

Financial Ombudsman Service  
**plan & budget 2005/06**  
for the year ending 31 March 2006

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**This *plan & budget* is a public consultation document.  
We invite your views on our budget proposals and  
workload forecasts.**

**Please send your comments by **18 February 2005** to**

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chapter one

# introduction and key facts

‘the key focus is  
how we deal with  
the continuing  
surge of mortgage  
endowment cases’

## introduction

- 1.1** The purpose of this *plan & budget* is to report on the performance of the Financial Ombudsman Service during 2004/05 and to consult on our proposed expenditure, caseload forecasts and funding for the year ending 31 March 2006.
- 1.2** In our last *plan & budget*, published in January 2004, we set out our strategy for dealing with the very substantial increase in the number of mortgage endowment complaints. That strategy took account of the need to ensure that our work on mortgage endowment cases did not disproportionately affect our ability to handle other types of complaint.
- 1.3** Since the publication of our last *plan & budget*, the volume of mortgage endowment complaints reaching the ombudsman service has continued to rise and it currently accounts for around two thirds of all new cases. For this reason, the key focus of this year's *plan & budget* is how we deal with the continuing surge of mortgage endowment cases, while still maintaining our service to those customers who refer complaints to us about the whole range of other issues that we cover.
- 1.4** Our board has undertaken a strategic review of our current workload, with reference to the functions that the ombudsman service was established to carry out. The conclusions of the review were that it is inappropriate to regard our mortgage endowment workload in the same way as the complaints referred to us about all the other matters we cover. This is mainly because of the nature and scale of the issues involved. The board has therefore determined to treat mortgage endowment complaints as a separate category and will be looking to set different standards of service for them.
- 1.5** The regulator has recently emphasised the importance of fair complaints-handling by firms. The apparent unwillingness or inability of some firms to devote sufficient resources to complaints-handling suggests that, rather than seeking to resolve matters themselves, they consider the £360 cost of referring a case to the ombudsman service to be a commercially attractive option.

- 1.6** Inevitably, poor complaints handling by firms leads to their rejecting a significant proportion of cases, many of which are referred to us. Generally, only 3% to 5% of unresolved complaints made to firms are then referred to the ombudsman service. For mortgage endowment complaints, however, this figure is nearer 20%. And significantly, we are now upholding a higher proportion of these mortgage endowment complaints – just under a half – compared with around a third for other types of complaint.
- 1.7** While some firms seem able to maintain good standards in their complaints-handling operations, others do not. They often reject complaints using a standardised process that involves little attention to the particular circumstances of the individual case. Meanwhile, an increasing number of consumers are represented by claims management companies who operate a similarly standardised approach in presenting the customer's complaint. So it is often not until the complaint is referred to us that its circumstances are examined in any detail. This, of course, has an adverse effect on our productivity and timeliness, which in turn affects our costs.
- 1.8** The business performance of the organisation is now highly dependent on the number of mortgage endowment complaints we receive. We have made an estimate for the coming year (as detailed in para 3.9) but if this is substantially exceeded, many aspects of the plan we have set out will be vulnerable.
- 1.9** Our complement of case handlers has doubled in the last year or so – to keep pace with the growth in complaints numbers. To meet the demands made by this rapid organisational growth, our plans include strengthening our management structure with the appointment of senior ombudsmen, a quality director and a corporate director. We also need to invest in maximising the full effectiveness of our workforce – including boosting the capacity of our human resources function to deliver enhanced training and development and management support. This follows recommendations made by Professor Elaine Kempson of Bristol University's Personal Finance Research Centre, who during 2004 carried out a detailed independent assessment of the way in which we perform our dispute resolution function. This investment in our organisational structure will increase our costs for 2005/06.

## key points of the current year 2004/05

**1.10** A summary of the key points of the current year – 2004/05 – is as follows.

### ■ **dealing with complaints at the initial stage**

Our customer contact division provides a single point of entry for all consumer enquiries. We forecast that we will have dealt with 524,000 enquiries by the year ended March 2005, compared with 441,462 in 2003/04. The increasing success of our customer contact division in resolving large numbers of consumers' mortgage endowment concerns at the earlier stage means, of course, that these do not figure in our formal new complaint statistics. (There is more information about this aspect of our customer contact division's work in para 2.5.)

### ■ **new complaints**

We now expect to receive 108,000 new cases in 2004/05. This is 5% more than the figure of 103,000 that we forecast in the spring of 2004 when we agreed our budget for the year. We expect 67,000 of these complaints to be about mortgage endowments – compared with 51,917 in the year 2003/04. We now forecast that we will receive fewer complaints about other matters than we anticipated. Indeed, the number of complaints that do not involve mortgage endowments looks likely – at 41,000 – to be below the previous year's figure of 45,984. But any decrease in the number of these complaints is outweighed by the substantial further increase in mortgage endowment cases.

