complaint; the making of final rules to widen access to redress for small business customers of financial services; the increase in our award limit to £350,000; the transfer of claims management regulation to the FCA, and of complaints about claims managers to our service; and preparations for the UK's withdrawal from the EU. From 2019/2020, we'll also be engaging with the FCA in its capacity as the new regulator of CMCs.

By order of the board

Julia Cavanagh
Company secretary
3 July 2019

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 *strategic plans for 2019/2020*, published in March 2019, 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.

Following a public consultation, our budget for 2018/2019 was considered and approved by the FCA's board.

At the start of 2018/2019, we budgeted to resolve 250,000 PPI cases – 123,000 in the first half of the financial year, and the remaining 127,000 in the second half of the year. By the end of the year we'd received around 30,000 fewer PPI complaints than expected, but went beyond our commitment to resolve 30,000 more PPI complaints than we received, resolving around 37,000 more. Approximately 15,000 complaints affected by the case of *Plevin v Paragon Personal Finance Ltd* were waiting for our answer at the end of 2018/2019, mainly as a result of ongoing legal issues – compared with just over 45,000 at the start of the financial year.

As previously mentioned, we also experienced volatility in other areas of our work. In particular, since 2015/2016 we've seen a substantial and rapid growth in complaints about short-term lending: payday and instalment loans. Short-term lending is now the third largest area of our work about a single type of product after PPI and current accounts.

In 2018/2019, we received around 25,000 more complaints than we'd expected about these types of borrowing – receiving nearly 45,000 complaints, which is more than double the volume we planned for at the start of the year.

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've focused on prioritising people whose complaint is causing or exacerbating vulnerability, and who need our answer most urgently. We've also needed to work with external parties to help resolve people's complaints: most notably this year when payday lenders WDFC UK Ltd (Wonga) and Curo Transatlantic Limited went into administration. We will need to continue to manage this volatility in the coming years – at the same time as helping to bring PPI to a conclusion fairly and efficiently.

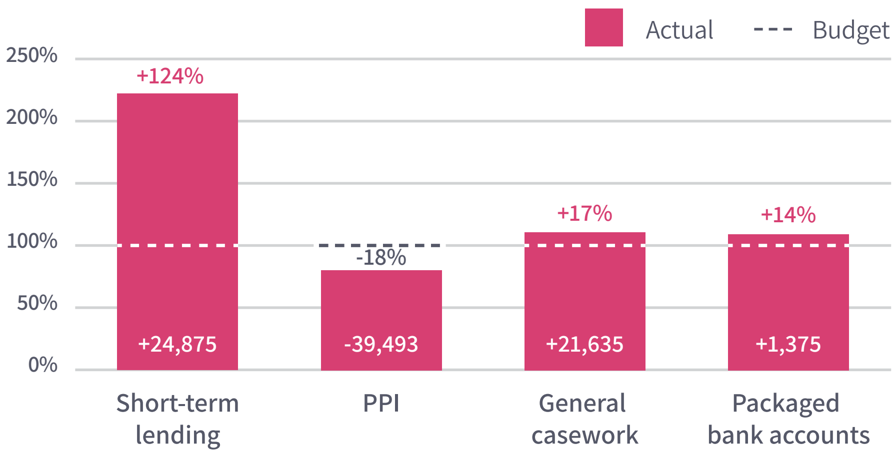
Short-term lending is now the third largest area of our work about a single type of product after PPI and current accounts.

The number of new cases we received in our general casework – all complaints apart from PPI, short-term lending and packaged bank accounts – was also 17%, or approximately 20,000 complaints, higher than our original budget assumptions of 130,000. There is no one single driver for this increase: we've seen more complaints about a range of product areas such as fraud and scams, car finance and IT failings.

We invested in scaling up our case-handling capacity during the second half of 2018/2019. This will continue into 2019/2020 to enable us to respond to the overall increase in demand and address the high numbers of people waiting for our answer.

In 2018/2019, our operating revenue (total revenue excluding net released deferred income) was £226m – as expected this was lower than the prior year due to a reduction in the number of PPI cases available for resolution. As anticipated our cost base was higher than the previous year, although at £270m the total was below our budget of £290m. This meant – in line with our medium-term financial plans – we made an operating deficit (£41m) before the release of deferred income.

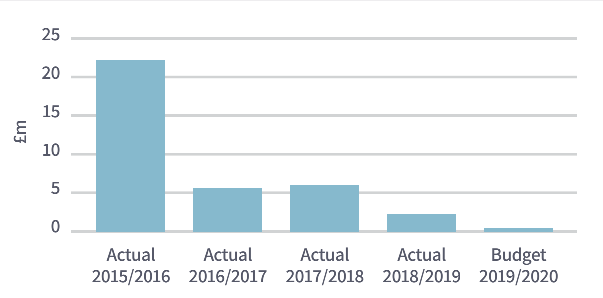
New cases against budget



Income

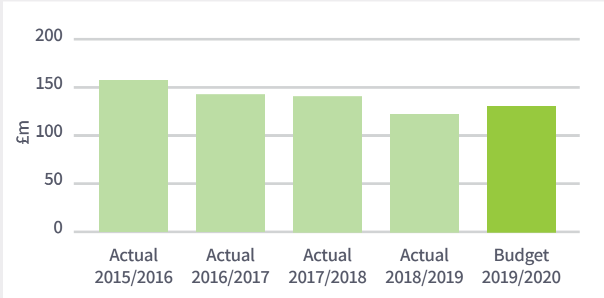
The ombudsman service is funded by a combination of levies, individual case fees and income from our group-account fee arrangements paid by the financial businesses we cover. The charts below give more detail about these different sources of our income in 2018/2019. Following consultation on our 2019/2020 plans and budget, we have maintained this arrangement for the next financial year – and are currently consulting on alternative funding options for the future.

Deferred income release



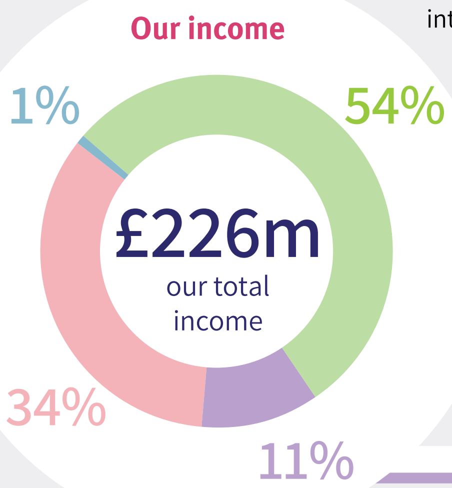
In 2012/2013 we introduced a supplementary case fee as a way of funding the upfront investment that we needed to make to deal with the fall-out of mis-sold PPI. It has also helped us to ensure the costs involved in dealing with our PPI workload over many years are paid in a fair way – that's also as stable as possible. As at 31 March 2019 we were holding a residual £276k as deferred income. We expect all of this to be released in 2019/2020.

Group-account fee arrangement

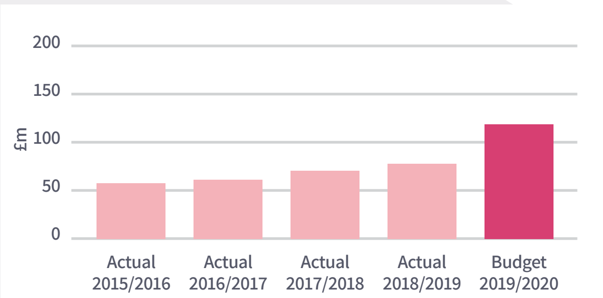


We have a group-account fee arrangement in place to cover eight financial services groups – Lloyds, Barclays, HSBC, RBS, Nationwide, Santander, Aviva and Direct Line. Group fees are calculated in advance based on a published formula. We calculate each group's share of our overall workload – taking into 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 has helped provide predictability and stability in our funding, so we can plan ahead while responding flexibly to demands on our service.

Our income

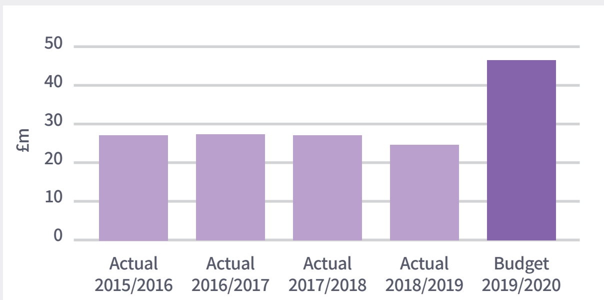


Case fees



For the sixth year in a row our case fee was £550 per case, with a "free case" allowance of 25 cases per firm. This meant that most 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.

Levy and other income



In 2018/2019 our levy was £24 million. The compulsory jurisdiction levy 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.

Operating expenditure

Our overall spend for the year was £270m – which was £20m below budget. At £226m, our people costs were £9m less than budget. This was as a result of a re-profiling of our workforce, particularly in relation to contingent resources in PPI, which resulted in average numbers being 400 lower for the year. As a service our people are our biggest asset and cost, accounting for more than 80% of our overall expenditure.

As we have explained elsewhere in this report, we've continued to invest in technology as a key element of redesigning our service for the future. The introduction of our new customer-centric case-handling system was scheduled for the latter part of 2018/2019, but was deferred until 2019/2020 to allow for the completion of development and the resolution of issues identified in pre-release testing. The additional consultancy cost we incurred was offset by lower than budgeted depreciation expense of approximately £2.4m. At the date of this report, our new case-handling system has been launched successfully to our case-handlers.

As a demand-led organisation, it's important to build flexibility into our cost base where possible. This year we have continued with this approach. In PPI, as we head toward the FCA's complaints deadline, we've continued our policy of increasing the use of our contractor workforce, rather than recruiting permanent headcount. As at 31 March, 60% of our case-handlers in our areas of mass claims were contractors (51% in 2017/2018). We've also taken the opportunity to review our property portfolio. Having exited one property in February 2018, we have now released one floor in our main building Exchange Tower, and given notice to exit a further building in the summer of 2019. These decisions generated savings of £2.5m in 2018/2019 with ongoing savings of £5m in future years.

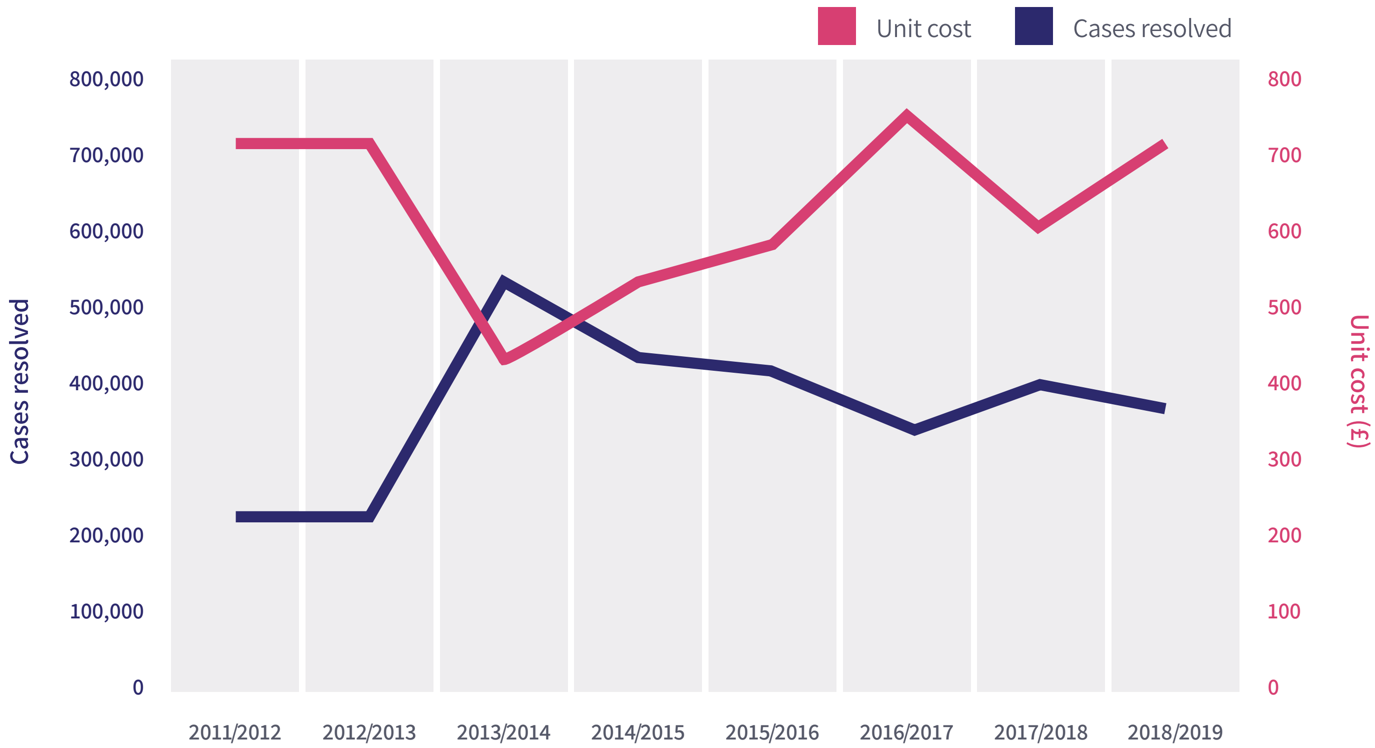
To ensure that we're engaging with the right suppliers, and getting good value for money, our procurement team undertakes competitive procurement processes for third party goods and services. This year we've retendered some of our software licensing requirements, saving £176k, and realised savings of £50k on our website build.

We also agreed fairer rates with the London Borough of Tower Hamlets, resulting in a multi-year refund of approximately £2.4m, combined with a lower ongoing rateable value for Exchange Tower.

As detailed in our consultation document, our budget for 2018/2019 included 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 throughout the year. However, given the continuing uncertainty in the external environment, we think it's appropriate to retain a level of central contingency, and have retained the same allowance of £10m for 2019/2020.

Unit cost

Unit cost against complaints resolved



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.

In 2017/2018, we were able to resolve a large volume of complaints which had previously been impacted by policy issues relating to the *Plevin* judgment. The impact of these closures contributed to the significant reduction in our unit cost from £736 in 2016/2017 to £608 in 2017/2018. In 2018/2019, the reduction in PPI resolutions impacted the unit cost, contributing to the increase to £713.

