

The Pensions Ombudsman and
Pension Protection Fund Ombudsman

annualreport &accounts

2007/2008

The Pensions Ombudsman's Accounts are presented to Parliament by the Secretary of State for Work and Pensions in pursuance of section 145(9) of the Pension Schemes Act 1993.

The Pension Protection Fund Ombudsman's Accounts are presented to Parliament by the Secretary of State for Work and Pensions in pursuance of section 212A of the Pensions Act 2004.

Ordered by the House of Commons to be printed 17 July 2008.

About Us

The Pensions Ombudsman

The Pensions Ombudsman's office investigates and determines complaints and disputes concerning occupational and personal pension schemes. The Pensions Ombudsman and Deputy Pensions Ombudsman are appointed by the Secretary of State for Work and Pensions. They act independently and impartially and their decisions are final and binding (subject to appeal to the courts on a point of law) and enforceable in the courts. The establishing legislation is Part X of the Pension Schemes Act 1993.

The Pension Protection Fund Ombudsman

The present holders of the posts of Pensions Ombudsman and Deputy Pensions Ombudsman have also been appointed Pension Protection Fund Ombudsman (**PPFO**) and Deputy PPFO. In this capacity they deal with complaints and "reviewable matters" connected with the Pension Protection Fund (a statutory corporation) and appeals against decisions of the Financial Assistance Scheme (operated by the Department for Work and Pensions (**DWP**)). The PPFO's functions are carried out by staff of the Pensions Ombudsman's office. The establishing legislation is sections 209 to 218 of the Pensions Act 2004.

Funding

The joint office is funded by grant-in-aid paid by DWP. The grant-in-aid is substantially recovered from the general levy on pension schemes that is invoiced and collected by the Pensions Regulator. The levy is set by and owed to the Secretary of State for Work and Pensions.

In 2007/08 the office received £2,823,000 grant-in-aid, incurred net expenditure of £2,666,269 and had net assets at 31 March 2008 of £351,225.

© Crown Copyright 2008

The text in this document (excluding the Royal Arms and other departmental or agency logos) may be reproduced free of charge in any format or medium providing it is reproduced accurately and not used in a misleading context.

The material must be acknowledged as Crown copyright and the title of the document specified. Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: licensing@opsi.gov.uk

ISBN:978 0102956450

Contents

5	Section 1:	Introduction
9	Section 2:	Pensions Ombudsman Casework Review
	2.1	Managing the Caseload
	2.2	Subject Matter
	2.3	Appeals to the Courts
32	Section 3:	Pension Protection Fund Ombudsman Casework Review
	3.1	Pension Protection Fund (PPF)
	3.2	Financial Assistance Scheme (FAS)
37	Section 4:	Other Activities
38	Section 5:	Management Commentary
	5.1	Staff
	5.2	IT
	5.3	Complaints about us
	5.4	Social and Community Issues
	5.5	Risks and Uncertainties
	5.6	Key Performance Indicators
	5.7	Accounting
41	Section 6:	Remuneration Report
44	Section 7:	Statement of Accounting Officer's Responsibilities
45	Section 8:	Statement on Internal Control
47	Section 9:	Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament
50	Section 10:	Accounts
63	Section 11:	Accounts Direction
64	Appendix:	Summary of Business Plan 2008/09

Pensions Ombudsman and
Pension Protection Fund Ombudsman

annualreport

2007/2008



Tony King

Pensions Ombudsman
Pension Protection Fund Ombudsman

Introduction

I am delighted to introduce the Annual Report of the Pensions Ombudsman and the Pension Protection Fund Ombudsman for the year 1 April 2007 to 31 March 2008. As well as fulfilling statutory accounting obligations, this document constitutes my statutory reports to the Secretary of State for Work and Pensions on the discharge of my functions.

It was with great pleasure, mixed with a feeling of honour – and no little trepidation, given the previous occupants – that I took up the position of Pensions Ombudsman (and Pension Protection Fund Ombudsman) on 1 September 2007. For the first five months of the reporting year my predecessor, David Laverick, was in post so this report covers the activities of the office under our successive stewardship. I would not wish to claim the achievements of the year for myself.

I spent my first months finding out for myself the detail of what we were doing and how we were doing it – and, importantly, concentrating on the casework objectives that had already been set for the year. I am especially grateful to the Deputy Pensions Ombudsman, Charlie Gordon, who also acts as the casework director, for his support and assistance at that time.

Those preordained objectives turned out to be tougher than I imagine anyone expected when they were set, particularly as the year has been unusually eventful for the office and its staff. A change of ombudsman might be thought challenge enough, but there have also been the following, in no particular order: the change from central DWP funding to grant-in-aid on 1 April 2007, a new case and document management system – implemented on the same day that I arrived and still not bedded in (in spite of best efforts), the decision by Ministers that the office should at some point in future be merged with the Financial Ombudsman Service and an electrical fire that all but closed the office for a month. The achievements of the year are substantially due to the commitment and dedication of the staff in the face of significant difficulties.