### ■ **cases resolved**

By the end of the financial year 2004/05 we will have recruited an additional 135 adjudicators to handle our increasing workload of complaints. We were not able to have as many of these new staff in post, early on in the year, as we would have liked. And the effect of integrating, training and mentoring these new staff has had a more pronounced effect than we expected on the productivity of our more experienced staff. This has resulted in our resolving and closing 10% fewer cases than we had planned – although our forecast of 93,000 resolved cases is still an increase of 21% on last year. This number does not include the 12,500 disputes that we expect to have been resolved by our customer contact division – disputes which would otherwise have been charged for and formally reported as resolved cases.

- **productivity and timeliness**

The additional time and resources involved in recruiting and training new staff has impacted on our productivity and timeliness. Also, the early resolution of disputes by our customer contact division has resulted in a more complex case mix and depresses our productivity and timeliness figures. So our productivity – measured in terms of the number of cases resolved each week by each adjudicator – will be slightly lower than forecast.

- **unit cost**

We expect our unit cost – the average cost of resolving a case at the ombudsman service – to be £495 (budget £470). This highlights how we have been successful in bringing down the cost of handling complaints at the ombudsman service since 2000/01, when the unit cost was in the region of £750.

## key points for the budget year 2005/06

**1.11** A summary of the key points for the budget year – 2005/06 – is as follows.

- **new complaints**

Accurately predicting complaint numbers and trends is an inexact science, but we have assumed an increase of 6% in the number of new complaints we expect to receive in 2005/06 – bringing the expected number of cases to 115,000. This reflects an expected small increase in both mortgage endowment complaints and complaints about other matters. It also takes into account the widening of our remit to cover complaints about mortgage and general insurance intermediaries.

- **cases resolved**

With a full complement of adjudicators in post, we plan to resolve and close 116,000 cases during 2005/06 – an increase of 25% on the number we expect to resolve in 2004/05.

- **productivity and timeliness**

Although our caseload appears to grow more complex, and complaints are more vigorously contested by both sides, we expect our productivity to fall only marginally. Our timeliness for mortgage endowment cases will be affected by the volume of work-in-progress carried over from 2004/05. We expect to meet all our timeliness targets for resolving complaints about matters other than mortgage endowments.

- **unit cost**

We expect to see our unit cost fall to £456 in the year 2005/06, reflecting the higher number of cases we resolve and close during the year.

chapter two

## performance in the year 2004/05

‘we forecast that  
we will have  
resolved 93,000  
cases by the end of  
2004/05 – 21%  
more than last year’



## introduction

- 2.1** At the beginning of 2004, we successfully carried out a major reorganisation, creating a single unit to handle all mortgage complaints. Previously, the handling of these complaints had been spread across a number of smaller units. This ambitious reorganisation entailed simultaneous alterations to our management structure, business process and case-handling system.
- 2.2** At the same time, we set out to recruit additional staff, mainly to help maintain service levels for cases about matters other than mortgage endowments. It was important, as far as possible, to prevent the ever-increasing volume of mortgage endowment complaints from affecting consumers with other complaints.
- 2.3** It was evident that our handling of mortgage endowment cases would be affected until we had completed the recruitment and training of the new staff required to deal with the surge of these complaints. But at least we knew that any delay would not have the same impact as it might have done for other types of complaint. This is because, in most cases of mortgage endowment mis-selling, consumers have not yet suffered a loss in real terms. Their actual loss will not materialise until their mortgage reaches the end of its term – usually some years ahead.

It is important that we set consumers' expectations appropriately, so that they understand our approach. Each month we monitor consumers' views about our service. Overall satisfaction is as high for consumers who have mortgage endowment complaints with the ombudsman service as it is for consumers with complaints about other matters – a satisfaction rate of around 80%.

- 2.4** As far as workload volume was concerned, in our *plan & budget*, published in January 2004, we assumed that we would receive 83,000 new complaints and close 88,000 cases, in itself a considerable challenge. But firms and industry bodies warned us that the new complaint forecast was unrealistic. So we revised our plan in March 2004, forecasting 103,000 new complaints and – with the aim of at least keeping pace – a similar number of closures.
- 2.5** Our customer contact division is our initial point of contact for consumers. A significant part of its work involves seeking to resolve consumers' problems at an early stage, so that these problems do not become “full-blown” disputes that we have to deal with formally as “chargeable” cases. While not an “official” part of the ombudsman service's case-handling process, this area of our customer contact division's work nevertheless

plays a key part in our “complaints-prevention” strategy and we are dedicating more resources to developing this area of work. Increasingly during 2004, our customer contact division has been able to resolve many mortgage endowment complaints at this early stage, in instances where a firm has already made an offer but the consumer remains doubtful about accepting it. In the first nine months of the financial year 2004/05, some 10,000 mortgage endowment complaints were resolved by our customer contact division that might otherwise have become “chargeable” cases requiring investigation.