Looking ahead, our 2019/2020 budget includes a forecast unit cost of £650, which is again impacted by the anticipated increase in case resolutions in PPI. However our forecasts and budgets remain subject to uncertainty 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 on page 25, 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, and whether they work with us cooperatively when their customers refer complaints to us.

Reserves

It's important for us to maintain a level of reserves that's appropriate to support the continued operation of our service. Over the past few years, we've considered it appropriate to retain a higher level of reserves than our formal policy of three months' operating costs. 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 as we wind down our PPI operations and ensure 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 remains 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 2019 are £189.2m, of which £0.3m is deferred income and £188.9m is reserves. As we review our future funding requirements we'll also take the opportunity to assess the level of reserves we consider appropriate for future needs. We anticipate this is likely to be at a higher level than three months' operating costs and have asked our stakeholders about our approach to reserves as part of our future funding consultation, published in July 2019.

Deferred income reduced from £2.5m to £0.3m during the year, as complaints were closed and income was released from the provision. We anticipate that the remaining £0.3m deferred income will be released in 2019/2020 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 2019 was £191m. This was £38m lower than at the end of the previous financial year. In accordance with the investment strategy approved by the audit committee, at 31 March 2019 we had £179m of our funds invested, split between nine institutions for periods for up to five months at rates between 0.91% and 1.07%, and £10m overnight with Lloyds at 0.62%. Total interest received over the year amounted to £1.8m (£1.3m in 2017/2018).

Creditors' payment terms

We have a policy to pay creditors within agreed terms.

Outlook

Between 17 December 2018 and 31 January 2019, we consulted publicly on our proposed plans and budget for the financial year 2019/2020. 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 develop our service within the framework of three planning horizons.

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, we will continue to use our contractor workforce to 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 have appropriate, flexible capacity to respond to this.

We'll also need to continue to meet people's high expectations of us. A key part of this is ensuring we're not only resolving complaints effectively, but also doing so in a way that's convenient and accessible to everyone who uses us. This is especially important at a time when our remit has been expanded to more, and different types, of financial services customers and providers. As we set out in more detail in our *strategic plans* for 2019/2020, since 1 April 2019, more small and medium-sized enterprises have been able to complain to us about financial providers. The FCA has also been regulating claims management companies from this date, taking over from the Ministry of Justice – and we have been able to look into complaints made by their customers, which was previously the responsibility of the Legal Ombudsman. As part of this change, we have taken on additional case-handlers previously working at the Legal Ombudsman, who are based at our CMC operation in Coventry.

We've also continued to develop better IT capabilities that will improve the experience of people using our service – as well as the efficiency of our operations. Having initially planned to launch our new customer-centric case-handling system in 2018/2019, we took time to resolve issues identified in testing before its launch – and rolled it out to all our people in June 2019. Because the development of our portal technology is linked to that of our case-handling system, we now plan to launch the portal later in 2019/2020. In April 2019 we launched separate microsites relating to our two new jurisdictions, followed by a new website in June 2019 covering all other areas of our work.

Looking beyond PPI, we recognise that our service may be smaller in the future – and that our current funding model won't be sustainable. As we've noted above, we've previously agreed a set of funding principles that will ensure our future funding arrangements meet the needs of all our stakeholders.

Our funding principles should:

- Be fair.
- Be broadly proportionate (costs relate to the workload users generate for the service).
- Not create perverse behavioural incentives.
- Create no incentive for our service to reach a particular outcome.
- Be transparent.
- Be easy to understand.
- Be simple to administer (for us and 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.
- Not subsidise between (compulsory and voluntary) jurisdictions.
- Have no/minimal transitional difficulties if the system is changed.

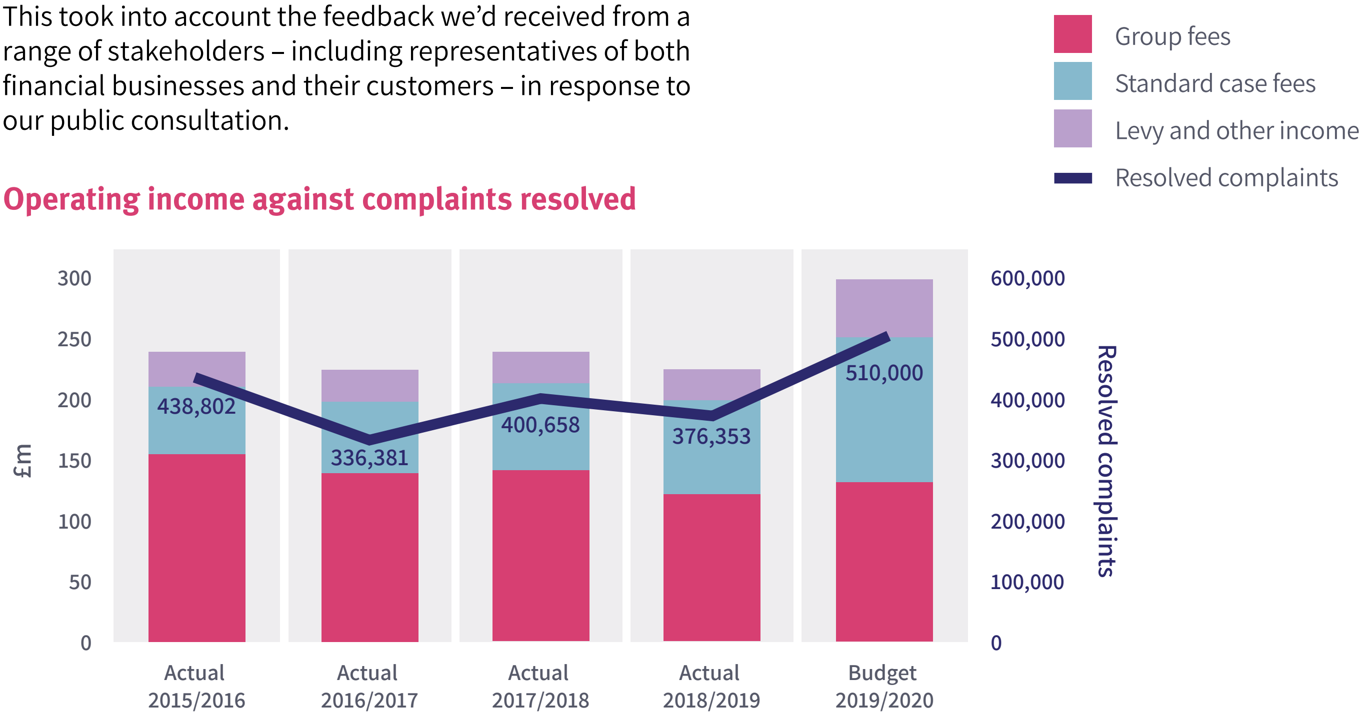
We are currently consulting with our stakeholders about a fair and sustainable future funding model based on these principles.

Our 2019/2020 budget

On 29 March 2019 we published our strategic plans and budget for 2019/2020.

This took into account the feedback we'd received from a range of stakeholders – including representatives of both financial businesses and their customers – in response to our public consultation.

Operating income against complaints resolved



Following final approval by the board and the FCA, we adopted our budget, along with the fees and rules instrument, on 1 April 2019. We expect to collect £297m of operating income, including £45m of levies, in relation to our activity for the year. We're budgeting to resolve 24% more complaints in 2019/2020 than we budgeted for in 2018/2019.

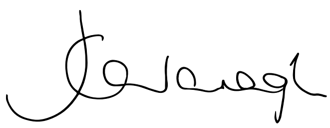
For the seventh year in a row, we've kept our standard case fee at £550, and our "free case" allowance at 25 cases. We have raised our total levy to £45m so we can invest in our service and build capacity, including the new SME and CMC jurisdictions, and recover an under-collection of levy from 2018/2019. We've also retained our group-account fee arrangement for 2019/2020, 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 anticipate that demand for our service will grow in all areas as the deadline for PPI complaints approaches – reflecting the pattern we've seen in previous years, where complaints about "mass claims" seem to result in generally higher levels of complaints elsewhere. 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 2018/2019 levels by approximately £62m, up to £332m, in 2019/2020. 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 and to provide support to other casework areas. The additional cost relating to this workforce is estimated to be approximately £40m in 2019/2020. 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 efficiently and to bear down on our cost base.

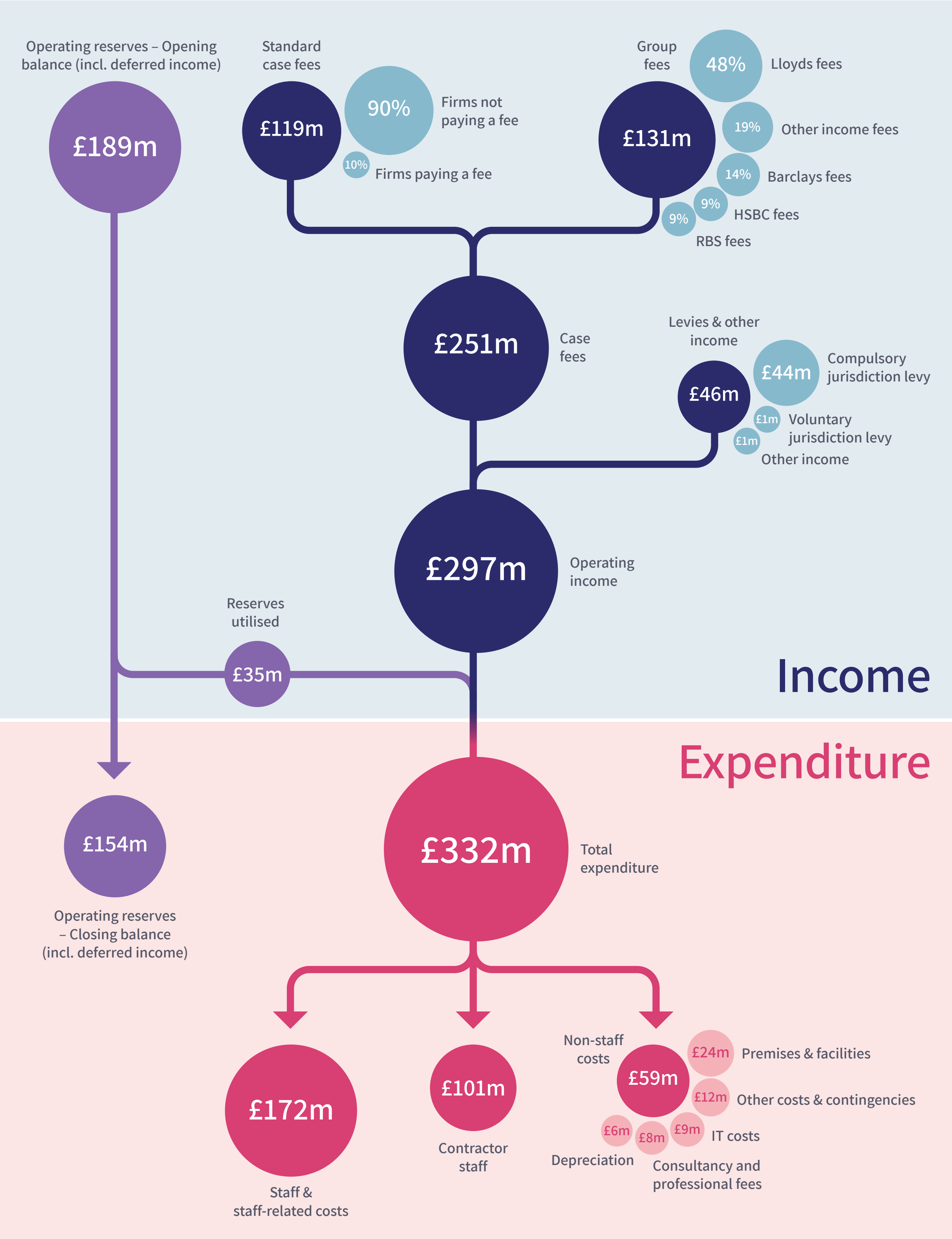
Consistent with our multi-year strategy, we have budgeted to make a deficit in 2019/2020 of approximately £35m. In line with our plans, in 2019/2020 we'll continue to use the reserves we've accumulated to help us move forward from PPI mis-selling in a stable way.

By order of the board



Julia Cavanagh
Company secretary
3 July 2019

The financial flow of our resources in 2019/2020



Figures have been rounded to the nearest whole number or percentage point.

Directors' report

This directors' report reviews our environmental performance and sustainability and the way we manage information. It also highlights our approach to our people's wellbeing, diversity and engagement, and learning and development.

Environmental performance and sustainability

In 2018/2019 we maintained our commitment to running our organisation sustainably, minimising our impact on the environment. During the year, and following the closure of one of our buildings, we've continued to focus on recycling more, using less energy, using space efficiently, and reducing print and transportation costs through the increased use of technology.

Our work and achievements include:

- Working with the Carbon Trust on a new five-year plan, following the success of our previous plan in cutting our carbon output by 67%. The new plan will cover a number of initiatives that will result in further improvements, such as our property management, our new case-handling system and smarter ways of working.
- Continuing to reduce our property portfolio, helping to reduce our carbon footprint while using our space more efficiently.
- Running campaigns to raise our people's awareness of how they can make a difference to our sustainability.
- Reducing our use of stationery and other consumables.
- Encouraging people to cycle to work through offering a cycle to work scheme.
- At the start of 2019, investing in a desk sensor study to review how much space we're using, which will support future decisions about our property portfolio.
- Engaging with our suppliers to ensure we're working collaboratively in reducing our impact on the environment – including working with our catering supplier to make improvements through packaging and reusable cups.

Our environmental performance and sustainability

In 2018/2019

We recycled **264** tonnes of paper through our confidential waste and archive supplier

We saved approximately **4,835** trees through our landlord and suppliers

We recycled more than **920** ink cartridges

We diverted **1,131** cubic metres of waste from landfill via our suppliers

188 of our people cycled to work

Through our landlord

We contributed to recycling **306** tonnes of waste

We saved **115** tonnes of CO_2

We saved **723** trees

We estimate that we made a **50%** contribution toward our landlord's performance based on the space we occupy in the building

Our properties

We currently have three offices in the South Quay area of Tower Hamlets in London – the majority of our estate being at Exchange Tower. We moved into Exchange Tower in autumn 2014, when a major refurbishment was undertaken. We were certified with a "silver Ska" rating (a benchmark used by the Royal Institution of Chartered Surveyors) for fit-out sustainability.