One of those difficulties was the continuing burden of the backlog of casework that the office has carried for a number of years. I am delighted to be able to report good progress in reducing the workload of older cases. The headline figures contain some distorting anomalies, but the underlying trend is highly positive.

It is not all good news though. We did not reduce the backlog of old cases as much as we would have liked to – and we are carrying forward more cases than originally projected. In part that is as a result of the disruptions mentioned above. In part it is due to unpredictable anomalies. But it may also be that, valiantly, we aimed too high in the first place.

This is not the place for me to describe in any detail what we intend to do to tackle the challenges that we carry forward into 2008/09. For the first time, this year we have published our business plan on our website, the main points of which are set out in the appendix to this report. For this introduction, it is enough to say that we have in place a robust plan of action and some testing but achievable targets.

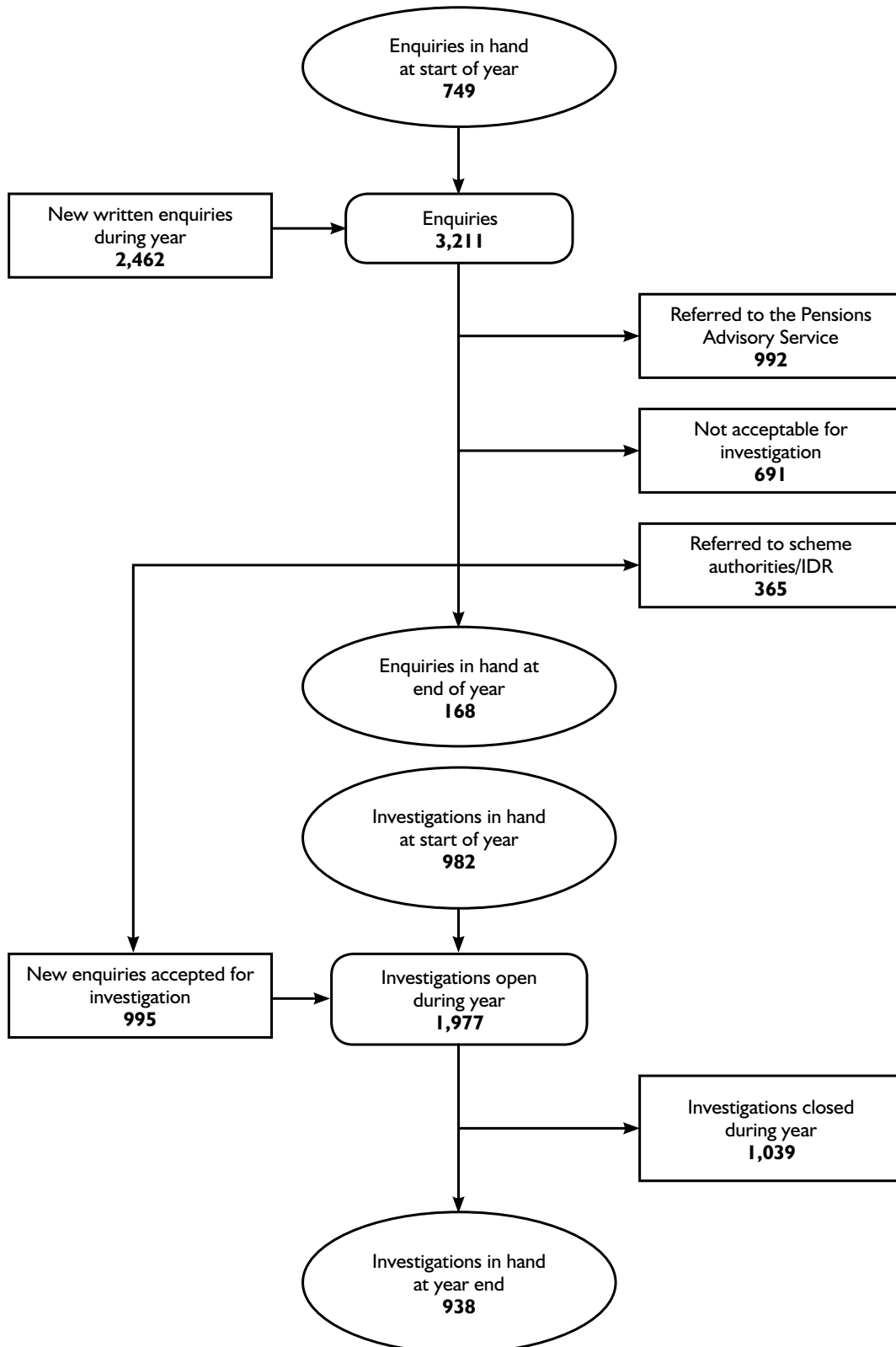
Our core business is of course deciding complaints and disputes. We see the world through the eyes of those with problems and misunderstandings, some justified, others not. It is worth reminding readers that the picture we see, and present in this report, is inevitably distorted by the job we do. And sometimes we need to remind *ourselves* of that too. A feature of our work is that more often than not, at least one party is unhappy with the outcome of it. But even when we cannot make people happy with the end result, we should make the experience of getting to it no more arduous or unpleasant than it need be. So we have started work in a number of areas, intending to address the way we deal with people and the way they deal with us, focussing on access, communication and efficiency.