### key activities for the current year – 2004/05

2.6 Key areas of activity during the current year – 2004/05 – are as follows.

#### ■ mortgage endowments

For the third year running, the number of mortgage endowment cases we have dealt with has exceeded the number forecast in our budget. The forecast on which we consulted was 35,000 – a figure we increased to 50,000 in the light of feedback and our experience in 2003/04. In the event, we now expect to receive 67,000 new complaints – nearly double our estimate of a year ago. We have adapted our casework system to help us deal with these cases in as streamlined a way as possible. However, the nature of the complaints means that they require detailed examination to establish the circumstances (at the time of the sale) of the person to whom the endowment was sold, and then to judge whether the sale was suitable. We are working with the FSA and with major firms to try to ensure better-managed and smoother workflow of these complaints.

#### ■ split capital investment trusts

During 2004/05 we have seen a decrease in the number of new complaints about these investments. However, the work on resolving the complex issues involved continues to absorb considerable resource. In December 2004, the FSA announced the establishment of a “distribution fund”, with its own terms and conditions in relation to eligibility. This fund is entirely separate from the Financial Ombudsman Service. We understand that investors accepting a payment from the fund will no longer be able to pursue their complaint with the ombudsman service. More details of the distribution fund are available on the fund administrator’s website and in the “splits complaints” section of the “frequently asked questions” on our own website ([www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)).

- **single premium investment bonds**

So-called “precipice bonds” are the second most common cause of complaint to the ombudsman service.

- **mortgage & general insurance intermediaries**

Mortgage lenders (other than banks and building societies) and mortgage intermediaries came under our jurisdiction for the first time in November 2004 – and insurance intermediaries came under our jurisdiction on 14 January 2005. This increases the number of authorised firms from under 10,000 to over 20,000, but we are not expecting a commensurate increase in new complaints.

- **Consumer Credit Bill**

In the 2004 Queen’s Speech, the government announced that it intended to introduce new legislation on consumer credit. One aspect of this legislation will be to give access to the Financial Ombudsman Service to consumers with unresolved disputes involving credit agreements with lenders. This is not likely to happen before the spring of 2006, and the legislation will come into effect over a period of time, in line with our ability to absorb the new work.

## new complaints

**2.7** Combining the number of mortgage endowment complaints (see para 2.6) and the number of complaints about other matters, we now expect the number of new complaints to be 108,000, 5% higher than our revised figure of 103,000 that we forecast in the spring of 2004. This increase is wholly related to complaints about mortgage endowments, which we now expect to rise to 67,000 – 34% higher than the forecast of 50,000.

Happily, the number of cases about matters other than mortgage endowments has fallen and we expect to have received fewer of these complaints by the end of 2004/05 than our estimated figure of 53,000. This is mainly because of a decline in the number of complaints referred to us about “precipice bonds” and split capital investment trusts. In addition, our forecast that some (as yet unidentified) issue might generate around 5,000 complaints in the current financial year does not now seem likely to materialise. And we do not expect to see any significant effect on complaint numbers as a result of extending our compulsory jurisdiction (in the latter part of this financial year) to cover mortgage and general insurance intermediaries.

## cases resolved

**2.8** We forecast that we will have resolved (“closed”) 93,000 cases by the end of 2004/05 – 21% more than last year, but 10% fewer than we had planned in the budget. (Cases closed by our customer contact division – see para 2.5 – are not included in this total.) Our ability to resolve cases as quickly as we would have liked has been affected by the challenge of having to recruit, train and integrate a significant number of new staff, as described in para 1.10.

## productivity

**2.9** We expect productivity to be 5% below budget, both for mortgage endowment cases and for cases about other matters. This is for the following reasons:

- we have relied heavily on our most experienced adjudicators to help recruit, train, and mentor new staff, which has meant they have had less time to work on cases themselves; *and*
- as described in para 2.5, we have made changes to our handling of mortgage endowment cases so that – where firms have already made appropriate offers – the cases are being resolved by our customer contact division rather than needing to be passed on for investigation as “chargeable” cases. This means that the cases that *are* referred to our case-handling teams are the more complex ones, where both sides are already deeply entrenched. This inevitably affects productivity levels as these disputes take much longer to resolve.

## timeliness

**2.10** In planning how we would deal with the likely increase in new complaints during 2004/05, we aimed to maintain our timeliness targets for cases about matters other than mortgage endowments. We felt it preferable for any unavoidable delays to affect mortgage endowment complaints, since (as explained in para 2.3) financial losses for those with mortgage endowments have generally not yet materialised.