In early 2018, we exited one of our buildings which reduced our property portfolio by 19% and we have also exited one floor of Exchange Tower. This has resulted in a further reduction of both our carbon footprint and our running costs, and we will continue to review our property requirements on a regular basis.

We lease two floors at the Friargate building in Coventry, which is owned by Coventry City Council. This building was designed with environmental sustainability in mind and a BREEAM rating of "Excellent" was achieved. This is a best practice standard for the environmental performance of buildings.

Property performance

Electricity	2018/2019	2017/2018	2016/2017
Non-financial indicators (kWhs)	3,944,364	5,661,074	5,793,701
Financial indicators (excl. VAT)	£491,371	£736,423	£751,661

Business travel

Personal mileage amounts	2018/2019	2017/2018	2016/2017
Mileage	37,059	93,143	5,257
CO_2 e Kg*	10,879	25,011	1,543

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.

Paper consumption

We scan every item of correspondence we receive – and have arrangements with a number of businesses to send their files electronically, which has reduced transportation as well as saving time and money. Our online forms have helped reduce the paper we receive: something that will be further improved when we launch our portal later in 2019/2020 and continue to explore smarter ways of working. During the year we invested in our stock of paper to protect against the risk of future shortages, which is reflected in the amount of paper we used and the higher amount spent on paper.

	2018/2019	2017/2018	2016/2017
Sheets of paper	12.85m	9.46m	7.96m
Cost of paper	£60,648	£35,499	£23,536
Scanned correspondence – number of pages	4.7m	5.5m	7.5m
Business files received electronically	103,925	84,423	88,327

* Additional supplies of paper were purchased to safeguard against potential disruption to supply.

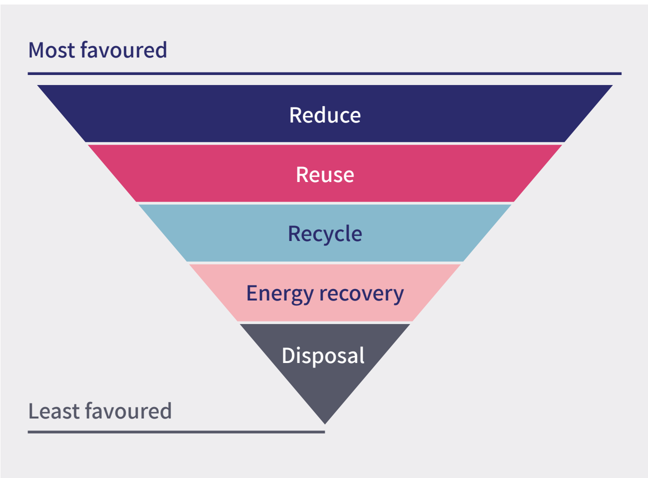
Our waste

We encourage our people to dispose of their waste in a way that helps to reduce our impact on the environment. Every floor of our offices has recycling, non-recycling and food waste bins. Under our service charge, our landlord disposes of the waste we generate as part of its own waste strategy. Based on our occupancy, we estimate that we've contributed half of the waste recycling achievements at our Exchange Tower office.

What happens to our waste

The materials we recycle are paper and cardboard, cans, plastics, glass and dry mixed recyclables. Waste that can't be recycled is burned for recovered energy: the ash from the incinerating process is used in the construction industry, and the air pollution residue is recycled into building blocks as well as refuse-derived fuels.

Our preferred environmental option



In addition, we recycle confidential papers and any written correspondence we receive through our suppliers.

	2018/2019	2017/2018	2016/2017
Paper recycled (kg)	264,380	657,391	950,895
Waste diverted from landfill (cubic metres)	1,131	2,661	3,502

This data is provided by SITA (confidential waste) and Restore (archive). In 2016/2017, we changed our retention period for paper files, meaning higher than usual disposals and in 2018/2019 we no longer occupied Independent House.

Sustainable procurement

We take an ethical approach to procurement – choosing to work with suppliers that take corporate social responsibility seriously, including the environmental impact of their business. We applied this approach, for example, when we procured for a new catering partner. The successful supplier, Baxterstorey, which took over in May 2018, is committed to reducing carbon emissions. For example, our cafes don't use disposable cutlery, promote the use of reusable crockery rather than take-away boxes, and encourage people to bring their own cups for hot drinks.

> Our focus will always be on great service, fresh food, ethical and environmental purchasing and being socially responsible in all we do.
>
> Baxterstorey, our catering supplier

Health and safety

We're committed to protecting the health, safety and wellbeing of everyone who works for us and with us. People across our service are responsible for health and safety, including our property management team, managers, first aiders, fire marshals and our health and safety committee, who help raise awareness of health and safety issues and minimise the number of accidents.

In 2018/2019 we:

- Continued to engage with our people to raise health and safety awareness across the organisation, and launched a new workplace adjustment policy (see page 43).
- Continued to run e-learning, classroom and practical health and safety training, including first aid courses, fire marshal training, working at heights and manual handling training – completed by a total of 173 of our people.
- Maintained a network of mental health first aiders, who can offer immediate support for colleagues experiencing mental ill health at work and direct them to longer-term professional support where necessary.
- Implemented the recommendations of the external audit process that took place in 2017/2018. We reported on this in last year's annual report and accounts.
- Enhanced our personal emergency procedures, which has resulted in more people telling us about the additional help they might need if they have to leave the building because of a fire or other emergency.

During the year, our people reported:

- 32 work-related accidents (compared with 30 in 2017/2018)
- 44 incidents of ill health requiring first aid assistance (compared with 52 in 2017/2018)
- 1 RIDDOR incident (Reporting of Injuries, Diseases and Dangerous Occurrence Regulations) (1 in 2017/2018). This incident happened on our landlord's demised premises.

Equality, diversity and inclusion

We're committed to being a great place to work, and an employer that attracts and develops people from the widest possible range of backgrounds. We want everyone to perform at their best and feel able to be themselves – and if we're diverse and inclusive, we'll better understand different perspectives, which is fundamental to our job resolving financial complaints.

In 2018/2019, reflecting the strength of our commitments in these areas, we established a team specifically focused on embedding inclusion, diversity and wellbeing into our overall business strategy. We also published our second report on our equality, diversity and inclusion – which reflects on our progress in tackling challenges we've identified, and celebrates the hard work and influence of our 13 employee equality networks.

Our external accreditations and awards:

- National Centre for Diversity's top 100 annual index
- Business in the Community's top 70 Best Employers for Race
- Race at Work Charter
- Women in Finance Charter
- Age Charter
- Stonewall Diversity Champions
- Time to Change Pledge
- Loneliness Charter
- Working Forward Pledge
- Nominee – PPMA Excellence in People Management Awards – most effective mental health initiative
- Finalists – Working Families Best Practice Awards – best for mental health and wellbeing
- Finalists – HR Excellence Awards 2019 – health and wellbeing award
- Finalists – enei Awards 2019 – wellbeing at work award

Events we celebrated

		World Mental Health Day
Pride in London	International Day of Persons with a Disability	Eid
Armistice Day	World AIDS Day	International Men's Day
Black History Month	Visual Impairment Workshop	Trans Awareness Week
Carers Rights Day	LGBT History Month	Mental Health Awareness Week
International Women's Day	Vulnerability Week	Diwali

Wellbeing

In 2018/2019 we launched a wellbeing strategy, focusing on mental, physical and financial wellbeing. This has four key strands.

Sickness absence

Through the focus on wellbeing and supporting managers in how they respond to sickness absence, we've significantly reduced sickness absence rates. The overall sickness absence rate fell to 3.9% from 4.2% in 2017/2018. There is more about this on page 50.

Mental Health First Aid (MHFA)

In 2018/2019 we maintained a network of mental health first aiders across our service, raising awareness of their dedicated phone number and their role in supporting their colleagues. Like physical first aid, MHFA is intended to support people through single instances of mental health problems as they manifest at work, and our ratio of MHFAs to employees is the same as the ratio for physical first aid. A key part of mental health first aiders' role is to signpost people to appropriate support, whether this is from their manager, our employee assistance programme, health services, or a combination. Since launching the MHFA initiative, we've seen a decrease in absence levels relating to mental health, which has contributed to a decrease in overall sickness absence (see sickness absence on page 50).

> It can be a big step to dial for mental health first aid, so I try to be the right kind of listener, knowing when to signpost or sometimes knowing that just being a friendly face, willing to listen and give emotional support, is all that's needed. It's rewarding and I'm proud of the network and the work it does to make our service a leader in reducing stigma in and offering support for mental health in the workplace.
> Zoe Kavadas, team manager and mental health first aider

Workplace adjustment policy

We launched our workplace adjustment policy in December 2018 to help us ensure that employees can perform to their best ability and thrive in their careers. The framework was shaped collaboratively with our disability network, Enable, and our mental wellbeing network. It sets out how we will identify challenges and barriers faced by people with disabilities or long-term health conditions – whether these are physical or mental – and make adjustments including changes to people's working environment or working patterns, or providing IT equipment or software. This year we provided 447 of our people with workplace adjustments. Learning from the adjustments we make helps us to be a better employer and create a more inclusive workplace.

Flexible working

We offer flexible ways of working to help people manage their life in and outside work – including parenting and caring responsibilities – as well as to support their wellbeing. We encourage managers and employees to work together to agree arrangements that work for everyone, and we have a review panel to ensure requests are handled fairly and consistently.

In 2018/2019 we received 663 formal flexible working requests, of which 80% were agreed. In our ongoing commitment to flexibility, we aim to be a leader in supporting employees. Our family-friendly policies include six months' enhanced maternity pay, two weeks' enhanced paternity pay, six months' enhanced shared parental leave pay, two days' paid dependants leave, and five days' paid carers leave. Our positive approach to flexibility is supported by the results of our staff survey, through which our people told us that a good work-life balance is one of the best things about working for us.

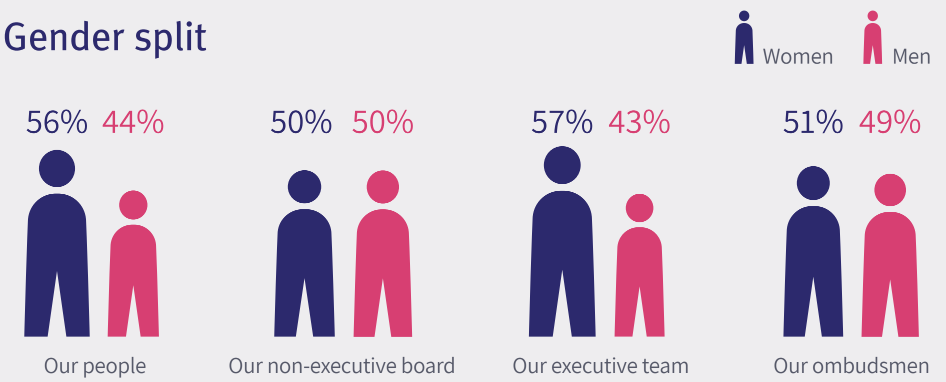
Our diversity in 2018/2019

At the end of 2018/2019

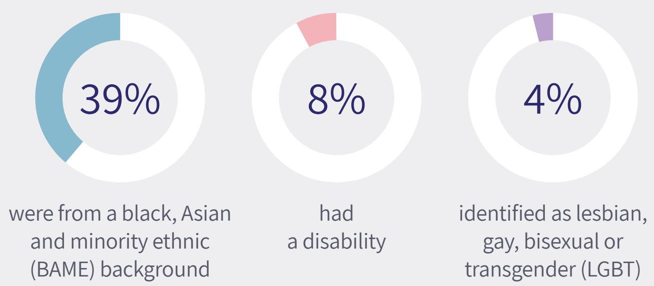
76%

of our people had completed diversity records (75% at the start of the year)

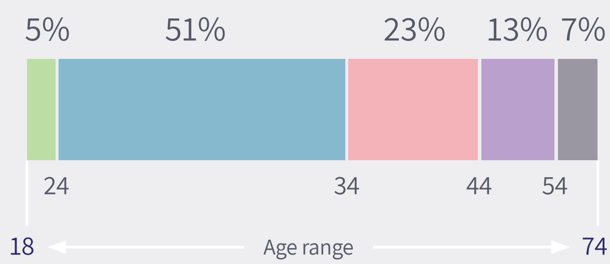
Gender split



Our people



Ages ranged from 18 to 74



Corporate social responsibility

One of our core values as a service is doing the right thing. We attract employees who share this ethos – which extends beyond how they approach their day-to-day work, to how they contribute to their local community.

Our giving something back committee facilitates this type of activity, including our relationship with a nominated charity partner.

> With a background in education, I'm very passionate about helping to raise aspirations and inspire people to grow. I believe I've contributed to doing so through the various educational, charity and volunteering events I've helped organise. The rewards I receive from helping people are great and I love it when the recipients of the help express their appreciation and they too have benefited. I'm looking positively to the year ahead and hope more of our people will get involved.
>
> Jennifer Henriques, giving something back committee chair

Volunteering

In September 2018 we launched a revised volunteering policy which gives people up to two days' paid leave to volunteer through East London Business Alliance (ELBA) or City Gateway.

Highlights of our work in 2018/2019 include:

- Hosting four career insight visits for secondary school pupils, undergraduate students and postgraduates in collaboration with ELBA, to help raise explain the types of careers we offer and raise attendees' career aspirations.
- Working with ELBA to provide 20 volunteers to run the Cash Wise programme, designed to help people with managing their money.
- 40 volunteers supporting weekly Women's Literacy Lunches run by City Gateway – helping improve the literacy skills of women whose first language isn't English.

In the coming year, we're looking forward to continuing our relationship with ELBA, and engaging with Tower Hamlets Education Business Partnership.

> Our partnership with FOS has been so successful and fulfilling, with 2018 being our best yet. The energy and commitment from FOS and all of their employees to volunteer and engage with the local community has been phenomenal. Last year, we had over 100 volunteers get involved, with over 400 hours of volunteering delivered between them! We look forward to an even bigger 2019 with you.
>
> East London Business Alliance

Charity giving

As a result of our people's donations and activities, we raised nearly £36,000 for London's Air Ambulance (LAA), our main charity partner for the previous two years. Our volunteers' abseil from the roof of the Royal London Hospital raised more than £19,000 alone. Our staff also organised fundraising activities and donations to support local food banks and homeless shelters. We have now selected Papyrus – a charity working for the prevention of suicide among young people – as our charity partner until 2021.

Our people also continued to participate in payroll giving schemes – including Pennies From Heaven, where people's salaries are rounded down to the nearest pound and the difference donated to charity, and Pay It Forward, where people donate directly from their salary.