For that work in future, and in particular as far as this report is concerned, for their considerable efforts in 2007/08, I am indebted to the office's staff. (And in that I am sure that I also speak for David Laverick in relation to the period of his tenure.) Their contributions and continuing support are invaluable.



Tony King
Pensions Ombudsman
Pension Protection Fund Ombudsman
23 June 2008

Pensions Ombudsman investigation flow chart 2007/08





Charlie Gordon

Deputy Pensions Ombudsman and
Deputy Pension Protection Fund Ombudsman

Pensions Ombudsman Casework Review

2

2.1 Managing the Caseload

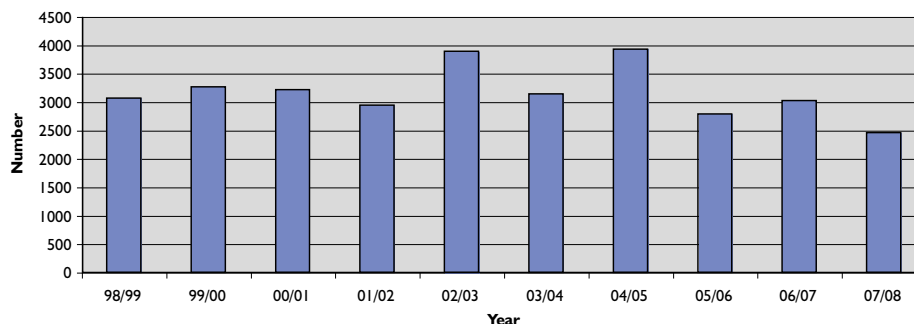
We subdivide our casework into “enquiries” and “investigations”. Broadly speaking, our “enquiries” work starts with the initial written contact with people (who think they have something we can help them with). It ends when we have directed them elsewhere, are unable to help them at all (happily quite rarely), or have decided that the issue is something we can and should investigate. Our “investigations” work relates to complaints and disputes that are within jurisdiction – all of which will have been enquiries immediately before we decided to take them on for investigation.

Enquiries

Number of enquiries

Our enquiries come from a range of sources. Scheme booklets and the formal internal dispute resolution procedure are required to explain that we can deal with complaints and disputes. Commonly, people are referred to us by other organisations, for example, the Pensions Advisory Service (**TPAS**) or the Financial Ombudsman Service. Or they may find us directly, for example, via our website.

Figure 1: New enquiries (last 10 years)



The number of initial enquiries fell in 2007/08 to 2,462 (3,023 in 2006/07). In fact, with anomalies removed, the underlying trend has been downward for the past three years from a peak in 2004/05. There is not any obvious reason – and indeed there may not be any great statistical significance. There are probably at least 30 million people with pension rights about which a complaint would be within the Pensions Ombudsman’s jurisdiction. A shift of a few hundred here or there in the number out of that 30 million who metaphorically knock on our door may not mean much.

But if forced to guess at a reason for the reduction, then among possible influences might be that many of the smaller defined benefit schemes that were being wound up (with attaching delays and disputes) now have been. Also, the Pension Protection Fund and the Financial Assistance Scheme are now able to deal with those people whose pension rights have been dramatically affected by funding deficits and insolvent employers. Formerly they might have come to the Pensions Ombudsman. Finally, the membership of defined benefit schemes is decreasing. Whatever the arguments about the relative merits of defined benefit versus defined contribution in relation to risk, income replacement and so on, defined contribution schemes are simpler and there is just less, administratively speaking, that can go wrong.

There may be more mundane reasons too. The average number over the last ten years is 3,173. In many years that figure has included one or more groups of related enquiries – complaints about treatment of part timers for example, or issues in single schemes affecting several hundred members. In 2007/08 there were no such groups; next year there may be.

Dealing with enquiries

At the start of the year we had 749 enquiries in hand. So in the year there were 3,211 to be dealt with.