In the event, our increasing workload, together with the complexity of many of the complaints reaching us, means that we are unlikely to meet our timeliness targets for 2004/05. We expect the amount of work-in-progress to increase to the equivalent of 28 weeks’ work, although 85% of this work should be completed within nine months and 90% within 12 months.

**expenditure and unit cost**

**2.11** The lower number of cases closed and invoiced will reduce our expected income to £44.5m – 6% lower than forecast. Our expenditure will be 5% lower than budget – at £45.9m. We therefore expect a deficit for the year of £1.7m – £0.4m greater than we had budgeted for. Our unit cost is forecast to be £495, compared with the budget forecast of £470. These unit cost figures highlight our success in bringing down the cost of handling complaints since 2000/01, when the unit cost was in the region of £750.

## summary 2.12

	actual 2003/04	actual 9 months 2004/05	forecast 12 months 2004/05	budget 12 months 2004/05
<b>opening work-in-progress</b>				
mortgage endowment complaints	6,078	26,056	26,056	26,056
other complaints	19,426	20,645	20,645	20,645
<b>total</b>	<b>25,504</b>	<b>46,701</b>	<b>46,701</b>	<b>46,701</b>
<b>new complaints</b>				
mortgage endowment complaints	51,917	51,331	67,000	50,000
other complaints	45,984	30,277	41,000	53,000
<b>total</b>	<b>97,901</b>	<b>81,608</b>	<b>108,000</b>	<b>103,000</b>
<b>cases resolved</b>				
mortgage endowment complaints	31,939	32,675	49,000	50,000
other complaints	44,765	29,221	44,000	53,000
<b>total</b>	<b>76,704</b>	<b>61,896</b>	<b>93,000</b>	<b>103,000</b>
<b>closing work-in-progress</b>				
mortgage endowment complaints	26,056	44,712	44,056	26,056
other complaints	20,645	21,701	17,645	20,645
<b>total</b>	<b>46,701</b>	<b>66,413</b>	<b>61,701</b>	<b>46,701</b>
<b>work in hand (weeks)</b>				
mortgage endowment complaints	24.5	37.0	35.7	27.1
other complaints	23.5	21.0	18.2	19.0
<b>total</b>	<b>26.1</b>	<b>35.0</b>	<b>28.3</b>	<b>22.6</b>
<b>productivity</b>				
mortgage endowment complaints	7.6	6.2	6.2	6.9
other complaints	3.9	3.3	3.3	3.5
<b>total</b>	<b>4.9</b>	<b>4.4</b>	<b>4.4</b>	<b>4.6</b>
<b>closed within 6 months</b>				
mortgage endowment complaints		56%	44%	
other complaints		74%	70%	
<b>total</b>	<b>80%</b>	<b>65%</b>	<b>55%</b>	<b>80%</b>
<b>unit cost</b>	<b>£473</b>	<b>n/a</b>	<b>£495</b>	<b>£470</b>

chapter three

## complaint trends

‘at the front-line  
we are currently  
receiving 6,000  
phone calls and  
letters a week’

## new complaints

- 3.1** Our working assumption for 2005/06 is that the overall number of complaints will be 6% higher than in 2004/05. This is expected to result from: a continued increase in mortgage endowment cases, the extension of our jurisdiction to cover mortgage and general insurance brokers, and contingency for any potential new issue that might arise and generate complaints during the year.
- 3.2** Predicting the volume of new complaints is an inexact science. A wide range of factors, including the state of the economy, media coverage, and the attitude of consumers and firms, can contribute to the overall level of complaints. As in the past, we would be particularly interested in any feedback from firms or consumer bodies on the assumptions we have made about likely complaint numbers.
- 3.3** Issues that may have an impact on the numbers of new complaints include the following.
- **mortgage endowments**  
The number of complaints next year will be affected by the recent FSA requirement for firms to send out “red” re-projection letters that clearly spell out the date after which any complaint that the individual may wish to make will be “time-barred”. The extent to which this may prompt higher numbers of consumers to complain is unknown.
  - **complaints about matters other than mortgage endowments**  
We expect the number of these cases to continue downwards and, in particular, we expect to receive fewer complaints about “splits” and “precipice bonds”. Any increase in complaint numbers is expected to come either from the expansion of our compulsory jurisdiction to cover complaints about insurance and mortgage intermediaries, or from some new issue that might arise and generate complaints during 2005/06.
  - **insurance and mortgage intermediaries**  
We have only very recently begun to cover complaints about these firms and, following discussions with the relevant trade bodies, we have assumed that these firms will generate a total of 5,000 new complaints for 2005/06. However, this figure is based on fairly broad assumptions and we intend to wait for a year to see the actual trend.