> Thank you to everyone at the Financial Ombudsman Service that has dedicated their time, effort and enthusiasm to raise this landmark amount. The funds raised will help us to attend those that experience traumatic injury in London, ensuring we can deliver our team to the people in their time of need.
> London's Air Ambulance

Learning and development

Our people's learning and development is central to our ability to resolve complaints fairly, and to run our organisation as effectively as possible. This year we continued both to develop our employees' skills in their current roles, and to identify and develop skills our service will need in the future.

Developments in 2018/2019 include:

- Improving and embedding our in-house academy for externally-recruited investigators. This intensive training focuses on skills, knowledge and behaviour, including customer service. As part of our work to improve our service, we have also engaged external specialists to help us identify how our investigation teams are motivated and managed. We gave more detail about our work to improve capability in our casework in December 2018, in our update on Richard Lloyd's recommendations.
- Our knowledge and learning and development teams working together to develop training and learning based on trends in complaints being referred to us.
- Implementing programmes to develop our ombudsmen's management and leadership skills.
- Implementing coaching and mentoring across the organisation for our leadership team, including reverse mentoring as part of our commitment to diversity and inclusion.
- Launching mandatory service-wide training on unconscious bias, and continuing to deliver workshops focused on resilience, dignity at work, and mental health – all aimed at ensuring we remain an equal, diverse and inclusive workplace.
- Continuing to support our people to take relevant externally-recognised qualifications to support them in their current roles and their future careers with us.
- Career workshops for our people in areas which have been subject to a redundancy programme, to help them establish their options and next steps.
- Implementing a new approach to performance management, including a new suite of training for new and existing managers.

Apprenticeships

As an organisation with more than 250 employees, we fall within the scope of the Government's Public Sector Apprenticeship Target. This means we should employ at least 2.3% of our workforce as new apprenticeship starts from 1 April 2017 to 31 March 2021, and report annually on the average we've achieved each year. This section represents our Data Publication Return.

Our approach to apprenticeships has four objectives:

- To offer a variety of apprenticeship programmes to upskill and develop colleagues at different points of their careers.
- To create robust and effective professional development for investigators.
- To prioritise the professional development of some skills over others, depending on our organisation's needs.
- To broaden and support all the different ways people enter the service – whether at an entry level, or as an experienced hire, career changer or returner.

During 2018/2019, we've been developing and introducing more types of apprenticeship opportunities – and using apprenticeships to attract, develop and retain the talent we need to meet our strategic priorities.

Some 2018/2019 highlights and developments include:

- Responding to demand for leadership and management skills, 26 of our people are working towards their Institute of Leadership and Management (ILM) qualifications at levels 3 and 5. We expect them to complete and achieve this in 2019/2020.
- Having apprentices working towards their professional qualifications in accountancy, human resources and commercial procurement.
- Developing an early careers scheme, which will create a talent pipeline through providing up to 35 apprenticeship roles in professional business administration, IT, data analytics, customer help, finance, HR, legal, procurement and project management.

- From August 2019, 32 new investigators in our academy will be piloting a 15-month customer service specialist level 3 apprenticeship programme.

I've worked for the service for nearly four years and I'm currently an ombudsman manager. I'm about halfway through the operations/ departmental manager ILM Level 5 programme. It lasts about 24 months and covers several modules, for example, project management, leading people, building relationships, and decision-making.

Some of the training has been helpful reminders of best practice and skills I already have, whereas other parts have been brand new and have given me an insight to how I can adapt my own management style in certain situations.
Hayley West, ombudsman manager

I'm working toward the professional accountancy technician ACCA level 4 standard. I recently sat my first ACCA exam and passed, with two more exams due before my apprenticeship finishes. I would love to become a fully qualified accountant under the ACCA qualification framework.

I'm interested in international business and would consider working and studying in another country, perhaps in the USA or China. Right now I am concentrating on getting my ACCA qualifications and doing the best possible job I can for the service.
Jack Steventon-Quilty, accounts assistant

We're pleased with the progress we've made this year in the range of apprenticeships we offer, including the opportunities we've extended to people at the beginning of their careers. However, we're still experiencing challenges in extending apprenticeships to as many people as we would like to – and as a result, we haven't met the Government's public sector apprenticeship target (to employ an average of at least 2.3% of staff as new apprentice starts over the period of 1 April 2017 to 31 March 2021) for new apprentices this year.

In particular, many potential apprentices are working in areas of mass complaints, including PPI – or in roles outside our investigation teams, supporting the transition to our new operating model. Some of these roles are subject to redundancy, and the upcoming PPI complaints deadline means that our ability to meet our casework commitments would be compromised if case-handlers in this area were completing apprenticeships.

Public sector target activity return 2018/2019

Reporting requirement	Description	Our data for 2018/2019
Figure A	The number of employees whose employment in England by the body began in the reporting period in question.	354
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).	4
Figure C	The number of employees employed in England that the body has at the end of that period.	2,848
Figure D	The number of apprentices who work for the body at the end of that period.	28
Figure E	Figure B expressed as a percentage of figure A.	1.1%
Figure F	Figure D expressed as a percentage of figure C.	0.98%

Employee engagement

As the landscape we're working in continues to change – and we maintain our focus on ensuring our service is ready for the future – it's essential our people understand and feel involved in the direction we're taking.

Last year we explained that broadcast of an episode of Channel 4's Dispatches featuring our service had, understandably, been worrying for our people. The independent review by Richard Lloyd, published in June 2018 – and subsequent review of a sample of our casework, published in December 2018 – gave assurance about the quality of service we provide, and commented on the diligent and sensitive way our people carry out their work.

> We have introduced a new business partner model, with the team working closely with various parts of the organisation, allowing us to understand and engage our people more effectively.

As we move forward in 2019/2020 – embedding what we've learned from these reviews into our future plans – we have strengthened and restructured our internal communications and engagement team, bringing additional resource with a mixture of internal and external experience and expertise. We have a clear internal communications and engagement strategy and have introduced a new business partner model, with the team working closely with various parts of the organisation, allowing us to understand and engage our people more effectively.

In 2017/2018's annual report and accounts, we said we were procuring an engagement tool. Throughout the year, Qlearsite, independent engagement experts, provided support with staff surveys. In October 2018, we ran a short survey to help us understand how people felt about working here at that particular time, and to get their ideas about developing our service in the future. Around two-thirds of employees shared their views – and our internal communications and engagement team supported senior managers in running local cascade sessions, so teams could discuss their results together and identify areas they needed to focus on.

The survey highlighted how much people value the flexible working we offer. We've since begun a programme to explore how to improve flexible working further, as well as "smarter" working more broadly. In response to comments indicating people wanted senior leaders to be more visible, we've launched informal lunches with members of the executive team – where people have the opportunity to discuss what's happening inside the service, as well as external events that might have an impact on our work.

We've also taken a fresh look at how we share information internally. As part of this, we launched micro-intranet sites for different areas of our casework – allowing us to share tailored information for specific teams. And we've reviewed and refreshed the way the chief ombudsman shares key updates. To further support our managers in particular, we're also launching a regular email bulletin containing updates with key information they need to know, share and take action on as leaders.

Before we consulted publicly on our strategic plans in December 2018, we held an event for representatives of teams across the service, to look in more detail at each of our three planning horizons. We also ran local cascade sessions, giving people the opportunity to ask senior managers and members of the teams working on different programmes of work about what's happening in the short, medium and long term, and what it might mean for them.

Sickness absence

Midway through 2018/2019, we introduced a new approach to managing sickness absence that has resulted in an improvement in the number of working days lost to both long-term and short-term absence. For the year ending 31 March 2019, we lost 9.8 working days per full time employee, compared with 10.4 days in 2017/2018 (a rate of 3.9% compared with 4.2%).

The review of our sickness absence policy was led by our employee relations team, with the support of our council of employee representatives and a manager working group. The focus of the new approach is supporting people's wellbeing, and ensuring that people who've experienced health problems both return to health and remain healthy at work. Managers have received training in how to support members of their teams in this way.

We will continue to focus on embedding a culture of proactive health management to support people's wellbeing throughout 2019/2020, as we aim to reduce the rate of sickness absence further. Our new overarching wellbeing strategy, which we've described on page 42, focuses on mental and financial wellbeing, and we have worked with our occupational health provider to reduce waiting times for appointments.

Last year also saw the implementation of our safeguarding policy, which supports employees who may be subject to domestic violence and also supports our awareness of the safeguarding needs of people who use our service. Our new approach has led to us being shortlisted in national awards – highlighting that our proactive and supportive approach is regarded as best practice.

Managing information

This year we helped resolve more than 370,000 complaints – which means we've needed to handle significant amounts of personal and financial information about people across the UK. We have a legal duty under the *EU General Data Protection Regulation 2018* (GDPR) and the *Data Protection Act 2018* 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.

Over the last year we have reviewed and updated a number of our processes and procedures in line with the GDPR, which came into force in May 2018. This includes introducing a new incident management process, which allows us to contain, investigate and report incidents within 72 hours, introducing a new data privacy impact assessment (DPIA) process, updating our complaint forms and privacy notices and providing regular guidance and training to our employees. We've also 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.

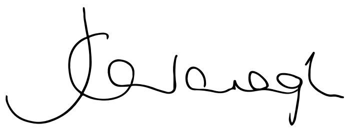
Freedom of information

The volume of requests increased by 11% in 2018/2019 to 422 requests. We responded to 89% of these within 20 working days, compared to 95% in the previous year. The 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.

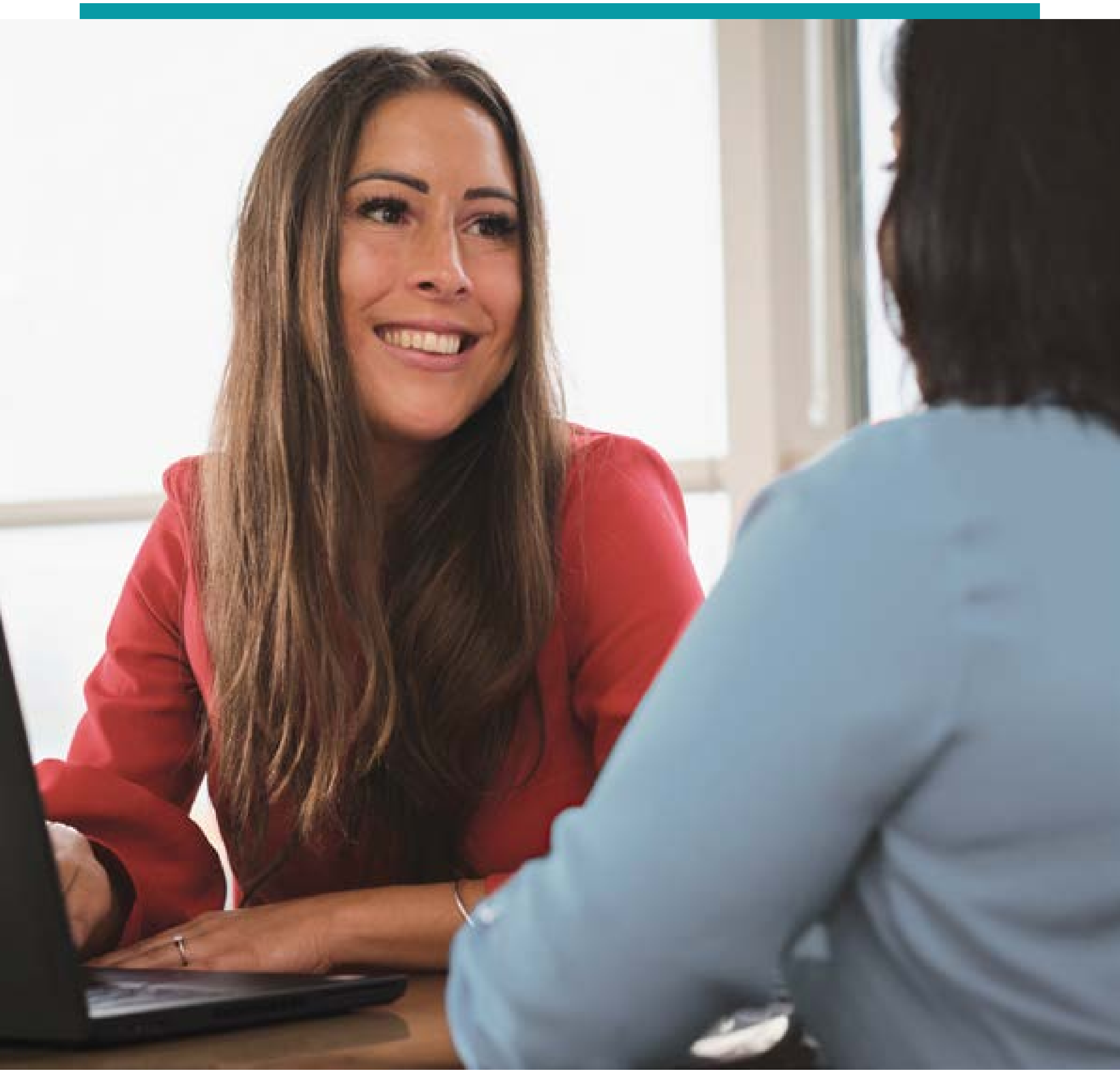
We will also be publishing information about the number of freedom of information requests we receive and respond to on a quarterly basis on our website. We're looking to publish data about the first quarter of 2019/2020 at the beginning of August 2019.

By order of the board



Julia Cavanagh
Company secretary
3 July 2019

Governance



Members of our board are appointed under Schedule 17 of the *Financial Services and Markets Act 2000* – which provides that "the chairman and other members of the board must be persons appointed, and liable to removal from office" by the FCA.

In the case of the chair, 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 chair 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 2019, 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 57).

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 our commitment to diversity and inclusion. Board appointments are made by the FCA, and in the case of the chair, with HM Treasury approval.

During 2018/2019, a recruitment search was undertaken for a successor to Sir Nicholas Montagu when his final term as chair comes to an end on 1 August 2019. On 9 June 2019, the FCA announced that Baroness Zahida Manzoor CBE will take up the chair. Zahida Manzoor has more than twenty years' experience of operating at board level in large organisations. She has served as The Legal Services Ombudsman for England and Wales and The Legal Services Complaints Commissioner. She was one of eight Regional Chairmen overseeing the NHS and was involved in leading significant transformation programmes. Until May 2019, Zahida was a House of Lords Government Whip and Minister for the Home Office, International Trade and the Department for Health and Social Care.