Telephone enquiries are mainly passed automatically to TPAS. For that reason we do not include them in our statistics.

TPAS has, ever since the Pensions Ombudsman's office was established in 1991, been intended to be the first port of call for people with pension problems, rather than the Ombudsman. Consistently with that, the Pensions Ombudsman has always expected that there should be an attempt to resolve an issue before the office will deal with it. Directing people to TPAS, with their ability to explain and mediate, helps ensure that we are not involved unless we need to be. So as well as most telephone enquiries, about a third of the written enquiries dealt with in a particular year are referred to TPAS – a proportion that has been remarkably consistent over the years.

The second most common reason for not taking on an enquiry to the next stage of assessing whether the matter should be investigated is that the person concerned has not used the pension scheme's formal dispute resolution procedure, or otherwise tried to resolve the matter with whoever they think is at fault. It is a statutory requirement that where the dispute resolution procedure applies, the scheme member must try to use it.



Taking the two together, what this means is that we typically turn away just under half (44%) of the enquiries we deal with, in the expectation that many will not need to come back to us. On average, in the last five years we referred around 1,300 enquiries to TPAS or the scheme authorities for mediation, explanation or resolution. And on average we actually accepted 1,075 new investigations; a significant proportion of which will not have been to us before. So this rough test indicates that the policy of referring enquiries for resolution elsewhere is justified.

In one way or another we dealt with 3,043 enquiries during the year, leaving work in hand of 168 (substantially down from the 749 at the start of the year). Figure 2 gives the breakdown of what happened to them.

Figure 2: Dealing with enquiries

Reason	2007/08	%	2006/07	%
Accepted for investigation	995	32.7	702	27
Complainant outside jurisdiction	90	3.0	10	0.4
Discretion not to investigate exercised	20	0.7	9	0.3
Enquiry abandoned/no action needed	302	9.9	315	12.1
Enquiry not yet put to scheme/IDRP not used	365	12.0	229	8.8
Not relating to pension scheme/plan	11	0.4	8	0.3
Outside time limits	91	3.0	57	2.2
Protective complaint	6	0.2	16	0.6
Referred to financial advisor	0	0.0	2	0.1
Referred to FSA or FOS	70	2.3	91	3.5
Referred to Pensions Scheme Registry	12	0.4	43	1.7
Referred to the Pensions Advisory Service	992	32.6	1,015	39.1
Referred to the Pensions Regulator	0	0.0	6	0.2
Respondent not in remit	9	0.3	15	0.6
State scheme benefits	68	2.2	67	2.6
Subject to prior court proceedings	12	0.4	8	0.3
Total	3,043		2,593	

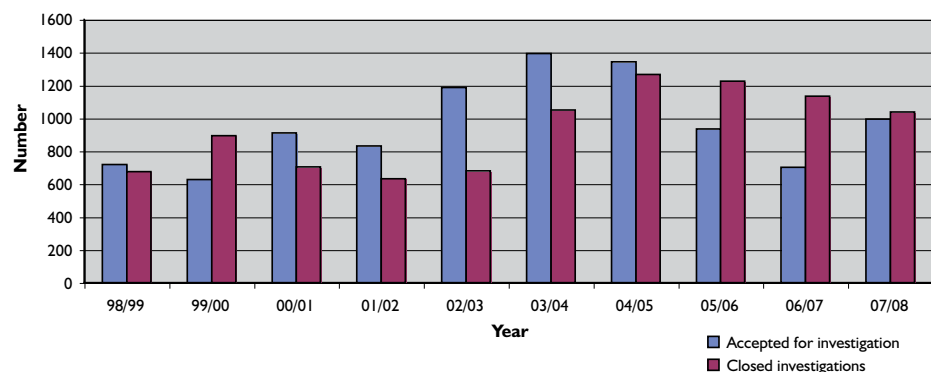
Investigations

Investigation numbers

In the year, 995 cases were accepted for formal investigation. This compares with 702 in 2006/07. However, not too much should be read into that. A group of 256 related cases (all concerning the same subject matter) was taken on for investigation in the year. Stripping out that anomaly there has not been a significant increase.

Overall, in fact, the number of complaints and disputes needing to be investigated has been falling in recent years, as Figure 3 indicates. Our guesses as to the cause would be the same as under the “Enquiries” heading, but as with enquiries there is no obvious reason for the decline and the statistical significance, if any, is uncertain.

Figure 3: Comparison of cases accepted for investigation and closed investigations (last 10 years)



At the start of the year there were 982 investigations in hand, so there were 1,977 cases that were open during the year.

