Ombudsman Services

Annual Report

January to December 2018

Contents

Welcome

"Ombudsman Services exists to ensure fair treatment for all, with unique data, human perspective and meaningful insight. Enlightening businesses and supporting consumers to build trust and work in harmony."

To our consumers we are…

the people they can turn to for impartial advice and a solution that's fair.

To our partners we are…

the people they look to for knowledgeable and insightful ways to help them reduce complaints by enabling them to make the changes they need to deliver better customer service.

To our regulators we are…

champions in protecting rights as well as partners in information sharing, we share our analysis so that regulators and business partners can make improvements.

To our people we are…

here to enable them to deliver clarity to consumers and partners through meaningful work.

Foreword from the Chair

This report provides an opportunity for us to reflect on some of Ombudsman Services' key achievements in 2018, and also to talk about some of the challenges that we faced as an organisation during this period.

2018 was a year of significant change for us, with the transition to a new case management system and the launch of a new website and brand, all of which will help us to provide an improved experience for the consumers and participating companies who use our service. As a business, 2018 also saw some key leadership changes with Matthew Vickers being appointed as our new Chief Ombudsman and Chief Executive, succeeding Lewis Shand Smith who stood down after 10 years with the business. On behalf of the Board, I'd like to pay tribute to Lewis for the significant contribution he made to Ombudsman Services. I thank him for his service and wish him well for the future.

During 2018, Ombudsman Services also made a number of operational and structural changes in order to create a lower-cost, lower-overhead business. This increased focus on costs was particularly timely for us; with a number of participating companies in the energy sector entering administration during 2018, we saw our exposure to bad debt increase significantly which had a substantial impact on our financial performance and reserves in the year. As a not for profit organisation, absorbing this level of bad debt is not sustainable for Ombudsman Services so we are closely monitoring the risk of further supplier failures in the energy market.

As we look ahead, the Board is particularly focussed on two key areas where we believe an ombudsman can deliver additional benefits above and beyond basic alternative dispute resolution (ADR). The first area is around accessibility, particularly for vulnerable consumers. Ensuring that vulnerable customers can access our service and that they have the support they need throughout the process will be high on the Board's agenda in 2019. The second area is around the wider role that an ombudsman plays; using the data and insights we gather from the cases we investigate to identify the root cause of complaints and then working with companies to help them improve business practices. It is our view that this systemic, preventative approach that an ombudsman takes can help to drive improved levels of customer service within individual companies and whole sectors, delivering benefits for all consumers.

May I conclude by saying what a privilege it is to continue to lead the Board during such an important and exciting time for the organisation.

Lord Clement-Jones CBE

Chair of the Board

Chief Ombudsman overview

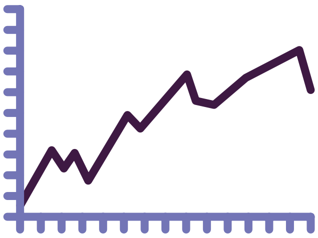
After three years as Deputy Chief Ombudsman, I am honoured in succeeding Lewis Shand Smith as Chief Executive and Chief Ombudsman.

During his ten-year leadership, Lewis took Ombudsman Services from a business which resolved around 15,000 cases per year when he joined to one which, in 2018, resolved a total of 67,209 disputes between consumers and businesses. Lewis established Ombudsman Services' role as the energy ombudsman and worked tirelessly to build our presence as an integral part of the consumer protection and regulatory landscape in the UK. He also oversaw the change in our governance arrangements from an organisation governed by a council with industry representation, to an independent Board, making Ombudsman Services a truly independent ombudsman. I'd like to take this opportunity to thank Lewis for his role in shaping and evolving Ombudsman Services.

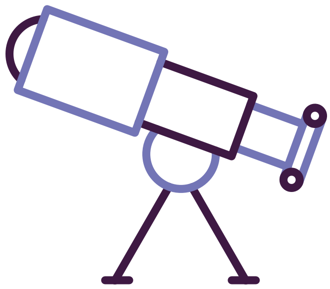
As we look to the future, it is important that we continue to focus on the added value that an ombudsman can deliver. There are three elements to our role in this regard:

1. Putting things right on individual complaints.

2. Using data and insights to spot complaint trends and working with businesses to help them make broader changes to improve customer experience.



3. Identifying systemic issues and working with regulators, consumer advocates and policy makers to drive improvements across the industry.