### ■ contingency for new complaints

As has become our custom, we have allowed for 5,000 new complaints that could be generated by some new issue arising in 2005/06.

We regularly discuss any potential new areas for complaints with industry and consumer bodies and with the FSA.

## customer contact division

- 3.4** In 2004/05, phone and written contacts to the customer contact division, our initial point of contact for consumers, have increased by nearly 20% over the previous year. However, in line with our assumptions on new complaints, we do not expect these numbers to rise in 2005/06.

	<b>actual 2003/04</b>	<b>forecast 2004/05</b>	<b>budget 2005/06</b>
calls to our enquiry line (0845 080 1800)	291,893	336,000	340,000
new written enquiries	149,569	188,000	190,000
<b>total</b>	<b>441,462</b>	<b>524,000</b>	<b>530,000</b>

- 3.5** We are currently receiving approximately 6,000 phone calls and letters a week to our front-line customer contact division – as part of the overall workload of 5,000 emails and 2,500 items of post that the ombudsman service as a whole deals with each day. As expected, the majority of these enquiries relate to mortgage endowments.
- 3.6** Despite the increase in volumes, we were able to achieve our targets for timeliness in dealing with these front-line enquiries, as a result of resource-planning software and continued staff training and development.
- 3.7** As we noted in para 2.5, our customer contact division plays an important role in the early resolution of complaints. When we are able to resolve complaints at an early stage, avoiding the need to pass them on for further, more detailed work by our case-handling teams, then the firms involved are not charged a case fee. At present, we are resolving over 300 potential complaints a week in our customer contact division, 80% of which relate to mortgage endowments.

## analysis of new complaints

3.8 As mentioned previously, in the year 2005/06 we are assuming a 6% increase on the number of new complaints we received in 2004/05. However, this is highly dependent on the volume of mortgage endowment complaints. Looking forward to 2006/07, we expect to see a fall in the number of new mortgage endowment complaints as a result of an increasing number of consumers having their complaints “time-barred”. However, this may be offset to some extent by the extension of our jurisdiction to cover complaints about consumer credit firms.

type of complaint	actual 2003/04	forecast 2004/05	budget 2005/06	plan 2006/07
endowment policies linked to mortgages	51,917	67,000	70,000	42,000
single premium investment bonds	7,222	5,500	3,000	1,500
pension products	5,303	3,900	4,000	4,000
mortgage loans	3,220	3,000	3,000	3,000
split capital investment trusts	1,673	1,000	0	0
non-mortgage endowments /whole-of-life policies	5,442	4,000	4,000	4,000
motor insurance	2,727	2,500	2,500	2,500
current accounts	2,106	2,500	2,500	2,500
buildings/contents insurance	2,703	2,500	2,500	2,500
travel insurance	1,453	1,500	1,500	1,500
mortgage & general insurance intermediaries	0	0	5,000	5,000
consumer credit	0	0	0	2,500
other products	14,135	14,600	12,000	13,500
contingency for other (as yet unidentified) area of complaint	0	0	5,000	5,000
<b>total</b>	<b>97,901</b>	<b>108,000</b>	<b>115,000</b>	<b>89,500</b>

	actual 2003/04	forecast 2004/05	budget 2005/06	plan 2006/07
<b>opening work-in-progress</b>				
mortgage endowment complaints	6,078	26,056	44,056	45,056
other complaints	19,426	20,645	17,645	15,645
<b>total</b>	<b>25,504</b>	<b>46,701</b>	<b>61,701</b>	<b>60,701</b>
<b>new complaints</b>				
mortgage endowment complaints	51,917	67,000	70,000	42,000
other complaints	45,984	41,000	45,000	47,500
<b>total</b>	<b>97,901</b>	<b>108,000</b>	<b>115,000</b>	<b>89,500</b>
<b>case closures</b>				
mortgage endowment complaints	31,939	49,000	69,000	65,000
other complaints	44,765	44,000	47,000	49,000
<b>total</b>	<b>76,704</b>	<b>93,000</b>	<b>116,000</b>	<b>114,000</b>
<b>closing work-in-progress</b>				
mortgage endowment complaints	26,056	44,056	45,056	22,056
other complaints	20,645	17,645	15,645	14,145
<b>total</b>	<b>46,701</b>	<b>61,701</b>	<b>60,701</b>	<b>36,201</b>
<b>work in hand (weeks)</b>				
mortgage endowment complaints	24.5	35.7	34.0	17.7
other complaints	23.5	18.2	17.3	15.0
<b>total</b>	<b>26.1</b>	<b>28.3</b>	<b>27.0</b>	<b>16.5</b>
<b>productivity</b>				
mortgage endowment complaints	7.6	6.2	5.3	5.0
other complaints	3.9	3.3	3.4	3.8
<b>total</b>	<b>4.9</b>	<b>4.4</b>	<b>4.3</b>	<b>4.4</b>
<b>closed within 3 months</b>				
mortgage endowment complaints		17%	10%	10%
other complaints		45%	45%	45%
<b>total</b>	<b>48%</b>	<b>30%</b>	<b>25%</b>	<b>25%</b>
<b>closed within 6 months</b>				
mortgage endowment complaints		44%	20%	30%
other complaints		70%	80%	80%
<b>total</b>	<b>80%</b>	<b>55%</b>	<b>45%</b>	<b>50%</b>
<b>closed within 9 months</b>				
mortgage endowment complaints		75%	60%	70%
other complaints		85%	90%	90%
<b>total</b>	<b>95%</b>	<b>80%</b>	<b>75%</b>	<b>80%</b>
<b>closed within 12 months</b>				
mortgage endowment complaints		92%	80%	90%
other complaints		90%	95%	95%
<b>total</b>	<b>96%</b>	<b>90%</b>	<b>85%</b>	<b>90%</b>