Dealing with investigations

Some cases go through a full, formal investigation leading to a determination by the Pensions Ombudsman or the Deputy Ombudsman. Others can be dealt with more simply (and quickly) by the office’s investigators who will mediate where possible or, in appropriate cases, tell one or both parties what their expectation is of the outcome if it did reach one of the ombudsmen. Presently this only happens when the complainant is not expected to succeed, or where the compensation is likely to be only a small payment to compensate for distress or inconvenience. If the parties wish then the complaint can still go forward to one of the ombudsmen, who may agree with the caseworker’s view (in which case a relatively short letter can be written as a final determination) or may order further investigation, perhaps leading to a longer, more formal determination.



Figure 4: Investigation closures

Method of closure	2007/08	%	2006/07	%
Investigator's decision accepted	162	15.6	291	25.7
Resolved	161	15.5	212	18.7
Discontinued	109	10.5	93	8.2
Determined following investigator's decision	199	19.1	210	18.5
Determined	408	39.3	327	28.9
Total	1,039		1,133	

During the year we closed 1,039 cases. This was more than the number taken on (as it has been for recent years – see Figure 3). So the number of cases in hand fell from 982 to 938. But those 938 include the group of 256 similar cases taken on during the year and mentioned earlier. The underlying figure is nearer 700, representing a significant improvement in work in hand.

Age of cases

We measure the age of an investigation not from the date that we decide it should be investigated (an internal matter of little interest to the parties) but from the date that we received an application that was capable of being accepted for investigation. So we include the time that we spend making sure that the matter is within jurisdiction and that we understand clearly “what is at issue”.

We have made strenuous efforts to reduce the age of investigations. An almost inevitable side effect of dealing with our older cases is that the age of investigations at closure looks high. As Figure 5 shows, the percentage of cases closed within 6 months has fallen. The other reason for this is that, as already mentioned, we have taken on fewer cases for investigation recently, so there are simply not as many “new” cases to deal with.

Figure 5: Age of investigations closed

Age of investigations	2007/08	%	2006/07	%
Less than 6 months	291	28	486	43
6 months to 1 year	286	28	190	17
Longer than 1 year	462	44	457	40
Total	1,039		1,133	

Our efforts to reduce the older cases are succeeding. At the beginning of the year we had 512 cases that were over a year old. That included a group of 71 related complaints. At the year end there were 458 cases over a year old, which included two groups of related complaints totalling 289. So the underlying trend, taking out anomalies, is that the number of cases over a year old has fallen from 441 to 169.

2.2 Subject Matter

The previous section gives raw statistics for the complaints and disputes that we dealt with in the year. But the reality is that in each there was an issue that at least one of the parties found important enough for them to take through the relatively burdensome steps of attempting to resolve it before it got to us, and then to persevere while we dealt with it.

We collate information on the subject matter of complaints. However, the way we do that is not particularly scientific; it cannot be. Many complaints cover a range of overlapping issues. We choose (with inevitable subjectivity) the category that in our view best describes it. And we have been using the same descriptions for many years; some that once seemed likely to be important no longer are.

Most importantly, the percentages should not be taken to say anything about the quality of administration in any of the subject areas. Just as relevant as the scope for a problem to arise is the relative importance of the issue to the parties. So, for example, a high percentage of cases relate to ill health early retirement applications because the scheme member's income for the rest of their life is at issue at a time of stress, and there are difficult matters of judgement and assessment of medical evidence involved rather than clear cut facts.

Figure 6: Subject matter of closed complaints

Subject	2007/08	%	2006/07	%
AVCs	54	5	44	4
Calculation of benefits	145	14	111	10
Contributions refunds and queries	39	4	47	4
Spouse's and dependants' benefits	38	4	27	2
Disclosure of information	0	0	5	0
Early retirement pension	45	4	53	5
Enhancement of pension	10	1	8	1
Equal treatment	11	1	2	0
Ill-health pension	151	14	126	11
Incorrect/no payment	44	4	15	1
Membership conditions	18	2	28	2
Misleading advice	33	3	58	5
Non-response from scheme	0	0	4	0
Preservation	4	1	2	0
Transfers	114	11	158	14
Winding up	37	4	169	15
Other	296	28	276	24
Total	1,039		1,133	



General observations

The cases that we deal with can be about very human, sometimes tragic, circumstances – or they can involve relatively dry points of law – and sometimes both. The examples that follow, in no particular order, are chosen to give a flavour of what we deal with rather than on any scientific basis. They are real cases, but sometimes simplified for the sake of brevity and/or to illustrate the point being made. Partly because of that we have made it so that the parties cannot be identified. However, all full determinations are published on our website.

Mediation

Sometimes (as explained in 2.1) we are able to mediate a solution. In many cases this will not be possible as the parties will usually have tried unsuccessfully to resolve the dispute, often with the assistance of the Pensions Advisory Service. However, in suitable cases we will try to find a mediated outcome and we can do that without losing independence, whilst of course retaining the ability to go towards a formal determination if that is necessary. This may involve asking both parties to shift their positions, as the following example illustrates.