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 appointment of Baroness Zahida Manzoor CBE to succeed Sir Nicholas Montagu KCB after his term as chair ends on 1 August 2019.

Board membership as at 31 March 2019

Sir Nicholas Montagu KCB (chair)
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, University of London. He is also a former chairman of the board of the Inland Revenue.

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 of Defence Equipment & Support. He was previously a senior independent director and chair of audit committee at Pennon Group plc, a non-executive director of Bournemouth Water plc, and has also held various non-executive roles in public sector organisations including HM Land Registry, the Science & Technology Facilities Council, and the Defence Science & Technology Laboratory.

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.

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.

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 Board, 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.

Jenny Watson CBE
Appointed 1 June 2017
Term expires 31 May 2020

Jenny is chair of the National Online Self Exclusion Scheme and chair of the Independent Complaints Panel at Portman Group, chair of House of St Barnabas, a non-executive director of the Financial Reporting Council, a non-executive director of the Reclaim Fund, 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.

Sienne Veit
Appointed 1 September 2017
Term expires 31 August 2020

Sienne is director, digital 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.


Sir Nicholas Montagu KCB (chair)


Baroness (Diana) Warwick


Jenny Watson CBE


Alan Jenkins


Gerard Connell


Sienne Veit

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 chair).
- 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.
- 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 ombudsman & chief executive and the chief financial officer. The board combines executive and non-executive insight to govern the service effectively.

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

The chair 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. The chair has an important role in role-modelling the ombudsman service's culture and values and its commitment to diversity and inclusion, as well as acting as an ambassador for the service externally. They meet 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. They also lead 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. They are responsible for providing leadership across the ombudsman service, and together with the chairman, the board and the executive team, role-modelling the ombudsman service's culture and values.

The chair and the chief ombudsman & chief executive set board agendas in advance, ensuring an appropriate balance between strategic matters and operational and assurance business. The schedule of matters reserved for the board sets out the key areas on which the board and its committees receive assurance during the course of the year – including the service's performance, management of corporate risks and the effectiveness of internal systems and controls.

Board meetings

Discussions on key strategic issues have continued to focus on modernising and developing the ombudsman service as it prepares for a time when it is no longer receiving high volumes of PPI complaints.

Central to this has been the next phase of the service's Horizons programme, to ensure it can continue to provide a meaningful and effective service.

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 chair, 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 chair, 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 chair 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 chair) meets with members of the board on a one-to-one basis to discuss the performance of the board and the chair. This director is currently Alan Jenkins.

For 2018/2019, the exercise was conducted internally, following the previous year's external evaluation which was conducted in keeping with best practice which recommends an independent evaluation every three years. The internal assessment took the form of confidential questionnaires completed by board members, the executive team, the board secretary, and in the case of the audit committee, the head of risk and governance, our financial controller, our external auditors, the National Audit Office and our internal auditors, Deloitte.

The board welcomed the findings which showed that the board was working well and operating effectively. It was agreed the board struck the right balance between strategic leadership and operational oversight responsibilities – although, as always, this was an area that should be kept under review, including in relation to the role played by "critical friends". The results also indicated good relationships between the board and the executive and a strong culture of openness. The board agreed some areas of focus and improvement, including:

- Taking the opportunity of board recruitment to seek to improve its ethnic diversity and ensure its commitment to equality, diversity and inclusion remains central to any search.
- Keeping the board size and composition under review against the nature and ambition of the transformation programme and the service's long term strategic vision.
- Ensuring the right balance between board and audit committee oversight of key corporate risks.
- Being disciplined about board paper length and making sure the purpose is clear.
- Setting out firm timescales for actions and follow up work.

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 15, 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 2019, 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, 3 lead ombudsmen, 30 ombudsman leaders, 1 managing ombudsman, 3 senior ombudsmen and 317 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 chair 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 chair and board members for the additional time they give to support our strategic development.

The board met eight times during the financial year 2018/2019. This table shows the number of meetings attended during the year.

Board members	Board meetings attended
Sir Nicholas Montagu, chair	8/8
Gerard Connell	8/8
Alan Jenkins	7/8
Diana Warwick	5/8
Jenny Watson	7/8
Sienne Veit	3/8

Board committees

Audit committee

Audit committee members	Meetings attended
Gerard Connell, chair	4/4
Alan Jenkins	3/4
Jenny Watson	4/4

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 review of the directors' report and financial statements, the committee's main business included:

- "Deep-dive" risk reviews across a range of areas, including our service development programme – with a particular focus on our investigation teams – and our HR functions.
- Reviewing updated policies on speaking up, procurement and investment, and sustainability.
- Monitoring progress against the annual internal audit plan and considering all completed internal audits in the year; considering our internal audit requirements for future years; and carrying out a procurement exercise for new internal auditors (see 'Internal audit' on page 69 for more details).
- Noting the corporate risk register, and entries on registers covering gifts and hospitality, single tender actions, fraud, whistleblowing, investment and data protection.
- Agreeing the external audit and production of the annual report and accounts.

The chief ombudsman & chief executive, chief financial officer, financial controller 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.

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 (NAO). The NAO has direct access to the chair to discuss financial reporting matters and is invited to all audit committee meetings. Our *annual report and accounts* is subject to audit by the Comptroller and Auditor General, head of the NAO.

The committee's full terms of reference are available at
www.financial-ombudsman.org.uk/files/2630/audit_committee-terms-of-reference.pdf

Board committees

Remuneration committee

Remuneration committee members	Meetings attended
Jenny Watson, chair	2/2
Sir Nicholas Montagu	2/2
Gerard Connell	1/2
Diana Warwick	2/2

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

- Considering updated terms of reference, including transferring the responsibility for succession to the nomination committee.
- Agreeing the redundancy payments for departing members of the executive team.
- Agreeing changes to the service's benefits package.
- Agreeing recommendations on the annual pay review, executive salary at risk payments and the 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.

Remuneration committee's terms of reference

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/files/2632/remuneration_committee-terms-of-reference.pdf**

Board committees

Nomination committee

Nomination committee members
Sir Nicholas Montagu, chair
Gerard Connell
Alan Jenkins
Sienne Veit
Jenny Watson
Diana Warwick

All members of the board are on the nomination committee.

The nomination committee didn't meet in person this year. Its business was considered by written resolution via email due to the timing of the issues before it.

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

- Noting the senior independent director would represent the board on the appointment panel for the chair recruitment.
- Agreeing succession planning proposals for the executive team, which included the redundancy of the chief operating officer and the director of strategy, and plans to appoint a chief information officer to the executive.

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

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 2018/2019 – was published in May 2019 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.
- Manage risks.

As at 31 March 2019, our executive team were:

- Caroline Wayman, chief ombudsman & chief executive
- Julia Cavanagh, chief financial officer/company secretary
- David Cresswell, director of strategy (until 8 April 2019)
- Annette Lovell, director of engagement
- Richard Thompson, principal ombudsman and quality director
- Garry Wilkinson, principal ombudsman and director of investigation
- Caroline Nugent, director of HR
- Vacant, chief information officer.

Chris McDermott, our chief operating officer, left the service on 15 March 2019. We are currently recruiting for a chief information officer.

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 IFRS have been followed, subject to any material departures disclosed and explained in the financial accounts.
- 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.
- 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 2019/2020 and 2020/2021, which show year end reserves of £154m and £145m in the bank at 31 March 2020, reducing to £148m and £133m respectively by 31 March 2021. 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
3 July 2019

Risk management and internal control

Our risk management framework focuses on ensuring that the right people are having the right conversations about risk. To achieve this, and manage risks appropriately, it's important we identify key risks for the organisation and agree how to respond to them, bearing in mind our statutory objectives and the resources we have.

The board has overall responsibility for our risk management framework. It sets the risk appetite for the service and agrees our corporate risk themes. Each quarter the risk and governance team brings together updated risk information from across the service to support an analysis relating to each theme.

In 2018/2019, we made two significant changes to our risk report. The board agreed a revised set of risk themes that better reflected the areas for discussion. We also enhanced our reporting, making use of the data we've been consistently collecting to give a better sense of our progress dealing with risks over time. This provides the board and executive team with richer data, so that discussion can be focused on the most important areas, while maintaining an overview of the level of risk across the organisation.

At each meeting, the audit committee focuses on a particular area or programme within the organisation through a risk lens. This involves setting the context for the topic in question, reviewing the strategy and objectives for it, and the risks to meeting those.

This gives an opportunity for a more detailed and thorough check and balance, and holds relevant executive team members accountable for the management of risk in their areas of responsibility. Along with regular reporting from the chair of the audit committee, the committee also formally reports to the board each year on how it has discharged its responsibilities.

Our executive team sets the risk tolerance for their areas of responsibility, reviews mitigation plans and monitors risk movements. The risk and governance team engages with the executive and risk owners to discuss their current risks, their target levels of risk, what they need to do to reach them, and their timings.

Risks are reviewed formally at least once a quarter, and more frequently on projects and programmes. We also undertake a number of "risk refresh" exercises, from Board level down. These can be formalised, such as the annual board and executive discussions, or scheduled when needed through discussion with departmental heads. This ensures that the risks we're talking about remain relevant – given continuing changes in the external environment and our ways of working. There is more detail below about what has been done and what more the service needs to do to meet risk tolerance.

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. The risk and governance team is responsible for assessing the extent of risk coverage across the ombudsman service. It provides independent challenge on risk assessments; collates risk information; monitors risk movement; and agrees the quarterly risk report with the executive team for the board.

The team reviews risk to give risk register owners feedback about the content of their registers, including whether risk mitigations and timeframes have been sufficiently defined. In 2018/2019, the team facilitated risk workshops in a number of areas including finance and performance, procurement, property and health and safety, and customer help.

The executive team have approved the procurement and implementation of an enterprise risk management system in 2019/2020. This should enable the service to further develop its risk management approach, increasing the transparency and accountability of risk owners, providing clearer links to mitigating controls, and enabling more real term risk management and reporting.

In other areas, the service introduced further improvements to its "speak up" whistleblowing process in January 2019. A new independent third party provider – Safecall – was appointed to receive reports from staff who wished to raise any concerns, anonymously or confidentially. The risk and governance team has formalised support arrangements with the information security and employee relations (HR) teams, providing a wider team of investigators with a more comprehensive skill set.

In 2018/2019, following a joint risk assessment with our internal auditors of our fraud and bribery-related risks, the auditors reviewed our financial data, using specialised software to identify transactions with characteristics that could indicate fraud. The financial controller and head of risk reviewed the exceptions identified, and obtained assurance that for the transactions reviewed, no inappropriate action had occurred.

Our internal auditors also carried out a follow up audit looking at our risk and governance frameworks, which made further recommendations for improvements to the January 2019 audit committee. We agreed a forward strategy for risk and governance improvements with the executive team and audit committee in April 2019, with plans for the years ahead including: enhancements to the existing governance framework (being taken forward as part of our Horizon work); the development of a more comprehensive assurance framework; and the procurement and implementation of an enterprise risk management system to enhance our risk management and reporting processes.

Thematic risks for 2018/2019

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.

The executive team takes collective responsibility for overseeing the risk tolerance and mitigations in place for these risks. Risk owners update their risk assessment on a quarterly basis at 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 independently review key areas of risk and how we’re responding to them. In 2018/2019, the committee carried out deep dives on our change programme, our risk framework, and HR strategy. The audit committee produces an assurance report to the board setting out how it had discharged its delegated responsibility.

Thematic risks for 2018/2019

Risk theme	What we've done in 2018/2019 to address the risk	What more we'll do in 2019/2020
Customer service – including case outcomes, knowledge and accessibility	We've continued to deliver training, provide guidance and provide other support to help our caseworkers deal with the wide range of complaints we see. We have adopted a range of measures to meet the needs of vulnerable customers. Support is provided via our accessibility team and a new designated practice group. We have successfully implemented our investigation model as part of our contingent workforce – providing us with a more flexible operating model. We've successfully launched new teams to consider complaints under our new CMC jurisdiction and our expanded jurisdiction to deal with complaints from small and medium-sized enterprises.	We're ensuring we're sufficiently resourced to deal with the record number of non-PPI complaints we're receiving, resolving more than we receive in 2019/2020. We'll build on work we've undertaken looking at our casework processes, looking to optimise our model and continually reviewing best practice and our approach to quality assurance. We'll provide more information to consumers and businesses through launching a new website with enhanced functionality. We'll fully launch our new case management system, Phoenix, which will enable a more customer-centric approach for our case-handlers. We're rolling out more sophisticated business information tools which will enable us to identify and address trends more efficiently and effectively.
Flexibility and resilience – including adapting to change, continuous improvement, operational resilience and prioritisation	We commenced our Horizons programme of work, looking at the near term, medium term and long term – the basis for our strategic plans. The Horizons work will also help us manage the increasing amount of change – arising both internally and externally – which presents challenges as it does for many organisations. We increased our management capacity in our Coventry office to support our expanded contingent workforce there. We undertook a risk assessment of the potential impact of a "no deal" exit from the EU on a contingency planning basis. Our assessment was that the direct impact on our operations was likely to be limited, but we could be impacted indirectly, for example, if supply chains were affected or there was wider disruption.	The Horizons work includes consideration of how best to support service operations in a flexible and resilient way. We're working on revised funding proposals to ensure to ensure we have the stability needed while we're managing the conclusion of PPI, and to help us manage the increase in demand we expect to see elsewhere.