chapter four

# **budget for 2005/06 and case fee information**

## introduction

**4.1** During 2005/06, we plan to meet the demands made by the rapid growth of our organisation by further strengthening our management structure. In particular, our human resources function will be substantially enhanced to meet our continuing need for training and development and management support. We also plan a process improvement project to examine options for further streamlining case-handling where possible.

## funding 2005/06

**4.2** The funding required for the annual levy is £12.8m, compared with £12.5m in 2004/05. 25% of the funding we require will be raised through the levy, with the remaining 75% being raised through case fees. This compares with figures of 28% and 72% respectively for the financial year 2004/05.

	actual 2003/04 £m	budget 2004/05 £m	forecast 2004/05 £m	budget 2005/06 £m
<b>income analysis</b>				
levy	13.1	12.5	12.4	12.8
return of surplus	0.0	0.0	0.0	(1.7)
<b>net levy</b>	13.1	12.5	12.4	11.1
<b>case fees</b>	27.4	34.9	32.1	40.0
<b>other income</b>	0.5	0.0	0.0	0.0
<b>total</b>	<b>41.0</b>	<b>47.4</b>	<b>44.5</b>	<b>51.1</b>

## surplus

**4.3** Last year, following consultation, it was agreed that the Financial Ombudsman Service would normally retain 5% of its annual budget expenditure as reserves, with any remainder being returned to firms as a reduction in the annual levy. Allowing for the anticipated deficit of £1.7m in 2004/05 and reserves carried forward at 31 March 2004, our accumulated surplus at the end of the current financial year is likely to be approximately £6.5m. With expenses of £53.1m (see para 4.5), this leaves approximately £3.5m that could be returnable to firms. The board of the Financial Ombudsman Service has decided that it would be prudent to return half of the available surplus (£1.7m), and to retain the remainder, so that it is available for items such as the process improvement project, or for returning to firms in future years.

## case fees

4.4 We propose to keep the case fee at £360 but to reduce from £550 to £475 the “special” case fee (mainly relating to complaints by small businesses and complaints about firms that are no longer authorised by the FSA, but remain covered by the ombudsman service). In 2004/05 we introduced the “two free cases” arrangement, whereby firms are invoiced for case fees only for the third and any subsequent “chargeable” complaint referred to us about them in a year. This initiative has been broadly welcomed and appears to be working well. During 2005/06 we plan to evaluate in more detail how it has operated over the course of its first full financial year. In the meantime, we propose to continue the arrangement, allowing authorised firms to receive two free cases in 2005/06. This will also be extended to firms who have resigned authorisation but remain covered by the ombudsman service. The financial impact of this is likely to be immaterial to our budget. The text of a rule change to bring these provisions into effect is at appendix D.

## budget 2005/06

4.5 We expect our income to increase by 15% to £51.1m in 2005/06, largely as a result of the increased number of case fees charged to firms for 2004/05. Expenditure – at £53.1m – is 15% higher than the forecast. The increase is almost wholly due to the cost of recruiting additional staff, primarily adjudicators and ombudsmen, during 2004/05. Average staff numbers are forecast to be 860 in 2004/05 and 960 in 2005/06. A detailed headcount analysis is shown at para 4.7.