There are a number of broad challenges and opportunities that we need to think through as we continue to develop our services:

- Technology offers great opportunities and could help drive quicker complaint resolution and more personalised services. However, this also means that expectations are rising all the time. As we utilise new technology, it is also essential that we consider digital inclusion to ensure that our service is accessible for all consumers. We recognise that not everybody will want to use technological solutions so we must provide a first-class customer experience regardless of the channel.

- Markets and services are constantly changing and it is important that consumer protection keeps pace with this. Some areas of the consumer journey now fall outside regulation or do not fit within the traditional customer-supplier relationship, meaning that there are gaps in consumer protection opening up which we must work to fill.
- There is an increasing awareness around vulnerability and it is positive to see that this is high on the agenda for regulators. The challenge for everyone is to recognise that processes and policies are not necessarily the answer. Identifying a vulnerable customer and deciding what to do differently for that person often means acting outside of processes and policies to do what's right for that individual.

While efficient, consistent and fair alternative dispute resolution (ADR) is essential, it cannot tackle consumer detriment alone and so it is important that Ombudsman Services takes a strategic approach. We must use the data and insights that we collect through our casework to look at the wider causes of disputes and mistrust. By building strong relationships across the markets we work in we can address root causes rather than simply dealing with the symptoms. We continued to develop how we deliver this preventative, systemic approach during 2018.

In 2018, we saw a further increase in the proportion of cases we receive about smaller energy suppliers. Traditionally, the vast majority of the cases that we dealt with related to 'Big Six' energy firms. However, we have seen a gradual shift in this picture over the past few years and, by the last quarter of 2018, around 45% of all complaints we resolved were about smaller, independent suppliers. This is despite signposting disciplines from smaller suppliers being generally worse than those of the larger firms. Of course, we recognise that the size of the supplier is not relative to performance, and there is good and bad practice within all sections of the market.

The energy market also saw the failure of eight suppliers in 2018, with further failures likely in the future. This creates a risk for consumers who have cases in flight with the ombudsman or a remedy waiting to be implemented when their supplier enters administration. These customers often lose out as the Supplier of Last Resort (SoLR) is not required to honour any goodwill payments that may be due to these consumers. This situation also presents challenges for the ombudsman both operationally and financially.

In the run-up to a supplier going out of business, we have seen a pattern of deteriorating customer service levels and complaint handling disciplines, leading to an increase in the number of complaints being escalated to our service. We also put a significant amount of work into helping ensure that the transition to the SoLR lands as smoothly as possible for affected consumers, which involves more cost for our service and further demand on our resources.

During 2018, this increased demand was accompanied by significant exposure to bad debt, with the ombudsman absorbing £1.3m of bad debt from failed suppliers in the year, impacting significantly on our reserves. This level of bad debt, as well as the additional work we do which is not linked to the case fee, means that in years to come we will have to think about the way we price and fund our service to ensure that this remains sustainable.

As part of the work we are doing to ensure our service is sustainable, we launched a significant review of our structure in the second half of 2018, which saw us reshape our back office and line management structures to ensure that our service continues to operate as efficiently and effectively as possible.

In managing these challenges, we are pleased with the progress we have made in the energy sector by working as part of a 'Tripartite Group' with Ofgem and Citizens Advice, ensuring that there is a joined up approach to regulation, redress and advice as we seek to tackle key issues in the sector.

We are keen to see similar work in the communications sector where two ADR providers makes the need for a strategic approach all the more important. There is much that the two sectors can learn from one another and we are looking to make better use of a cross-sector perspective on issues such as vulnerability, billing and switching to inform improvements.

On 6 August 2018, we withdrew from the property sector. This decision was taken due to the disjointed and confusing landscape which currently exists. We believe that radical reform is required in this sector to create a clearer, more streamlined system which sets redress as part of a wider approach to consumer protection. The current system is failing consumers and needs to change.

In the parking sector, Ombudsman Services administers the Parking on Private Land Appeals [POPLA] independent appeals scheme on behalf of the British Parking Association. It is encouraging to see progress towards the appointment of a single private parking appeals scheme, which we see as part of a journey to unlock more preventative and systemic approaches.

It is crucial that we recognise how important trust is to the future. Consumer attitudes and engagement with future services and products will be conditioned by how trust is being earned today. This means that getting the basics of service delivery right today matters for markets, the economy and the society of tomorrow.

With markets, technology and customer journeys all changing, Ombudsman Services must continue to change with them.