Policyholder misinformed about market value adjustment

The complaint

Mr A had deferred his pension benefits past his normal retirement date. He was led to believe by the policy provider that during the period of deferment his benefits would not attract a market value adjustment if he decided to transfer to another provider.

Mr A transferred his benefits but discovered that a market value adjustment of £1,778 had been deducted from the transfer value.

Conclusion

We asked the policy provider to reconsider its stance, as we agreed that Mr A had been mis-informed that his transfer value would be free from an adjustment, and this amounted to maladministration. The policy provider offered to refund the market value adjustment plus interest, a total of £1,842.

Mr A remained unhappy because he wanted lost investment growth to be allowed for.

It was explained to Mr A that the offer to refund the market value adjustment with interest was a reasonable outcome. Mr A agreed to accept the offer and the complaint was resolved without the need for a formal determination.

Ill-health cases

As mentioned above, many of the cases we see involve ill-health benefits. These will often be contentious not only because the benefits concerned will sometimes start at a relatively early age and therefore be very valuable and expensive, but there will sometimes be conflicting medical evidence involving very difficult and sensitive issues, such as whether a condition is likely to be permanent. In dealing with these cases we have to acknowledge that we, often in common with those deciding on entitlement, are not medical experts.

Ill-health early retirement

The complaint

Mr B had been on sick leave for over a year. He claimed ill-health early retirement benefits. The rules of the scheme of which Mr B was a member said that, to be entitled to such benefits, the member had to be permanently incapable through illness or injury of carrying out his own duties or any other duties which the trustee considered suitable for him.

Mr B had been a platform attendant and, whilst it was accepted that he could no longer fulfil that role, he was told that he could undertake sedentary work such as in an office or call centre, and his application was refused.

Conclusion

Although in reaching that conclusion, proper medical advice had been sought and the correct rule applied, there was nothing in the decision to show that any regard had been given to why such sedentary positions were “suitable” for Mr B. Accordingly the matter was remitted to be reconsidered.



Backdating of ill-health pension

The complaint

Mr C's contract of employment was terminated in July 2003, but he was refused an ill-health pension as his condition was said not to be permanent as the scheme rules required, because it was unclear whether as yet untried treatments would be effective.

Subsequently in January 2004, once all treatments had proved unsuccessful, his condition was said to be permanent. The benefits to which he was then entitled were less than would have been the case if his condition had been permanent in July 2003.

Entitlement to the enhanced benefits depended on when Mr C's condition had "become" permanent. Mr C produced a consultant's report indicating that it was now clear that his condition had been permanent in July 2003.

Conclusion

There was no evidence that the decision in the case of *Spreadborough v Pensions Ombudsman* [2004] 34 PBLR had been considered. That case confirmed that, where the scheme rules, as here, involved a test of when somebody had "become" permanently incapable, once it was accepted that they were so incapable, it had to be considered at what date that had first been the case.

In the light of later medical evidence, once all treatments had proved unsuccessful, proper consideration should have been given to whether Mr C's condition had indeed already become permanent in July 2003. That had not happened and the matter was remitted for that question to be properly addressed.

Cases about discretionary death benefits

Most private sector pension schemes, and some public sector ones, provide for the distribution of a lump sum on death at the discretion of the trustees. This long standing practice is designed to avoid benefits becoming part of the deceased's estate and so being taken into account for inheritance tax purposes. But it can present trustees with difficult decisions in very sad circumstances which often involve family conflict.

Our approach in such cases is to consider whether the trustees have acted in accordance with their powers, have taken into account the relevant (and no irrelevant) factors and not reached a perverse conclusion.

Perversity of trustee's decision

The complaint

When Ms D joined the scheme, eight years earlier, she had completed an "expression of wish" form nominating Mr E, with whom she had lived for 15 years, to receive the lump sum payable at the discretion of the trustee company on her death.

By 2004, Mr E and Ms D jointly owned two properties because Ms D had taken a job some distance away from the home she shared with Mr E. They lived apart some of the time as a result. Their relationship was in difficulty and Ms D took her own life. As well as the lump sum, a dependant's pension was payable if the trustee determined that Mr E was dependent in whole or part on Ms D when she died.

The trustee asked Ms D's employer to obtain certain information from Mr E, such as details of joint bank accounts and joint names on the property deeds. Mr E provided details of the joint bank account and also confirmed to the employer that he and Ms D had been partners for 20 years and had lived together for 15 years.

Ms D's parents were also asked for comments and information. They provided details of their financial circumstances and said that in her final letter to them Ms D had said that Mr E's wish to end their relationship was the reason for her suicide. Her sister repeated that evidence.