Risk theme	What we've done in 2018/2019 to address the risk	What more we'll do in 2019/2020
Running the service – including support areas' capacity and infrastructure, and supplier and third-party management	We've significantly updated our "governance map", providing clarity for staff on which people and committees are responsible for what, and adding a responsibilities index for support functions to provide further information in this space. The improvements made to our overall HR team structure are currently being embedded, with appropriate governance and oversight. We have also enhanced our corporate policy framework. Our internal auditors undertook a detailed analytical review of our financial data to spot potential anomalies that could indicate a risk of fraud. We reviewed this data in detail and found no items of concern – providing further assurance that our financial controls are effective. We've designed a number of enhancements in new our case management system which will help address some of our risks that are currently above tolerable level. These should take effect in 2019/2020.	We're taking a fresh look at our committee structures to ensure that we identify any gaps or duplications and further develop our professionalism and approaches to decision-making. We'll implement the recommendations from the internal audit follow up on our governance framework – including a review of executive committee groups and their terms of reference. 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 aim to implement these changes in 2020. To bolster further our current resilient infrastructure, we have recruited a new business continuity analyst. We will continue to strengthen our security and business continuity controls to ensure we meet the needs of all our customers.
Our people – including retention and recruitment, absence management, staff development and workforce representation	We've streamlined our processes for considering flexible working requests, following the successful introduction of our flexible working panel – so the panel review is only used by exception. Decisions are now owned by organisational areas, with the impact on operational effectiveness being considered. We continue to enhance our wellbeing strategy, including the launch of a new employee assistance programme delivered by Lifeworks, and a new workplace adjustment framework and processes from December 2018, as well as the procurement of a new occupational health provider. The extensive training and mentoring offered to new investigators in our academy demonstrates our commitment to equip our staff with the right level of knowledge. We've updated our sickness absence framework to better equip management with the right tools to manage employee absence. This has had a positive impact on overall sickness absence (see the 'Sickness absence' section on page 50). We continue to seek feedback from our people. There's more information in the section 'Employee engagement' on page 49.	We're in the process of developing our approach to talent management and workforce/succession planning. This work forms part of our wider work within Horizon Two. We have a new head of diversity, inclusion and wellbeing to support us in embedding our inclusion and wellbeing strategy across our operations. There's more information in the section 'Equality, diversity and inclusion' on page 42. We will continue to update our staff on future strategic plans and deliverables as we progress our Horizons programme.

Thematic risks for 2018/2019

Risk theme	What we've done in 2018/2019 to address the risk	What more we'll do in 2019/2020
Our obligations – including internal and external legislative obligations across our service	The FCA approved amendments to our rules from April 2019 to extend the compensation threshold for complaints. We have successfully implemented GDPR requirements and continue to make further enhancements as we roll out our new casework management tool. Following lessons learned reviews after a number of unplanned building evacuations in 2018 due to events outside our control, we made improvements to our procedures and we had a successful test drill in 2019. We ensure compliance with anti-slavery legislation as each year, with our annual statement approved by our board. We are committed to meeting corporate social commitments by making sure our suppliers comply with the London living wage. We exceeded our previous target of a 30% carbon footprint, reducing it by 67% per person, and are putting in place a new five-year plan. There's more information in the section 'Environmental performance and sustainability' on page 38.	From 2019, work towards implementing the new five-year Carbon Trust plan to reduce our environmental impact. Embed our new jurisdiction remit and work with stakeholders to ensure they understand our approach. We've built a number of improved processes for data protection into our new case management system, Phoenix, which we'll benefit from once we've fully launched the system.
Our stakeholders – including our external relationships with government, regulators, and the financial services and consumer advice sectors	We maintained our programme of stakeholder engagement at senior and operational levels, ensuring both that we're accountable for our performance, and that we have the constructive working relationships we need to resolve complaints effectively and prevent them arising. This included our chief ombudsman & chief executive and chair appearing before the Treasury Select Committee, commissioning an independent review of our work, regular engagement with the FCA and HM Treasury, as well as with the parties affected by the extensions to our jurisdiction which took effect on 1 April 2019. There's more information in the sections 'Our commitments' on page 15 and 'Our work with the regulator' on page 27. We maintained our working group to review the impact of the UK's exit from the EU, and proactively monitored the potential impact on our staff and wider stakeholders. In December 2018, we consulted with stakeholders on our strategic plans, setting out details of our Horizons planning framework and options for our new funding model. In July 2019 we opened consultation on our proposals.	We have committed to continuing to engage with our stakeholders as we shape our future strategy – and will be setting out a strategic proposal later in 2019. We will take forward the results of our consultation on our future funding, engaging with stakeholders over how and when any change will be effected. We will continue to discuss with relevant stakeholders our progress in embedding our two new jurisdictions, and sharing what we're seeing to prevent future complaints in these sectors.

Internal audit

Our 2018/2019 audit plan was prepared by Deloitte and approved by the audit committee in June 2018. This is the final year of Deloitte's internal audit contract. 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. The Deloitte partner on the audit contract acted as our head of internal audit in 2018/2019.

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 2018/2019 covered procurement and contract management; HR performance management; budget and forecasting; our assurance framework; our operations; and a follow up audit of governance and risk management.

We carried out a full procurement process in 2018, using the Crown Commercial framework, to appoint a new internal audit provider. RSM were the successful bidders and will provide our new internal audit services from 2019/2020 for three years, with an option to extend by one year. RSM spent the last quarter of 2018/2019 on planning work and presented a forward audit plan, covering the next four years, to the April 2019 audit committee. This plan will be regularly reviewed and updated to ensure it remains relevant.

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 control which provide reasonable assurance regarding the effective and efficient achievement of the service's objectives based on the internal audit work undertaken during the year".

External audit

The Comptroller and Auditor General, head of the NAO, 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 2018/2019 the chair 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 2019/2020 apart from the chair's fee which will be increased to £75,000 per annum from the date the new chair is appointed. Fees 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 (2017/2018: £103,382), pension contributions of £15,507 (2017/2018: £15,507) and other benefits amounting to £4,009 (2017/2018: £3,656).

Fees for the board (audited)	Notes	**Total fees for year ended 31/3/19 £**	Total fees for year ended 31/3/18 £
Sir Nicholas Montagu	1	**74,970**	74,970
Gerard Connell	2	**29,500**	29,500
Alan Jenkins	3	**29,500**	25,000
Jenny Watson	4	**29,500**	23,750
Diana Warwick		**24,500**	14,292
Sienne Veit	5	**-**	-
Maeve Sherlock	6	**-**	27,042
Pat Stafford	7	**-**	9,833
Gill Whitehead	8	**-**	10,208
Total		**187,970**	214,595

Notes

1 Nicholas Montagu's term in office ends on 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.

4 Jenny Watson's fee includes an additional fee for chairing the remuneration committee.

5 Sienne Veit has elected not to receive a fee.

6 Maeve Sherlock left the service on 22 February 2018.

7 Pat Stafford left the service on 31 July 2017.

8 Gill Whitehead left the service on 31 August 2017.

Expenses incurred by board members (audited)

In line with the memorandum of association, the directors are entitled to be paid travel, hotel and other expenses which are reasonable and have been properly incurred. The expenses incurred by, or on behalf of, the directors during 2018/2019 are shown in the table.

Expenses incurred by board members (audited)	Travel £	Accommodation £	Entertaining £	Total £
Sir Nicholas Montagu	49	259	130	**438**
Gerard Connell	-	253	-	**253**
Alan Jenkins	42	28	-	**70**
Jenny Watson	43	259	54	**356**
Diana Warwick	-	-	-	**-**
Sienne Veit	-	253	19	**272**
Total	**134**	**1,052**	**203**	**1,389**

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 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. Reward payments are also considered in line with our progress against the Women in Finance Charter commitments.

Pensions

Members of the executive team are eligible to join the non-contributory defined-contribution FCA pension scheme, which is open to all employees except non-executive directors. The employer makes a core contribution to the scheme calculated as a percentage of salary linked to age, at the rates in the table below. In addition, employees can make extra contributions from their flexible benefit account up to a maximum of 40% of their salary. For employees who choose to do this, the employer makes a matched contribution to the scheme up to 3% of the employee's pensionable salary.

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 pension scheme. 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 pension scheme in note 23 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

* The contribution rate for this age band increased from 6% to 8% from 1 April 2019 following the increase in statutory minimum pension contributions from 2019/2020 onwards. From 1 April 2019 the 8% band now covers employees aged 16 to 29.

Other benefits

Members of the executive team are eligible to take part in the flexible benefit arrangements, which are open to all employees except non-executive directors. The executive team arrangements include life assurance (up to four times salary), income protection cover, critical illness cover, personal accident insurance, health screening, and a private medical insurance plan, including family cover. All employees – including the executive team – receive a cash benefit allowance each year, which they can spend on other benefits available under the flexible benefit plan. The cash benefit allowance increased from £600 a year to £800 a year from 1 January 2019.

Remuneration and benefits for the executive team (audited)

Remuneration and benefits for the executive team (audited)	Notes	Salary* £	Pension** £	Other benefits*** £	**Total for year ended 31/3/19 £**	Total for year ended 31/3/18 £
Caroline Wayman	1/2	269,135	29,755	7,137	**306,027**	296,172
Julia Cavanagh	2	203,392	22,486	12,039	**237,917**	229,724
David Cresswell	2/3	285,109	19,228	6,486	**310,823**	186,201
Annette Lovell	1/4	163,685	15,983	5,834	**185,502**	183,573
Chris McDermott	5	321,077	23,345	7,140	**351,562**	236,227
Caroline Nugent	1/6	131,739	13,420	5,114	**150,273**	-
Richard Thompson		159,871	20,520	7,146	**187,537**	196,371
Garry Wilkinson		176,502	18,013	7,327	**201,842**	188,669
Sally Webster	7	-	-	-	**-**	230,037
Total		**1,710,510**	**162,750**	**58,223**	**1,931,483**	**1,746,974**

* Salary cost comprises base salary including salary at risk.

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

*** 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 was a non-executive director at the Claims Management Regulator until 31 March 2019, for which she received a day rate fee of £300. Caroline Wayman is also a non-executive director at the Crown Prosecution Service (CPS) (appointed June 2018) and a member of their nominations and governance committee. The role pays a fee of £13,040 per annum. 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. Caroline Nugent has joined the board of the Chartered Institute of Personnel and Development (CIPD) with effect from April 2019, this is a non-fee paying position.

2 Caroline Wayman, Julia Cavanagh and David Cresswell have elected to allocate £10,000 of the employer pension contribution into the pension scheme. 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 David Cresswell left the service on 8 April 2019. His salary for 2018/2019 includes a redundancy payment of £137,202 which was paid as part of his final salary in April 2019.

4 Annette Lovell increased her working pattern from 4 to 5 days per week from 1 October 2018, (previously reduced from 5 to 4 days per week from 1 December 2017).

5 Chris McDermott left the service on 15 March 2019. His salary for 2018/2019 includes leaving payments totalling £141,500, which included £76,000 for redundancy, £43,000 for loss of office, £22,000 salary at risk and £500 benefit payment. He elected to opt out of the pension scheme and his contribution was paid as a non-pensionable cash supplement. The amount was calculated as 13% of the pensionable salary and is included under “pension” in the table above.

6 Caroline Nugent joined the service on 23 May 2018.

7 Sally Webster, director of HR and organisational development, left the service on 23 February 2018. Her salary for 2017/2018 included 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)

Expenses incurred by members of the executive team (audited)	Notes	Travel £	Accommodation & subsistence £	Entertaining £	Professional subscriptions £	**Total for the year ended 31/3/19**
Caroline Wayman	1	2,553	1,241	134	-	**3,928**
Julia Cavanagh		-	24	17	476	**517**
David Cresswell		165	415	34	-	**614**
Annette Lovell	1	992	1,285	38	-	**2,315**
Chris McDermott		-	473	-	-	**473**
Caroline Nugent		103	430	7	210	**750**
Richard Thompson		157	253	7	338	**755**
Garry Wilkinson		88	253	-	-	**341**
Total		**4,058**	**4,374**	**237**	**1,024**	**9,693**

Notes

1 Figures include travel, accommodation and subsistence costs for the INFO (International Network of Financial Services Ombudsman Schemes) conference held in Dublin in September 2018.

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 2018/2019 was £276,272 (2017/2018: £267,036). This was 6.20 times (2017/2018: 6.92 times) the median remuneration of the workforce, which was £44,574 (2017/2018: £38,579). 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 2018/2019 was 7.16 times, compared to 7.33 in 2017/2018.

* 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)

Exit packages by cost band	2018/2019* number (redundancy)	2018/2019* number (other)	2017/2018** number (redundancy)	2017/2018** number (other)
Less than £2,000	1	9	1	5
£2,001 to £5,000	9	25	10	1
£5,001 to £10,000	26	4	12	5
£10,001 to £25,000	32	5	14	5
£25,001 to £50,000	37	3	5	6
£50,001 to £100,000	9	2	4	-
£100,001 to £125,000	1	-	-	-
£125,001 to £150,000	1	-	-	-
Total	**116**	**48**	**46**	**22**
Total payments (£)	**£2,705,707**	**£440,503**	**£816,597**	**£347,551**

* In keeping with our operational plans 116 colleagues left the service as part of a redundancy programme, with a further 83 scheduled to leave by 30 June 2019.

** In 2017/2018, 46 colleagues left the service as part of a redundancy programme.

The table above comprises the exit packages for leavers in 2018/2019. Further amounts totalling £4,246 have been accrued at 31 March 2019 representing payments due for leavers in 2018/2019 (31 March 2018: £69,078) and £1,944,792 for leavers in 2019/2020. The total charged within the financial statements for 2018/2019 is £5,095,248 relating to exit packages (2017/2018: £1,223,226). The highest pay-out during the year was £141,500 (2017/2018: £87,822).

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 2019 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 and 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 2019 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.

Conclusions relating to going concern

I am required to 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 for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

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;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 direction 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.