Matthew Vickers

Chief Ombudsman

Consumer Action Monitor

We published our fifth annual Consumer Action Monitor in March 2018. The report reveals that consumers are frustrated with poor service and unmet expectations and we're seeing more consumers suffering in silence rather than formally escalating their complaints.

To launch the report, we held a panel event at The Institute of Art in London, including representation from MP Yvonne Favargue and Kirsty Good from MoneySavingExpert.

consumers experienced 173 million issues with products and services in 2017

affecting more than half **57%** of those in the UK

yet only a quarter **27%** were raised with the provider

Active complaints stood at around 47 million for 2017

down **14%** from **2016**

Trust in business

With consumers resigned to poor service, it's no surprise they no longer trust businesses to do the right thing. Nearly three in 10 (28%) consumers say they trust businesses less now than they did three years ago, with two thirds (62%) pointing to bad customer service as the cause. Most (86%) say their trust in companies is damaged if their family and friends have had bad experiences but in many cases businesses are not given the opportunity to resolve the issue.

One in five (19%) with cause to complain spoke to their friends and family but nearly half (45%) didn't take their issue further as they thought it would be too much hassle.

With many consumers experiencing ongoing frustrations, one in five (20%) are now more sceptical about what they hear from companies than they were a year ago. One in five (18%) don't trust businesses to treat them fairly when it comes to complaining and many consumers choose to part ways with a business rather than trust them to address their issues. The means businesses are not receiving feedback and opportunities to resolve these matters.

Click here to read the 2018 CAM report.

> **"If consumers complain more and companies commit to improving customer service issues, the result will be enlightened businesses and supported consumers."**

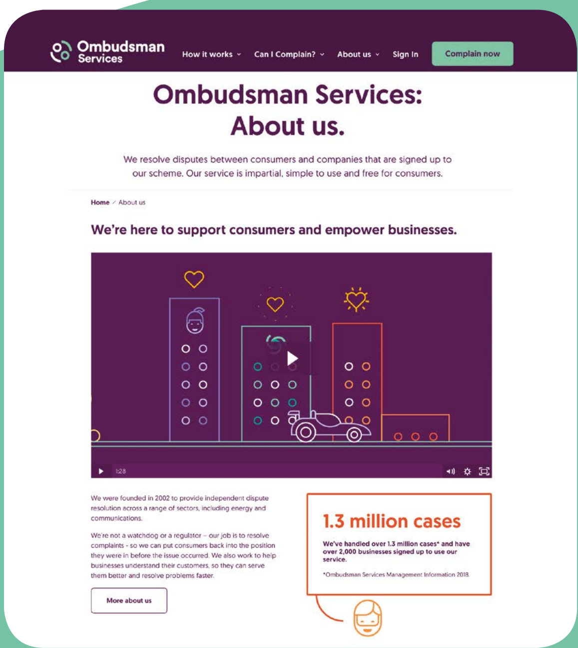
Digital investment and brand refresh

Digital investment

In March 2018, we piloted a new case management system designed to create better access and communication between parties. Co-op Energy was the first company to use the new system, followed by EDF a few weeks later. Feedback received from the two trial companies led to informed improvements to the system before rollout to the majority of our participating companies by the end of 2018.

A better user experience has been enabled by the creation of a two-way system via which consumers and businesses can share evidence and view comments from all parties. Development is ongoing as feedback from consumers, businesses and colleagues continues to inform the evolution of the system in order to meet the ever-changing needs of users. The system is adaptable, easy to use and is helping facilitate greater transparency and trust within the sectors we serve.

On 19 November 2018, we launched a new website. We reaped immediate benefits, with 54% of cases web generated post-19 Nov compared to 32% pre-launch. Monthly web visitors increased to 88,000 from 83,000 following the launch. This is good news for consumers as it means the case logging process is quicker and easier for many customers. We've also seen a drop in cases submitted outside of our terms of reference (OTOR) from 21% pre-19 Nov to 15% post-19 Nov. This is positive news for consumers more generally as it means they're finding the right signposting information they need if we cannot deal with their complaint.



Brand refresh

With the launch of our new website, we took the opportunity to refresh our brand.

We've done this with a focus on our work to use insight and human perspective to build greater trust between consumers and businesses. Our mission states that…

"Ombudsman Services exists to ensure fair treatment for all, with unique data, human perspective and meaningful insight. Enlightening businesses and supporting consumers to build trust and work in harmony."