The trustee decided that at the time of Ms D's death, the relationship no longer existed. No dependant's pension would be paid, and in due course, after Mr E had pursued the matter and had explanations of the decision, the lump sum was divided between Ms D's parents and her sister. Mr E complained that the decision was perverse, contrary to the rules, and that he had not been given sufficient reasons or an opportunity to comment before the decision was made.

Conclusion

The complaints were not upheld. The trustee had, under very difficult circumstances, arrived at a decision both in relation to the pension and lump sum which could not possibly be said to be perverse. The decision as to dependency was based on a correct reading of the rules and took proper matters into account. Although there were shared finances, Mr E's circumstances were not typical of the recipient of a dependant's pension who would usually have lost a source of financial support. The explanation and opportunity to comment given to Mr E was sufficient.



Eligibility to receive death benefits

The complaint

Mr F had worked for his employer for a number of years when he was the victim of a murder. When he had entered the UK he had applied to the Home Office for leave to remain here, but had been refused; he had not, however, left as ordered. It was accepted that he was in the UK illegally although his employer had not checked his immigration status.

Although Mr F had joined his employer's pension scheme which entitled his dependants to a pension and lump sum on his death, this was refused as he was in the UK illegally. His employer did eventually agree to refund Mr F's contributions to his estate.

Mr F's family argued that, as he had joined the pension scheme and contributed to it, they were entitled to dependants' benefits on his death.

Conclusion

The complaint was not upheld. Mr F's employment contract was illegal, and thus conferred no rights on him, including the right to join his employer's pension scheme. The proper course was for his contributions to be refunded. Although this had eventually happened, the delay had caused considerable distress and Mr F's employer was directed to pay £500 to Mr F's estate in recognition of the upset caused.

Distribution of death benefits

The complaint

Mr and Mrs G had been married for over 30 years and had two adult daughters. However, Mrs G had moved out of the matrimonial home and some time afterwards Mr G died, leaving no will.

Mr G's pension scheme provided death benefits and Mr G had completed an "expression of wish" form some time previously naming Mrs G as beneficiary in respect of all such benefits.

In order to inform the trustees' decision about who was entitled to the benefits, the scheme manager obtained information about the family circumstances from Mrs G, her daughters, and Mr G's sister. There was, however, conflicting information about the length of separation, who was or was not dependent on Mr G, and whether the "expression of wish" form reflected Mr G's wishes at the time of his death.

A report compiled for the trustees recommended that the benefits were paid equally to Mr G's daughters, but did not reflect any inconsistency of evidence. When the trustees followed that recommendation, Mrs G complained that the trustees had not exercised their discretion properly.

Conclusion

It was apparent that the trustees had not themselves seen the evidence obtained, and were thus not aware for example that neither daughter considered herself dependent on their father. There had been no attempt to test any of the inconsistencies in the evidence supplied and, as they were not aware of all of the relevant information, the trustees clearly could not have properly taken it into account. The matter was referred back to the trustees to reconsider having full regard to all of the relevant information.



Adjustments to policy benefits

We often receive complaints that a penalty has been applied when a person withdraws funds early from a personal pension arrangement, for example to transfer to a different arrangement. Sometimes the complaint will be that there was no right to impose the penalty, but more often that no warning was given that a penalty would be applied.

Application of a market value adjustment

The complaint

In January 2001, Mr H invested £150,000 in a with profits plan. The plan manager sent all communications about the investment to the plan trustee. The trustee issued annual review packs to Mr H and said that all statements would show withdrawals and charges.

Mr H began taking monthly withdrawals from the plan in August 2001, but it was not until he noticed a discrepancy in December 2003, that it came to light that the plan manager had applied a market value adjustment to each withdrawal. The market value adjustments totalled some £25,000 in all.

There was no dispute that the plan manager had the right to apply the market value adjustment, and they said that the trustee had been informed. The trustee acknowledged that it had first become aware of the market value adjustment in 2001 but the statements issued had made no mention of it.

Mr H complained that, had he known of the market value adjustment, he could have continued working and so avoided withdrawals until the market value adjustment ceased to apply.

Conclusion

The plan documentation suggested that a member would be advised of charges, including any market value adjustment. It was the trustee's responsibility to inform Mr H about the market value adjustment and it had failed to do so.

However, it was not accepted that Mr H would have been able to arrange his affairs so as to avoid totally making any withdrawals, so he would have had to incur some of the market value adjustment.

The trustee was directed to pay Mr H 50% of the market value adjustment (£12,500), together with £250 for the resulting distress and inconvenience.