Gareth Davies **4 July 2019**
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 2019

	Notes	2019 £000	2018 £000
Continuing operations			
Revenue	4	**227,830**	247,652
Administrative expenses	5	**(270,137)**	(243,596)
Operating (deficit) / surplus		**(42,307)**	4,056
Finance income	6	**1,780**	1,347
Finance costs	6	**(134)**	(186)
(Deficit) / surplus before income tax		**(40,661)**	5,217
Corporation tax expense		**(354)**	(230)
(Deficit) / surplus for the year from continuing operations		**(41,015)**	4,987

Statement of other comprehensive income for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
(Deficit) / surplus for the year		**(41,015)**	4,987
Other comprehensive income / (expense):			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations	23	**731**	1,160
Total other comprehensive income / (expense)		**731**	1,160
Total comprehensive (expense) / income for the year		**(40,284)**	6,147
All operations are continuing			

Statement of changes in equity

	Notes	Accumulated surplus
Balance as at 1 April 2017 as previously reported		**223,584**
Total comprehensive income for the year		**6,147**
Balance as at 31 March 2018 as previously reported	21	**229,731**
Impact of change in accounting policy	2	**(518)**
Balance as at 31 March 2018 (adjusted)		**229,213**
Total comprehensive expense for the year		**(40,284)**
Balance as at 31 March 2019	21	**188,929**

Statement of financial position as at 31 March 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	9	**4,581**	5,784
Intangible assets	10	**18,087**	14,546
Trade and other receivables	11	**331**	403
		22,999	20,733
Current assets			
Trade and other receivables	11	**27,325**	34,978
Short-term deposits	12	**64,000**	94,000
Cash and cash equivalents	13	**127,034**	134,643
		218,359	263,621
Total assets		**241,358**	284,354
Current liabilities			
Trade and other payables	14	**42,251**	43,189
Provisions for other liabilities and charges	16	**1,750**	1,236
Current corporation tax liability		**190**	110
		44,191	44,535
Non-current liabilities			
Trade and other payables	14	**1,991**	2,082
Provisions for other liabilities and charges	16	**2,213**	2,351
Post-employment benefits	23	**4,034**	5,655
		8,238	10,088
Total liabilities		**52,429**	54,623
Total equity			
Accumulated surplus	21	**188,929**	229,731
Total equity and liabilities		**241,358**	284,354

The notes on pages 84 to 105 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 81 to 105 were approved and authorised for issue by the board of directors on 4 July 2019, and are signed on behalf of the board of directors by:

Sir Nicholas Montagu KCB
Chair
3 July 2019

Company number: 03725015

Statement of cash flows for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Cash (outflow) from operations		**(33,399)**	(4,615)
Interest paid		**-**	-
Corporation tax paid		**(275)**	(212)
Net cash (outflow) from operating activities		**(33,674)**	(4,827)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	**(1,022)**	(1,057)
Purchase of intangible assets	10	**(4,766)**	(9,642)
Decrease in short-term deposits	12	**30,000**	59,000
Interest received		**1,853**	1,356
Net cash used in investing activities		**26,065**	49,657
Cash flows from financing activities			
Movement in long term borrowings		**-**	-
Net cash used in financing activities		**-**	**-**
Net (decrease) / increase in cash and cash equivalents	13	**(7,609)**	44,830
Cash and cash equivalents at beginning of the year	13	**134,643**	89,813
Cash and cash equivalents at end of the year	13	**127,034**	134,643

Notes to the statement of cash flows for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
(Deficit) / surplus for the year from operations before financing and corporation tax		**(42,307)**	4,056
Adjustment for:			
Depreciation	9	**2,208**	3,005
Amortisation	10	**1,196**	2,426
Loss on disposal of property, plant and equipment	9	**17**	17
Loss on disposal of intangible assets	10	**29**	-
Increase in provisions	16	**376**	883
Defined benefit pension costs	23	**(1,035)**	(1,035)
Defined benefit pension past service costs	23	**11**	-
Changes in working capital			
Decrease / (increase) in receivables		**7,135**	(8,672)
(Decrease) in payables	14	**(1,029)**	(5,295)
Cash (outflow) from operations		**(33,399)**	(4,615)

Notes to the financial statements for the year ended 31 March 2019

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 (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 underpinning the design of the Service's funding model 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 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. During this accounting period we have adopted IFRS 15 “Revenue from Contracts with Customers”. Under the new standard, there are five criteria that need to be met in order for revenue to be recognised:

- identify the contract and customer;
- identify the performance obligations;
- determine the transaction price;
- allocate the transaction price to the performance obligations; and
- recognise revenue when the performance obligations are satisfied.

Whilst the standard changed the criteria for determining when revenue can be recognised, the recognition point has remained the same for all of our revenue streams with the exception of general casework case fees, as detailed below.

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 performance obligations are satisfied over the course of the year. Therefore levy income is recognised in the period to which the levy relates.

Group fees

The members of the group fee arrangement remained unchanged and consisted 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 performance obligations.

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

Standard case fees

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

- **General casework** – due to changes to recognition criteria, the point at which we recognise income for cases that do not form part of the group fee arrangement has changed in this reporting period. Previously we looked at the stage of completion and recognised revenue at two stages – conversion (i.e. new cases) and resolution. Under the new standard, revenue can only be recognised once performance obligations have been satisfied. As such we will no longer recognise any revenue at conversion.

  For cases in progress at the end of the year an adjustment is made to revenue to reflect instances where our performance obligations have been met but we have not billed.

  As a result of the new standard we have made a one-off adjustment to reduce our opening reserves position as at 1 April 2018 by £518k; removing the effect of the previous policy where we recognised a percentage of the case fee at conversion.

- **PPI casework** – the new standard does not impact when we recognise PPI case fee revenue. The uncertainty around our PPI workload meant historically we have not recognised any revenue until resolution. We were not able to accurately predict how much work was left to do on cases or when they might be resolved.

  Under the new standard we will continue with this approach, only recognising revenue once our performance obligation of resolving the complaint has been fulfilled.

Supplementary case fees

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

These fees are treated in a similar way to PPI case fees and recognised in the month when our performance obligations are met and the cases are resolved.

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 vehicles	Over four years

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

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

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

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

Intangible assets

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

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

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

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

Intangible assets	Over the remaining period of the lease
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 bad debts and credit notes (see note 15.2) and for dilapidations (see note 16). 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 HMRC-approved pension plan which is open to permanent employees (the 'Plan'). The Plan was established on 1 April 1998 and has both a defined benefit (final salary) and defined contribution (money purchase) section. The final salary section was closed with effect from 1 April 2010 to future accruals.

Money purchase scheme (defined contribution)

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

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

Final salary section (defined benefit)

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

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

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

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

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

Changes in accounting policy and disclosures:

a) New standards, amendments and interpretations adopted by the company

There are two IFRS standards that have an impact on the Service in the current year.

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, meaning we are required to consider impairment from the moment a receivable is recognised rather than at a later point, for example when the debt falls overdue. The standard replaced IAS 39 "Financial instruments: recognition and measurement" and is effective for annual periods commencing on or after 1 January 2018. Using the expected loss model has resulted in an additional impairment charge in 2018/2019 of £799k. The additional impairment is primarily being driven by the uncertainty surrounding firms operating in the short-term lending sector and their ability to pay their fees.

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. This has resulted in a reduction to the opening reserves at 1 April 2018 of £518k.

b) New standards, amendments and interpretations not yet adopted

IFRS 16, "Leases" deals with accounting for leases and requires companies to take account of 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. The Service will apply the standard with effect from 1 April 2019.

The standard specifies how companies should recognise, measure, present and disclose their leases and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Service is currently evaluating the impact of adopting this standard, but we do expect the adoption of this standard to have a major impact by increasing the value of assets and liabilities. Moving away from the current practice of disclosing lease liabilities and expensing lease costs through the income statement, the Service will be required to create "right of use" assets and corresponding lease liabilities on the balance sheet. Following the guidance in IFRS 16, we are taking the "practical expedient" approach of recognising leases in place at the application date, i.e. 1 April 2019. We are also using the "modified retrospective" option by applying a cumulative catch up calculation which means that the adjustments will be made at 1 April 2019, with no retrospective application.

We have reviewed the property and equipment leases in place at 31 March 2019, making a number of key judgements and estimates. These include determining a discount rate, separating out any service charge components, reviewing the likelihood of invoking break clauses and looking at any rent increases currently provided for in the leases. We have prepared calculations which show that the value of the new “right of use” asset will be some £78.7m, with corresponding discounted lease liabilities of £73.3m and a total dilapidations provision of £5.4m.

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 – in accordance with IFRS 15 income can only be recognised once performance obligations have been satisfied. As a result the point at which we recognise an element of case fee income has changed. We have determined that only one performance obligation exists – being the resolution of a case. As such it is no longer appropriate to recognise revenue at conversion. We have made an adjustment of £518k, reducing our opening reserves position to reflect this. Whilst the criterion for determining when to recognise revenue has changed, the point at which we recognise revenue has remained the same for all other sources of income.
- Intangible assets – under IAS 38, internal software development costs of £4,766k (2018: £9,487k) have been capitalised as additions during the period. Internally developed software is designed to support the Service carry 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. These 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 sources of estimation uncertainty at the reporting date 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 – we have adopted IFRS 9 “Financial Instruments” this year and moved from the incurred loss model to the expected loss model. The move to the expected loss model means we will recognise potential bad debts at the point we recognise the receivable rather than after it has reached a specific age. Using the new criteria means the provision is £799k higher than it would have been under the old method.
- Provision for credit notes – the provision for credit notes is prepared for both standard case fee credits and supplementary case fee credits. The standard provision is calculated with reference to the historical volume of 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

	Notes	2019 £000	2018 £000
Annual levy		**23,854**	25,615
Standard case fees			
Gross fees		**77,767**	73,143
Movement in credit note provision		**76**	(430)
Movement in general casework stock		**42**	(709)
Supplementary case fees			
Gross (credits) / fees		**(971)**	(16)
Movement in credit note provision		**750**	(35)
Movement in deferred income		**1,132**	1,943
Group fees			
Gross fees		**123,486**	143,628
Transfer to deferred income		**-**	-
Release from deferred income		**1,085**	3,960
Other income		**609**	553
		227,830	247,652

5. Administrative expenses

5.1. Expenses by nature	Notes	2019 £000	2018 £000
Staff payroll costs	7	**159,417**	153,348
Contractor and temporary staff costs*		**62,232**	41,552
Other staff costs		**3,857**	2,604
Consultancy and other professional costs**		**8,925**	6,054
Operating lease rentals: premises		**9,019**	10,084
Operating lease rentals: other		**140**	121
Other premises and facilities costs		**11,411**	14,955
IT running costs		**9,164**	8,414
Depreciation and amortisation	9/10	**3,404**	5,431
Loss on disposal of fixed assets	9/10	**46**	17
Bad debts		**1,623**	32
Other costs		**834**	921
		270,072	243,533

* Contractor and temporary staff costs are shown net of £1,117k costs capitalised as internally generated software costs (2018: £2,175k).

** Consultancy costs are shown net of £2,859k costs capitalised as internally generated software costs (2018: £ 6,192k).

5.2. Auditors' remuneration	Notes	2019 £000	2018 £000
External audit fee			
National Audit Office		**65**	63
Total		**270,137**	243,596

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

6. Finance and income costs

	Notes	2019 £000	2018 £000
Finance income			
Bank interest		**1,780**	1,347
Total finance income		**1,780**	1,347
Finance costs			
Bank interest		**-**	-
Interest on net defined benefit liability		**(134)**	(186)
Total finance cost		**(134)**	(186)
Net finance income		**1,646**	1,161

7. Employees

7.1. Employee benefit expense	Notes	2019 £000	2018 £000
Wages and salaries		**126,457**	121,444
Social security costs		**14,191**	13,797
Apprenticeship levy		**466**	526
Other employer's pension costs – money purchase scheme	23	**13,127**	12,944
Other employer's pension costs – defined benefit scheme	23	**11**	-
Flexible benefit costs		**5,955**	5,582
Staff costs capitalised as internally generated software costs		**(790)**	(945)
		159,417	153,348
Other employer's pension costs – defined benefit scheme			
Included in interest payable	23	**134**	186
Total employment costs		**159,551**	153,534

7.2. Monthly average number of people employed	Notes	2019 £000	2018 £000
Ombudsmen		**359**	351
Case-handlers		**1,543**	1,670
Other		**1,019**	995
		2,921	3,016

8. Board remuneration

The board consists entirely of non-executive directors. Board remuneration payable to directors during the year amounted to £187,970 (2018: £214,595). The chair, who is also the highest paid director, was paid at a rate of £74,970 per annum (2018: £74,970), the senior independent director, the audit committee chair and the remuneration committee chair were paid at a rate of £29,500 per annum (2018: £29,500) and the other directors were paid at a rate of £24,500 per annum (2018: £24,500). Further details are provided in the remuneration report on page 70.

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 2018	3,445	10,645	11,115	9	25,214
Additions	-	912	110	-	1,022
Disposals	-	(1,001)	(19)	-	(1,020)
Reclassifications	-	-	-	-	-
Write downs	-	-	-	-	-
At 31 March 2019	**3,445**	**10,556**	**11,206**	**9**	**25,216**
Accumulated depreciation					
At 1 April 2018	1,191	10,051	8,179	9	19,430
Charge for the year	324	358	1,526	-	2,208
Disposals	-	(1,001)	(2)	-	(1,003)
Reclassifications	-	-	-	-	-
Write downs	-	-	-	-	-
At 31 March 2019	**1,515**	**9,408**	**9,703**	**9**	**20,635**
Net book value at 31 March 2019	**1,930**	**1,148**	**1,503**	**-**	**4,581**
At 31 March 2018	2,254	594	2,936	-	5,784

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 2018	3,938	9,826	12,860	26,624
Additions	-	-	4,766	4,766
Disposals	(42)	-	(29)	(71)
Reclassifications	-	-	-	-
At 31 March 2019	**3,896**	**9,826**	**17,597**	**31,319**
Accumulated amortisation				
At 1 April 2018	3,340	8,738	-	12,078
Charge for the year	291	905	-	1,196
Disposals	(42)	-	-	(42)
Reclassifications	-	-	-	-
At 31 March 2019	**3,589**	**9,643**	**-**	**13,232**
Net book value at 31 March 2019	**307**	**183**	**17,597**	**18,087**
At 31 March 2018	598	1,088	12,860	14,546

* Work in progress comprises direct staff costs and sub-contractor costs used to develop software for the Service's use. When the asset is ready for use, the associated costs are transferred from work in progress to the appropriate asset category. The £17,597k costs carried forward at 31 March 2019 comprise the costs of our new customer-centric case-handling system and new online portal (£17,267k) and our new website (£330k) all of which are expected to be ready for use in 2019/2020.

11. Trade and other receivables

	2019 £000	2018 £000
Trade and other receivables due within one year		
Trade receivables	**7,283**	10,239
Less: provision for bad debts	**(1,358)**	(202)
Less: provision for credit notes	**(361)**	(1,497)
Trade receivables – net	**5,564**	8,540
Prepayments	**9,424**	11,385
Other receivables	**1,072**	893
Accrued income	**11,265**	14,160
Trade and other receivables due within one year	**27,325**	34,978
Trade and other receivables due after more than one year		
Prepayments – after more than one year	**331**	403
Trade and other receivables due after more than one year	**331**	403

12. Short-term deposits

	2019 £000	2018 £000
Short-term treasury deposits	**64,000**	94,000
Trade and other receivables due within one year	**64,000**	94,000

As at 31 March 2019, the Service held Treasury deposits with a maturity of greater than three months with eight different institutions (31 March 2018: nine) for periods between four and five months maturing between 5 July 2019 and 30 August 2019.

13. Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	**2,034**	9,643
Short-term treasury deposits (deposits with a maturity of less than three months)	**125,000**	125,000
Cash and cash equivalents	**127,034**	134,643

As at 31 March 2019, the Service held Treasury deposits with a maturity of less than three months with nine different institutions (31 March 2018: eight) for periods between one and three months maturing between 1 April 2019 and 28 June 2019.