Events

We held Fringe events at the Conservative and Labour party conferences in 2018, looking at making markets work better for consumers. To accompany the events, we launched the Ending Consumer Detriment Report.

The Conservative event was chaired by Katie Morley, Consumer Affairs Editor at the Telegraph and the panel included: John Howells MP, Chair of the All Party Parliamentary Group on Alternative Dispute Resolution; Kirsty Good from MoneySavingExpert; and Tom Brooks from Citizens Advice. The Labour event was chaired by Tom Kibasi, Director at IPPR; Sarah Jones MP, Shadow Housing spokesperson; Chi Onwurah MP, Shadow Business, Energy and Industrial Strategy spokesperson; Kirsty Good from MoneySavingExpert; and Matt Upton from Citizens Advice.

We also took part in the workshops led by Energy UK around looking at the whole customer journey in energy. The workshops included representatives from a number of energy providers, Citizens Advice, Ofgem and the Department for Business, Energy and Industrial Strategy. Initial work was progressed to map out the whole customer journey and look to modernise the customer experience. This included beginning to look at how long complaints take to be resolved, the complaint handling regulations and the speed of the complaint journey, for example whether waiting eight weeks to escalate a complaint to an ombudsman is too long.

Support for Warrington Foodbank

Our commitment to helping local charities is something we've always been passionate about at Ombudsman Services.

We were incredibly proud to support Warrington Foodbank in 2018. Ombudsman Services colleagues donated over a tonne of food and raised £7,234 for the Foodbank. The money raised covered the running costs of the food delivery van, plus funding for their school outreach initiative.

2018 Highlights

Total initial contacts

174,855*

* Stated figures do not include initial contacts received by POPLA

How these contacts got in touch

46% telephone

54% written

of those written contacts

32% web forms

18% emails

4% letters

46% (ITOR)
46% of contacts were inside our terms of reference

54% (OTOR)
54% of contacts were outside our terms of reference

Complaints resolved

68,063*

* Stated figures do not include decisions issued by POPLA

Customer satisfaction

We've seen an increase in overall customer satisfaction in 2018, with a high satisfaction score of 75% - up from 72% in 2017.

This is despite operational changes and is an encouraging year-on-year improvement.

Overall customer satisfaction

75% in **2018**

up from **72%** in **2017**

Service complaints

The number of complaints received about our service in 2018 was 860 – down from 1,150 in 2017.

This is a clear indication that improvement plans to reduce complaints about our service have had a positive impact.

Service complaints

860 in **2018**

down from **1,150** in **2017**

We upheld 74% of the complaints referred to us in 2018 - up from 65% in 2017.

The Independent Assessor considered 83 cases in 2018 – down from 100 in 2017 and 149 in 2016. The 83 cases comprised 420 separate elements. Of these elements, 78% were upheld or justified and so had merit.

Feedback from the Independent Assessor in 2018 has been largely very positive, with the Independent Assessor commenting that the quality of Ombudsman Services' replies to service complaints at what was the second stage has been 'generally excellent'.

Areas for improvement

Our customer relations team works proactively, using data and insight, to help the business learn from customer service mistakes and make improvements in areas identified as requiring an increased focus.

Communications and inaccuracy were the main causes of service complaints in 2018 (40% of elements) and this will be a key focus for the customer relations team to take into 2019.

Most common complaint types referred to the Independent Assessor

Complaint type	% of upheld complaints 2018
Communications / inaccuracy	**40%** of elements
Process error	**33%** of elements
Delay	**10%** of elements

Another area highlighted in the Independent Assessor's report as requiring improvement was around consumer vulnerability. We've already taken steps to recognise where we can improve in this area. We've also identified areas where we can work with the wider industry to drive forward a consistent and collaborative approach.

Continuous improvement

As a provider of alternative dispute resolution, Ombudsman Services prides itself on good complaint handling and we're dedicated to our mission to end consumer detriment. We commit to doing this by way of providing an efficient, effective and impartial service which not only deals with individual complaints but works with companies, consumer advocates and policy makers to address root causes and wider industry issues.

In March 2018, we launched a new case management system (CMS). A better user experience is being seen via a portal which affords a two-way system via which consumers and businesses can share evidence and view comments. The CMS also facilitates early complaint resolution. Development of the CMS is ongoing as we continue to seek feedback from all user groups.