	actual 2003/04 £m	budget 2004/05 £m	forecast 2004/05 £m	budget 2005/06 £m
<b>income</b>	<b>41.0</b>	<b>47.4</b>	<b>44.5</b>	<b>51.1</b>
staff & staff-related costs	26.6	37.4	34.8	41.1
professional fees	0.5	0.5	0.8	0.8
IT costs	1.5	1.7	1.6	1.7
premises & facilities	4.1	5.3	5.1	5.7
other costs	0.7	0.5	0.6	0.6
depreciation	2.9	3.0	3.0	2.9
<b>operating costs</b>	<b>36.3</b>	<b>48.4</b>	<b>45.9</b>	<b>52.8</b>
financing costs	0.2	0.3	0.3	0.3
<b>total costs</b>	<b>36.5</b>	<b>48.7</b>	<b>46.2</b>	<b>53.1</b>
<b>surplus (deficit)</b>	<b>4.5</b>	<b>(1.3)</b>	<b>(1.7)</b>	<b>(2.0)</b>
cases resolved	76,704	103,000	93,000	116,000
<b>unit cost</b>	<b>£473</b>	<b>£470</b>	<b>£495</b>	<b>£456</b>

### capital expenditure

**4.6** Capital expenditure of £1.3m is planned for 2005/06, with £0.7m to be spent on software development, £0.3m on hardware and £0.3m for building improvements.

### staff numbers

**4.7**

	actual 2003/04	budget 2004/05	forecast 2004/05	budget 2005/06
casework divisions & ombudsmen	542	657	726	751
customer contact division	93	101	96	96
external liaison	19	21	22	22
knowledge management and information	12	12	16	16
policy	0	0	4	4
service quality	9	11	14	14
support services	50	58	66	66
<b>total</b>	<b>725</b>	<b>860</b>	<b>944</b>	<b>969</b>

**4.8** Our staffing strategy for 2005/06 is based on the fact that we expect by then to have a full complement of staff in post and fully integrated. There is provision to increase the number of adjudicators by 25 during the latter part of 2005/06, depending on the level of new cases.

### unit cost

**4.9** We expect our unit cost to be £456 in 2005/06, compared with a forecast outturn of £495 in 2004/05. The fall in the unit cost – the average cost of resolving a complaint at the Financial Ombudsman Service – reflects the increase in the number of cases we expect to resolve and close in 2005/06.

### overall impact on firms

**4.10** The proposals for the Financial Ombudsman Service levy (reproduced in appendix A), on which the FSA is expected to consult in January 2005, would have – by way of example – the following impact on firms, assuming constant business year-on-year. The methodology for allocating expenditure to blocks, consulted on in the FSA's consultation paper, CP74, is based on the number of case-handling staff required to handle the complaints expected in that block. The increase in tariff rates for advisory firms holding and controlling client money and/or assets, for example, reflects the increase in the workload relating to mortgage endowment complaints, compared with the workload assumed in the budget for 2004/05.

- A bank or building society with 2 million relevant accounts would pay a net levy of £7,660 in 2005/06, compared with a levy of £13,800 in 2004/05.
- A general insurer with £100m of relevant gross premium income would pay a net levy of £4,400 in 2005/06, compared with a levy of £8,100 in 2004/05.
- A life office with £200m of relevant adjusted gross premium income would pay a net levy of £18,800 in 2005/06, compared with a levy of £18,600 in 2004/05.
- An adviser with 50 relevant approved persons, who holds client money, would pay a net levy of £4,500 in 2005/06, compared with a levy of £3,250 in 2004/05.
- A three-partner firm of IFAs (independent financial advisers) not holding client money would pay a net levy of £75 in 2005/06, compared with a levy of £90 in 2004/05.
- A mortgage or insurance intermediary firm would pay a flat fee levy of £50 in 2005/06. Unless we receive more than two complaints about the firm during the year, the firm would not be required to make any further payment. It would, however, pay a case fee for the third and any subsequent complaint referred to us in the year.



appendix A

**compulsory  
jurisdiction –  
provisional general  
levy table**

## compulsory jurisdiction – provisional general levy

This is expected to form part of the FSA's formal consultation, in January 2005, on fees and levies.