14. Trade and other payables

	2019 £000	2018 £000
Trade and other payables due within one year		
Trade payables	**3,248**	1,990
Other taxes & social security	**3,248**	3,316
Deferred income		
Supplementary case fees	**158**	1,291
Group fees	**118**	1,203
CJ levy billed in advance	**8,631**	15,965
Other creditors	**1,505**	963
Accruals	**25,343**	18,461
Trade and other payables due within one year	**42,251**	43,189

Trade and other payables due after more than one year		
Accruals	**1,991**	2,082
Trade and other payables due after more than one year	**1,991**	2,082

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, the ageing of debts and the industry sectors they operate in.

c) Liquidity risk

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

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

At the reporting date, the Service held money market funds of £64,000k (2018: £94,000k) and other liquid assets of £127,034k (2018: £134,643k) that are expected to readily generate cash inflows for managing liquidity risk.

15.1 Financial instruments by category

As at 31 March 2019, trade and other receivables, short-term deposits and cash and cash equivalent balances of £218,690k were classified as loans and receivables (2018: £264,024k).

As at 31 March 2019, trade and other payables of £44,242k were classified as loans and payables (2018: £45,271k).

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 £2,596k (2018: £1,665k).

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:

Movement in the Service's provision for credit notes	2019 £000	2018 £000
At 1 April 2018 Change in provision for the year	**1,497** **(1,136)**	1,032 465
At 31 March 2019	**361**	1,497

(b) Provision for bad debts – the ledger is reviewed for bad and doubtful debts using the expected loss model.

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

Movement in the Service's provision for bad debts	2019 £000	2018 £000
At 1 April 2018 Change in provision for the year	**202** **1,156**	468 (266)
At 31 March 2019	**1,358**	202

The carrying amount of the receivables is all denominated in pounds sterling. The large increase in the provision is primarily driven by the move to the expected loss model and the uncertainty surrounding businesses in the short-term lending sector being able to pay their fees.

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

	2019 £000	2018 £000
Provision brought forward at 1 April 2018 Release in the year Receipts in the year Payments in the year New provision in the year	**3,587** **-** **-** **-** **376**	2,704 - - - 883
Provision carried forward at 31 March 2019	**3,963**	3,587

This note refers to provision for dilapidations only. The provision for dilapidations at 31 March 2019 and 31 March 2018 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	2019 £000	2018 £000
Independent House*	**1,236**	1,236
South Quay Building	**514**	-
	1,750	1,236

* Discussions are continuing with the landlord for Independent House; until they are concluded the review by the external consultants remains management's best estimate.

Due after one year	2019 £000	2018 £000
South Quay Building	**-**	514
Walbrook House	**141**	141
Exchange Tower	**2,038**	1,685
Friargate	**34**	11
	2,213	2,351

17. Financial commitments

As at 31 March 2019 there were no capital commitments contracted for but not provided (31 March 2018: £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 11 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 and is disclosed in note 5.

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

Future aggregate minimum lease payments under non-cancellable operating leases	Premises 2019 £000	Other 2019 £000	Premises 2018 £000	Other 2018 £000
Payments due				
Not later than 1 year	**8,161**	**120**	10,933	54
Later than 1 year and not later than 5 years	**33,398**	**110**	30,996	46
Later than 5 years	**35,979**	**-**	40,072	-
Total	**77,538**	**230**	82,001	100

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 £468k, 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
South Quay Building			
3	June 2015	None	October 2019
8	November 2014	None	October 2019
Exchange Tower			
Various	Various between March 2013 and September 2014	Various	Various between September 2019 and August 2029
Walbrook House			
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 £125k for the year ended 31 March 2019 (2018: £121k).

c) At 31 March 2019 the net balance due from the Financial Conduct Authority is £9,106k (31 March 2018: due from the Financial Conduct Authority £3,251k). This balance has been netted off against CJ levy received in advance included in 'trade and other payables' (see Note 14).

d) The Financial Conduct Authority bill the Service administration charges in respect of the pension scheme. The charge for the year ended 31 March 2019 was £173k (2018: £89k).

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 (31 March 2018: none).

21. Accumulated surplus

	2019 £000	2018 £000
Accumulated surplus before net pension liability	**192,963**	235,386
Net pension liability	**(4,034)**	(5,655)
Accumulated surplus after net pension liability	**188,929**	229,731

22. Losses and special payments

	2019 £000	2018 £000
Losses	**470**	298
Special payments	**553**	545
Total	**1,023**	843

23. Pension costs

Introduction

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

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

Profile of the plan

Defined contribution scheme

The Service's core contributions (ranging from 6% - 12% of the employee's pensionable salary) to the defined contribution section depend on the employee's age. The 6% rate will be increased to 8% from 1 April in line with the increased new statutory minimum contribution requirements. The defined contribution section is part of a flexible benefits programme and members can, within limits, select the amount of their overall benefits allowance that is directed to the pension plan. The Service will pay matching contributions up to a maximum of 3% of the employee's pensionable salary.

Defined benefit scheme

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

The defined benefit obligation includes benefits for deferred members of the plan and current pensioners. At 31 March 2019 there are 90 (2018: 93) deferred members and 41 (2018: 40) pensioners.

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

Analysis of defined benefit obligation by membership category	**2019 £000**	2018 £000
Deferred members benefits	**29,074**	28,066
Pensioner members benefits	**8,200**	8,146
Total defined benefit obligation	**37,274**	36,212

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 21 years reflecting the approximate split of the defined benefit obligation between deferred members (duration of 23 years) and current pensioners (duration of 13 years).

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the plan was carried out by a qualified actuary as at 31 March 2016 and showed a deficit in respect of the Service's liabilities of approximately £10.3m. The Service is paying deficit contributions of £1,035k per annum which, along with investment returns from return-seeking assets, are expected to make good this shortfall by 31 March 2027. The next funding valuation is due with an effective date 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 2020.

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 and liability-driven investments (LDI) 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). Some 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.

Risk management

The Service and the plan's trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes a significant proportion of growth assets (equities and property) which, though expected to out-perform 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.

In past years, the Service has made reference to a contingent liability in relation to the equalisation of Guaranteed Minimum Payment (GMP). GMP is the minimum pension which a United Kingdom occupational pension scheme has to provide for those who were contracted out of the State Earnings Related Pensions Scheme (SERPS). SERPS was a UK Government pension arrangement, to which employees and employers contributed between 6 April 1978 and 5 April 2002, when it was replaced by the State Second Pension.

Where pension schemes have members with a GMP, the GMP accrual rate for females is generally higher than for males which has caused unequal benefits between males and females.

On 26 October 2018 the High Court ruled in the Lloyds Banking Group case that UK pension schemes that have contracted out of SERPS will need to equalise benefits for the effect of unequal GMP between men and women. The equalisation is retrospective and the period to be reviewed is GMP accrued between 17 May 1990 and 5 April 1997 (after which GMP stopped accruing). The Service's GMP equalisation adjustment is 0.03% (£11k) of the defined benefit obligation for 31 March 2019 and has been recognised as a past service cost.

Reporting at 31 March 2019

The calculations are based on an approximate valuation of the benefits payable in respect of the Service's members of the final salary section of the plan at 31 March 2019. These benefits include retirement pensions and non-lump sum benefits on members' death. The present value of the defined benefit obligation was measured using the projected unit credit method.

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	**31/03/2019 % pa**	31/03/2018 % pa	31/03/2017 % pa
Discount rate for plan liabilities	**2.5**	2.6	2.6
Retail price index (RPI) inflation	**3.2**	3.1	3.2
Consumer price index (CPI) inflation	**2.1**	N/A	N/A
Excess pension increases	**3.1**	3.0	3.1
Post 88 GMP pension increases*	**1.8**	2.4	2.5

* RPI maximum 3% was used to derive the assumption at 31 March 2017 and 31 March 2018. The assumption at 31 March 2019 (and going forward) is based on CPI maximum 3% as in practice increases are awarded in line with this metric.

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

The main demographic assumptions are set out below:

Main demographic assumptions		31/03/2019 Years	31/03/2018 Years	31/03/2017 Years
Life expectancy for member aged 60 at the balance sheet date	Males Females	**27.8** **29.0**	28.2 29.4	28.3 29.7
Life expectancy at age 60 for member aged 40 at the balance sheet date	Males Females	**29.2** **30.5**	29.6 31.0	29.5 31.0

Main demographic assumptions	31/03/2019	31/03/2018	31/03/2017
Mortality base table adopted	**SAPS S1 light tables for normal health retirees with a scaling factor 100%**	SAPS S1 light tables for normal health retirees with a scaling factor 100%	SAPS S1 light tables for normal health retirees with a scaling factor 100%
Mortality future improvements adopted	**Future improvements assumed to be on line with CMI 2018 "Core Projections" and a long-term rate of improvement of 1.25%**	Future improvements assumed to be on line with CMI 2017 "Core Projections" and a long-term rate of improvement of 1.25%	Future improvements assumed to be on line with CMI 2016 "Core Projections" and a long-term rate of improvement of 1.25%
Cash commutation	**Members assumed to exchange 20% of their pension for a cash lump sum at retirement**	Members assumed to exchange 20% of their pension for a cash lump sum at retirement	Members 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 31/03/2019 £000	Value at 31/03/2018 £000
Equity	**5,159**	6,261
Property	**2,761**	2,588
Corporate bonds	**3,223**	3,096
Liability driven investment funds (LDI)*	**12,406**	9,685
Diversified funds*	**7,241**	6,841
Bought-in annuity policies**	**1,796**	1,685
Other	**654**	401
Total	**33,240**	30,557

* During the year to 31 March 2018, the plan trustees approved a change to their investment strategy and moved into holdings in diversified funds and liability driven investment ("LDI") funds and the plan now holds significantly less corporate bonds and equities. 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.

** The plan has invested in individual annuity policies in respect of certain pensioner members in 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 above deficit as corporation tax is only payable by the Service on activities not directly related to its statutory activities.

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

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

Reconciliation of funded status to statement of financial position	**Value at 31/03/2019 £000**	Value at 31/03/2018 £000	Value at 31/03/2017 £000
Fair value of plan assets	**33,240**	30,557	29,404
Present value of defined benefit funded obligation	**(37,274)**	(36,212)	(37,068)
Funded status	**(4,034)**	(5,655)	(7,664)
Unrecognised asset due to limit in IAS 19 para 64	**-**	-	-
Net pension liability recognised on the statement of financial position	**(4,034)**	(5,655)	(7,664)

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 31/03/2019 £000**	Year ending 31/03/2018 £000
Operating cost		
Service cost	**-**	-
Past service cost (including curtailments)	**11**	-
Financing cost		
Interest on net defined benefit liability	**134**	186
Pension expense recognised in the statement of comprehensive income	**145**	186

Re-measurements in other comprehensive income		
Returns on plan assets (in excess of) that recognised in net interest	**(1,810)**	(512)
Actuarial losses / (gains) due to changes in financial assumptions	**1,460**	(783)
Actuarial (gains) due to changes in demographic assumptions	**(534)**	(181)
Actuarial losses due to liability experience	**153**	316
Adjustments to the limit in IAS 19 para 64	**-**	-
Total amount recognised in the statement of other comprehensive income	**(731)**	(1,160)

Total amount recognised in the statement of comprehensive income and other comprehensive income	**(586)**	(974)

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

	Year ending 31/03/2019 £000	Year ending 31/03/2018 £000
Opening defined benefit obligation	**36,212**	37,068
Interest cost on defined benefit obligation	**929**	949
Actuarial (gains) on plan liabilities arising from changes in demographic assumptions	**(534)**	(181)
Actuarial losses / (gains) on plan liabilities arising from changes in financial assumptions	**1,460**	(783)
Actuarial losses on plan liabilities arising from experience	**153**	316
Net benefits paid out	**(957)**	(1,157)
Past service cost (including curtailments)	**11**	-
Closing defined benefit obligation	**37,274**	36,212

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

	Year ending 31/03/2019 £000	Year ending 31/03/2018 £000
Opening fair value of plan assets	**30,557**	29,404
Interest income on plan assets	**795**	763
Re-measurement gains on plan assets	**1,810**	512
Contributions by the employer	**1,035**	1,035
Net benefits paid out	**(957)**	(1,157)
Closing fair value of plan assets	**33,240**	30,557

Actual return on plan assets is set out below:

	Year ending 31/03/2019 £000	Year ending 31/03/2018 £000
Interest income on plan assets	**795**	763
Re-measurement gains on plan assets	**1,810**	512
Actual return on plan assets	**2,605**	1,275

Analysis of amounts recognised in statement of other comprehensive income:

	Year ending 31/03/2019 £000	Year ending 31/03/2018 £000
Total re-measurement gains	**731**	1,160
Change in irrecoverable surplus effect of limit in IAS 19 para 64	**-**	-
Total gain	**731**	1,160

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 in asset £000	Change in defined benefit obligation £000	New value £000
Following a 0.1% decrease in the discount rate	(4,034)	26	(791)	(4,799)
Following a 0.1% increase in the inflation assumption	(4,034)	26	(782)	(4,790)
Following a 1 year increase in life expectancy	(4,034)	74	(1,236)	(5,196)

The sensitivity information shown above has been prepared using the same method used to adjust the results of the latest funding valuation to the balance sheet date. The sensitivity showing the impact of a 0.1% decrease in the discount rate reflects a change in assumptions, rather than a change in underlying bond yields, and therefore does not allow for the impact on plan assets, other than annuities held by the plan.

Money purchase section (defined contribution scheme)

The total expense recognised in the income statement £13,127k (2018: £12,944k) represents contributions payable to the plan by the Service at rates specified in the rules of the defined contribution scheme.

Corporate information

Name

Financial Ombudsman Service Limited

Registered office

Exchange Tower
London
E14 9SR

Bankers

Lloyds Bank plc
25 Gresham Street
London
EC2V 7AE

Auditors

The Comptroller and Auditor General
157 – 197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Internal auditors

Deloitte
2 New Street Square
London
EC4A 3BZ

Website

www.financial-ombudsman.org.uk

Registered no. 03725015

England and Wales
Company limited by guarantee

Financial Ombudsman Service

Phone us

0800 023 4567

Write to us

Financial Ombudsman Service
Exchange Tower
London E14 9SR

Email us

stakeholder.enquiries@financial-ombudsman.org.uk

Follow us

@financialombuds
www.financial-ombudsman.org.uk

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