Summary annual report of the Independent Assessor - 2018

Fewer cases were escalated to the Independent Assessor (IA) in 2018 (83 cases) than in 2017 (100 cases) continuing the downward trend since 2016 (149 cases). Referrals to the IA sit in the context of complaints about OS overall and I feel that the quality of Customer Relations' replies to service complaints at what was the second stage has been generally excellent.

83 cases were escalated to the IA in **2018**

down from **100** in **2017**

I rarely see straightforward complaints of poor service that have simply not been properly investigated by OS themselves, although the complexity and timespan of the cases that are referred to the IA is increasing.

As IA I can only consider concerns about OS' service or administration of a case and have no remit over the decisions of the Investigation Team in the provider case, including the assessment and weighting of evidence or the final remedies and awards.

The 83 cases I considered this year comprised around 420 separate elements of complaint, ranging from one to 13 in any case. Since the middle of 2017 my findings for each element of complaint have been classified as Upheld, Not upheld or Justified - if the complaint has merit but has already been acknowledged during the earlier complaints process.

78% of the elements I considered this year were upheld or justified, so had merit; more than two thirds of those were justified and had already been acknowledged before IA review. I was most likely to identify new issues of process error in cases.

In 2018 the most frequent concerns (83% of elements raised) were:

- Communications/Inaccuracy (40% of elements);
- Process Error (33% of elements);
- Delay (10% of elements).

There were other individual cases of concern, regarding remedy implementation and premature case closure – which whilst distressing for the complainants did not seem to indicate systemic problems in the OS business.

I flagged three particular issues of concern for the Board's attention:

- A continuing failure to show improvement in making reasonable adjustment for disability or vulnerable customers;
- Failure to adjust timeframes for complaints conducted by post, creating unequal service for complainants who are often elderly or more vulnerable;
- Data Breaches, which though small in number are a cause for concern in terms of impact.

To try to make amends for poor service, IA case recommendations can include:

- Apology;
- Goodwill payment;
- Systemic or case specific actions; or
- Operational staff review so lessons can be learned.

I recommended additional goodwill payments in 39% of cases I saw, most frequently of £50 or less. I also asked OS in 2018 to include in their final response to service complaints that if a case is escalated to the IA, I look at that afresh and independently and as such a goodwill award offered by OS may not be maintained when I reach my own conclusions on a case.

I close this summary again by thanking the complainants for bringing their cases to me and to OS for being open to the feedback I give.

Joanna Wallace

Independent Assessor

Our priorities for 2019 - 20

- Quality – back to basics
- Case management system – phase two development
- Relationships – business partners and industry influencers
- Structure and engagement – ensuring we're cost-effective and relevant in a digital age
- Reporting

Quality

Quality and consistency are at the heart of our mission to end consumer detriment. In 2019, we'll be focusing on quality with a 'Back to Basics' approach. Our new website and brand will help us on this journey to increase accessibility and ensure that interactions are simple, clear and inclusive, with no jargon. Consumer vulnerability will also be a key focus area. We commit to working with our industry partners to facilitate discussion and affect positive change in this area.

Case management system

We'll continue to improve our new case management system in 2019. Modifications and enhancements will particularly address:

- The needs of vulnerable consumers
- Feedback from participating companies
- Operational, data and reporting requirements

Relationships

The relationships we hold with our business partners and within the wider industry are key to our success as an ombudsman, as we look to help businesses improve their complaints handling processes and customer service more generally.

In 2019, we'll promote an increased focus on relationships beginning with structural changes within our executive, ombudsman and account development teams.

Structure and engagement

As we move into 2019, we'll be making further organisational changes to reflect our transformational plans. Keeping costs down will continue to be a focus as we look to move forward with a cost-effective and efficient operation. We'll continue to work closely with business partners and the wider industry to drive forward positive change to the consumer landscape.

Reporting

Data is central to our strategy to improve business intelligence and provide actionable insights to our participating companies and other industry partners. In 2019, we'll continue to build on our reporting capabilities in order to provide added value for our industry stakeholders.

Financial statements

- Independent auditor’s report to the members
- Financial statements for the year ended 31 December 2018
- Notes to the financial statements

Opinion

We have audited the financial statements of The Ombudsman Service Limited (the 'company') for the year ended 31 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related 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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

T N Johnson.