industry block	description	tariff basis	proposed gross tariff rate	proposed net tariff rate	2004/05 tariff rate	proposed minimum levy per firm	proposed gross total	proposed refund	proposed net total	2004/05 total	proposed net contribution by block	2004/05 contribution by block
			£	£	£	£	£	£	£	£	%	%
1	Deposit acceptors, mortgage lenders & administrators (excluding firms in block 14)	per relevant account	0.00450	0.00383	0.00690	100	1,115,111	-162,106	953,005	1,642,886	8.61%	13.14%
2	Firms that undertake insurance activities subject to prudential regulation only (excluding firms in blocks 13 & 15)	per £1,000 of relevant annual gross premium income	0.052	0.044	0.081	100	1,231,183	-178,980	1,052,203	1,569,393	9.51%	12.55%
3	Society of Lloyds		n/a	n/a	n/a	n/a	28,138	-4,090	24,048	47,266	0.22%	0.38%
4	Firms that undertake insurance activities subject to both prudential & conduct of business regulation (long term life insurers) (excluding firms in block 15)	per £1,000 of relevant adjusted annual gross premium income	0.110	0.094	0.093	100	4,620,518	-671,694	3,948,824	4,654,804	35.68%	37.24%
5	Fund managers (including those holding client money/assets & not holding client money/assets)	per £1,000 relevant funds under management	0.00100	0.00080	0.00255	100	542,139	-78,812	463,327	1,060,066	4.19%	8.48%
6	Operators, trustees & depositaries of collective investment schemes	flat fee	0	0	0	75	30,300	-4,405	25,895	29,925	0.23%	0.24%
7	Dealers as Principal	flat fee	0	0	0	50	12,400		12,400	16,950	0.11%	0.14%
8	Advisory arrangers, dealers or brokers holding and controlling client money and/or assets	per relevant approved person	105	90	65	90	3,008,985	-437,422	2,571,563	2,233,820	23.24%	17.87%
9	Advisory arrangers, dealers or brokers NOT holding and controlling client money and/or assets	per relevant approved person	30	25	30	50	1,117,760	-162,491	955,269	1,163,790	8.63%	9.31%
10	Corporate Finance Advisors	flat fee	0	0	0	50	28,450		28,450	41,850	0.26%	0.33%
11	NOT APPLICABLE IN 2005/06 AND 2004/05											
12	NOT APPLICABLE IN 2005/06 AND 2004/05											
13	Cash Plan Health Providers	flat fee	0	0	0	50	850		850	900	0.01%	0.01%
14	Credit Unions	flat fee	0	0	0	50	27,400		27,400	28,750	0.25%	0.23%
15	Friendly Societies whose tax exempt business represents 95% or more of their total relevant business	flat fee	0	0	0	50	3,800		3,800	9,600	0.03%	0.08%
16	Mortgage lenders, advisers & arrangers	flat fee	0	0	0	50	350,000		350,000	0	3.16%	
17	General Insurance mediation	flat fee	0	0	0	50	650,000		650,000	0	5.87%	
	<b>total – all blocks</b>						<b>12,767,034</b>	<b>-1,700,000</b>	<b>11,067,034</b>	<b>12,500,000</b>	<b>100.00%</b>	<b>100.00%</b>

appendix B

# compulsory jurisdiction – case fee table

## compulsory jurisdiction – case fee table

### case fee

standard case fee	£360	(for the third chargeable complaint and any subsequent chargeable complaint in any financial year)
special case fee	£475	(for the third chargeable complaint and any subsequent chargeable complaint in any financial year)

For the definitions of *standard case fees* and *special case fees*, see Chapter 5, Section 5.6 (case fees) of the Complaints Sourcebook in the FSA Handbook.

appendix C

# voluntary jurisdiction – general levy tariff and case fee table

**voluntary jurisdiction – general levy tariff and case fee table**

<b>industry block and business activity</b>	<b>tariff basis</b>	<b>tariff rate</b>	<b>minimum levy</b>	<b>case fee*</b>
1V deposit acceptors, mortgage lenders and administrators	number of relevant accounts	£0.00383	£100	£360
2V firms undertaking insurance activities subject only to prudential regulation	relevant annual gross premium income	£0.000044	£100	£360
3V firms undertaking insurance activities subject to prudential and conduct of business regulation	relevant adjusted annual gross premium income	£0.000094	£100	£360
6V other intermediaries	n/a			£360
7V firms not falling into any of the above categories	n/a			£475

**\*note on case fees**

As for the compulsory jurisdiction, firms will only be charged for the third and subsequent chargeable case in any financial year.

appendix D

# proposed amendments to DISP 5 rules

## case fee exemption

### 5.6.15R

Notwithstanding the above, a firm will only be liable for, and FOS will only invoice for, the standard case fee, or, as the case may be, the special case fee, in respect of the *third and subsequent* chargeable cases in any financial year.



“ on an average day...

- we receive over 5,000 emails ... and 2,500 items of post
- we send out 4,500 letters
- our customer contact division handles 1,200 phone calls from consumers... and sorts out 600 potential complaints
- over 400 new disputes are referred on to our casework teams for resolution ”

how to contact the Financial  
Ombudsman Service

**write to us**

Financial Ombudsman Service  
South Quay Plaza  
183 Marsh Wall  
London  
E14 9SR

**phone us**

*for consumer enquiries* 0845 080 1800  
*switchboard* 020 7964 1000  
*technical advice desk* 020 7964 1400

**email us**

[complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)

**look at our website**

[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

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