Tracey Johnson (Senior Statutory Auditor)
for and on behalf of MHA Moore and Smalley
Chartered Accountants
Statutory Auditor

Richard House
9 Winckley Square
Preston
PR1 3HP

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Income	**3**	27,892,658	36,222,195
Administrative expenses		(30,630,058)	(33,214,388)
Operating (deficit)/surplus	**4**	(2,737,400)	3,007,807
Interest receivable and similar income	**7**	51,862	15,550
Change in value of investments	**8**	(93,936)	164,816
(Deficit)/surplus before taxation		(2,779,474)	3,188,173
Tax on (deficit)/surplus	**9**	(2,346)	(15,000)
(Deficit)/surplus for the financial year		(2,781,820)	3,173,173

The Income and Expenditure Account has been prepared on the basis that all operations are continuing operations.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Intangible assets	**10**		1,596,860		704,387
Tangible assets	**11**		1,686,581		1,971,055
Investments	**12**		3,080,211		3,174,147
			6,363,652		5,849,589
Current assets					
Debtors	**14**	3,788,511		5,142,524	
Cash at bank and in hand		7,356,885		9,809,998	
		11,145,396		14,952,522	
Creditors: amounts falling due within one year	**15**	(4,164,514)		(4,460,019)	
Net current assets			6,980,882		10,492,503
Total assets less current liabilities			13,344,534		16,342,092
Creditors: amounts falling due after more than one year	**16**		(1,725,051)		(1,976,722)
Provisions for liabilities	**17**		(1,200,639)		(1,164,706)
Net assets			10,418,844		13,200,664
Reserves					
Income and expenditure account			10,418,844		13,200,664

The financial statements were approved by the board of directors and authorised for issue on .... and are signed on its behalf by:

Lord T F Clement Jones CBE
Director

Company Registration No. 4351294

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Income and expenditure account £
Balance at 1 January 2017	10,027,491
Period ended 31 December 2017:	
Surplus and total comprehensive income for the period	3,173,173
Balance at 31 December 2017	13,200,664
Period ended 31 December 2018:	
Deficit and total comprehensive income for the period	(2,781,820)
Balance at 31 December 2018	10,418,844

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2018 £	2017 £	2017 £
Cash flows from operating activities					
Cash (absorbed by)/generated from operations	**23**		(890,388)		4,085,599
Income taxes paid			(18,872)		(6,988)
Net cash (outflow)/inflow from operating activities			(909,260)		4,078,611
Investing activities					
Purchase of intangible assets		(1,084,847)		(615,839)	
Purchase of tangible fixed assets		(510,868)		(1,094,078)	
Proceeds on disposal of fixed asset investments		-		8,409	
Interest received		51,862		15,550	
Net cash used in investing activities			(1,543,853)		(1,685,958)
Net cash used in financing activities			-		-
Net (decrease)/increase in cash and cash equivalents			(2,453,113)		2,392,653
Cash and cash equivalents at beginning of year			9,809,998		7,417,345
Cash and cash equivalents at end of year			7,356,885		9,809,998

1 Accounting policies

Company information

The Ombudsman Service Limited is a private company limited by guarantee incorporated in England and Wales. The registered office is 3300 Daresbury Park, Daresbury, Warrington, WA4 4HS.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”) and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Income and expenditure

Turnover represents subscription and case fee income of the service and any costs recovered in setting up new ombudsman services.

Case fee income is recognised dependent on the progress of the case and the stage of completion at the period end.

Expenses are included in the financial statements as they become receivable or due.

1.4 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	33% straight line

Amortisation has not been charged on intangible assets that are still in the development stage.

1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost net of depreciation.

1 Accounting policies **(Continued)**

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	Over the period of the lease
Fixtures, fittings and office equipment	20 - 50% straight line
Computer equipment	33% straight line or over life of lease

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to surplus or deficit.

1.6 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset 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 loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.7 Cash at bank and in hand

Cash and cash equivalents are basic financial assets and include cash in hand and deposits held at call with banks,

1.8 Financial instruments

The company has elected to apply the provisions of Section 11 ‘Basic Financial Instruments’ and Section 12 ‘Other Financial Instruments Issues’ of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1 Accounting policies **(Continued)**

Basic financial assets
Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets
Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in surplus or deficit, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets
Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

Derecognition of financial assets
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

1 Accounting policies (Continued)

Basic financial liabilities

Basic financial liabilities, including creditors are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

There are no other financial liabilities held by the company.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.9 Taxation

The tax expense represents the sum of the tax currently payable.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

The company is only liable to taxation on its investment activities. Deferred tax is provided for on unrealised gains on the valuation of investments.

1.10 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

1 Accounting policies **(Continued)**

1.11 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.12 Retirement benefits

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the income and expenditure account.

1.13 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

2 Judgements and key sources of estimation uncertainty (Continued)

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Fixed asset valuation

Fixed assets are initially recorded at cost and depreciated over their useful economic life. See accounting policy 1.5.

Useful economic life is based on the anticipated time that the asset will be in use by the company. This is based on historic experience and asset replacement policies.

Dilapidations provision

See accounting policy 1.11.

The dilapidations provision is based on an average cost per square metre for each of the properties leased to provide an estimate of likely costs. This is based on historic experience of likely costs but the eventual cost may differ.

Onerous contract

There is a detailed plan in place to switch contract providers in relation to the case management system. The current contract is an onerous contract and as this will not be utilised in the future periods, a provision has been created that is based on the cost of the subscription, the minimum users tied into the contract and the length of the contract.

Bad debt provision

The bad debt provision is based on an estimate of how much is ultimately recoverable from debtors.

3 Income

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the UK.

4 Operating (deficit)/surplus

	2018	2017
Operating (deficit)/surplus for the period is stated after charging:	£	£
Fees payable to the company's auditor for the audit of the company's financial statements	13,800	13,000
Depreciation of owned tangible fixed assets	795,342	819,607
Amortisation of intangible assets	192,375	302,050
Movement on onerous contract provision	12,240	777,600
Operating lease charges	1,117,112	1,434,868

5 Employees

The average monthly number of persons (including directors) employed by the company during the year was: 568 (December 2017: 623)

	2018 Number	2017 Number
Management and administration	568	623

Their aggregate remuneration comprised:

	2018 £	2017 £
Wages and salaries	15,845,545	16,757,272
Social security costs	1,473,707	1,447,131
Pension costs	679,035	660,938
	17,998,287	18,865,341

Redundancy payments made or committed in the year totalled £696,106 (2017: £76,000).

6 Directors' remuneration

	2018 £	2017 £
Remuneration for qualifying services	409,269	358,279
Company pension contributions to defined contribution schemes	32,438	27,830
	441,707	386,109

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 7 (2017 - 6).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2018 £	2017 £
Remuneration for qualifying services	208,500	206,625
Company pension contributions to defined contribution schemes	25,313	25,078

7 Interest receivable and similar income

	2018	2017
	£	£
Interest income		
Interest on bank deposits	51,862	15,550

8 Change in value of investments

	2018	2017
	£	£
Fair value gains/(losses) on financial instruments		
Change in value of investments	(93,936)	164,816

9 Taxation

	2018	2017
	£	£
Current tax		
UK corporation tax on profits for the current period	9,853	2,993
Adjustments in respect of prior periods	-	6,188
Total current tax	9,853	9,181
Deferred tax		
Origination and reversal of timing differences	(7,507)	5,819
Total tax charge	2,346	15,000

The charge for the year can be reconciled to the (loss)/profit per the income statement as follows:

	2018	2017
	£	£
(Loss)/profit before taxation	(2,779,474)	3,188,173
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19% (2017: 20%)	(528,100)	571,121
Adjustments in respect of prior year	-	6,188
Deferred tax charge on investment gain	(7,507)	5,819
Exempt actvity	537,953	(568,128)
Taxation charge for the period	2,346	15,000

The company is liable to corporation tax on its investment income but is exempt from corporation tax on its Alternative Dispute Resolution activities, which are not considered to be trading activities for the purposes of taxation.

10 Intangible fixed assets

	Software
	£
Cost	
At 1 January 2018	2,471,979
Additions	1,084,847
Disposals	(734,504)
At 31 December 2018	2,822,322
Amortisation and impairment	
At 1 January 2018	1,767,591
Amortisation charged for the year	192,375
Disposals	(734,504)
At 31 December 2018	1,225,462
Carrying amount	
At 31 December 2018	1,596,860
At 31 December 2017	704,387

Additions of £1,084,847 relate to the development of a new software platform. As the software platform is still in the development phase, it has not been amortised.

11 Tangible fixed assets

	Leasehold improvements	Assets under construction	Fixtures, fittings and office equipment	Computer equipment	Total
	£	£	£	£	£
Cost					
At 1 January 2018	-	-	3,257,504	2,079,717	5,337,221
Additions	264,120	83,863	65,630	97,255	510,868
At 31 December 2018	264,120	83,863	3,323,134	2,176,972	5,848,089
Depreciation and impairment					
At 1 January 2018	-	-	1,622,685	1,743,481	3,366,166
Depreciation charged in the year	26,857	-	562,786	205,699	795,342
At 31 December 2018	26,857	-	2,185,471	1,949,180	4,161,508
Carrying amount					
At 31 December 2018	237,263	83,863	1,137,663	227,792	1,686,581
At 31 December 2017	-	-	1,634,819	336,236	1,971,055

12 Fixed asset investments

	2018 £	2017 £
Listed investments	3,080,211	3,174,147
Listed investments carrying amount	3,080,211	3,174,147

The company has not designated any financial assets that are not classified as financial assets at fair value through surplus or deficit.

Movements in fixed asset investments

	Investments other than loans £
Cost or valuation	
At 1 January 2018	3,174,147
Valuation changes	(93,936)
At 31 December 2018	3,080,211
Carrying amount	
At 31 December 2018	3,080,211
At 31 December 2017	3,174,147

13 Financial instruments

	2018 £	2017 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	2,704,520	4,015,380
Equity instruments measured at cost less impairment	3,080,211	3,174,147
Carrying amount of financial liabilities		
Measured at amortised cost	4,994,466	5,518,830

14 Debtors

	2018 £	2017 £
Amounts falling due within one year:		
Service charges due	2,704,520	4,015,380
Prepayments and accrued income	1,083,991	1,127,144
	3,788,511	5,142,524

15 Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	824,336	1,413,542
Corporation tax	9,854	18,872
Other taxation and social security	885,245	899,039
Other creditors	136,392	183,525
Accruals and deferred income	2,308,687	1,945,041
	4,164,514	4,460,019

16 Creditors: amounts falling due after more than one year

	2018 £	2017 £
Accruals and deferred income	1,725,051	1,976,722

17 Provisions for liabilities

	Notes	2018 £	2017 £
Onerous contract		789,840	777,600
Dilapidations provision		410,799	379,599
		1,200,639	1,157,199
Deferred tax liabilities	18	-	7,507
		1,200,639	1,164,706

Movements on provisions apart from retirement benefits and deferred tax liabilities:

	Onerous contract £	Dilapidations provision £	Total £
At 1 January 2018	777,600	379,599	1,157,199
Additional provisions in the year	12,240	31,200	43,440
At 31 December 2018	789,840	410,799	1,200,639

18 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

Balances:	Liabilities 2018 £	Liabilities 2017 £
Gain on investments	-	7,507

19 Retirement benefit schemes

Defined contribution schemes	2018 £	2017 £
Charge to profit or loss in respect of defined contribution schemes	679,035	660,938

The company provides a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

20 Members' liability

The company is limited by guarantee, not having a share capital and consequently the liability of members is limited, subject to an undertaking by each member to contribute to the net assets or liabilities of the company on winding up such amounts as may be required not exceeding £1.

21 Operating lease commitments

Lessee
At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £	2017 £
Within one year	860,000	860,000
Between two and five years	3,440,000	3,440,000
In over five years	2,580,000	3,440,000
	6,880,000	7,740,000

22 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, comprising the Non-Executive Directors and the Senior Executive team, is as follows.

	2018 £	2017 £
Aggregate compensation	1,480,727	1,266,726

Included in the above are payments of £15,000 to the non-executive directors in post for the full year, £8,750 to the non-executive directors who resigned during the year and £45,000 (2017:£45,000) to the Chair.

The remuneration of key management personnel is set by the Remuneration Committee and is benchmarked against remuneration of similar sized companies according to data provided by Towers Watson.

23 Cash generated from operations

	2018 £	2017 £
(Deficit)/surplus for the year after tax	(2,781,820)	3,173,173
Adjustments for:		
Taxation charged	2,346	15,000
Investment income	(51,862)	(15,550)
Amortisation and impairment of intangible assets	192,375	302,050
Depreciation and impairment of tangible fixed assets	795,342	819,607
Amounts written off investments	93,936	(164,816)
Increase in provisions	43,440	707,102
Movements in working capital:		
Decrease/(increase) in debtors	1,354,013	(203,917)
(Decrease) in creditors	(538,158)	(547,050)
Cash (absorbed by)/generated from operations	(890,388)	4,085,599

Ombudsman Services

0330 440 1614
Partners.Ombudsman-Services.org
Ombudsman-Services.org