Delays

Although it will often only be a subsidiary part, many of the cases we see involve complaints about things taking too long. Sometimes this will just be taking too long to sort things out when they've gone wrong; but there will also be cases where, because of a rapidly moving investment market, there are claims that substantial sums have been lost when matters have not been dealt with expeditiously.

Delay in payment of transfer value

The complaint

Mr I wished to transfer his pension fund to a new provider and claimed that as a result of delays, combined with equity prices advancing strongly at the time, he had lost some £15,000. Although the transferor acknowledged some delay, they calculated his loss at only £5,000.

Upon investigation, it transpired that a switch from cash to equities Mr I had requested some time before the transfer had not been carried out. The transferor revised their calculation of Mr I's loss to nearer £9,500.

Mr I remained unhappy, claiming that his loss should be calculated by comparison with the fund operated by a provider who he had originally intended to transfer to but had not eventually done so.

Conclusion

Mr I's loss was to be calculated by using the values of the fund he had actually transferred to, not one he might have switched to with the benefit of hindsight. Mr I could find no other basis for disputing the transferor's calculation and the transferor was directed to pay £10,000, to include £500 for the resulting inconvenience.



Misleading advice/quotations

Whilst it is important that people are kept informed about their pension arrangements, it is vital that the information they are given is correct. The provision of incorrect information about benefits does not automatically confer an entitlement to those incorrect benefits, but there will be circumstances in which people will make life changing decisions based on information provided to them. These can be very difficult cases to deal with, not just because the question of reliance is often far from clear cut, but also because they may involve a person obtaining something over and above their strict entitlement.

Information provided on re-employment in the public sector

The complaint

Mr J was in receipt of a pension and was told by his pensions authority that subsequent employment with the same employer of up to no more than four years, would not affect his pension. Accordingly, he left his new private sector employment and resumed employment with his former employer.

He was told shortly afterwards that the information he had been given was incorrect, and that his pension would be reduced immediately, with retrospective effect backdated to the commencement of his re-employment. He was asked to repay the amounts already paid.

The pensions authority acknowledged that it had given Mr J misleading information and that he had relied upon it, but said that it had no choice but to apply the rules strictly, reduce Mr J's pension and claw back any overpayment.

Conclusion

Although it was accepted that Mr J had been misled and had relied upon the incorrect information, it had also to be recognised that the re-employment was additional pensionable service giving Mr J enhanced benefits when he did come to retire. In addition, Mr J had some responsibility to mitigate his own loss and, if he so wished, to seek alternative employment that would not affect his entitlement.

The pensions authority was directed to waive the overpayment and to restore Mr J's pension to the figure before it was reduced. However, so as not to discourage Mr J from seeking alternative employment, this was to be for a further nine months only to give him a reasonable opportunity to find that other employment.

Provision of incorrect death benefits information

The complaint

Mr K went on sick leave in January 2006 and, having been diagnosed with a brain tumour and told that he had less than a year to live, did not return to work. Shortly afterwards, Mrs K was provided with details of commuted ill-health benefits available to Mr K. Mr K's application was accepted on the same day that he died.

Mrs K was told that she was entitled only to death-in-service benefits whereas Mrs K said she should get the commuted ill-health benefits her late husband had been granted just before he died.

Conclusion

The scheme rules provided that a person was in pensionable employment if they were entitled to be paid their salary or at least half if on sick leave. Mr K had been so entitled at his death and was therefore found to be entitled to death-in-service benefits rather than ill-health benefits.

It was, however, concluded that Mrs K had suffered no injustice, even if it could be shown that she had been misled (which was unclear). Although the commuted pension was larger, it was taxable, whereas the death-in-service lump sum was tax free. Overall, and taking into account a short-term family benefit which would not have been received at the same time as a commuted pension, Mrs K was no worse off.



Incorrect pension quotations

The complaint

Mrs L was provided with a pension quotation by her employer which was incorrectly calculated on an enhanced redundancy basis. Having decided to retire, she was given correct figures which showed her pension to be some £800 per annum lower than she had been told.

Mrs L claimed that she had relied upon the higher figure when deciding to retire.

Conclusion

In deciding to retire some five years early, Mrs L's income had dropped from around £40,000 to nearer £10,000. There was nothing to suggest that Mrs L had made any attempt to reverse her decision to retire when she was given the correct information, or sought alternative part-time employment.

Given the financial sacrifice Mrs L was making in deciding to enjoy early retirement, it seemed highly unlikely that an error of around £800 would have been significant enough to have led her to change her mind. It was decided therefore that Mrs L had not relied upon the incorrect information and that she would have taken early retirement in any event. She was however awarded £150 for the resulting distress.

Lack of provision of information

The complaint

Mr M was considering drawing his Self Invested Pension Plan (**SIPP**) benefits around March 2004, and was keen to maximise the tax-free lump sum facility. The trustee and administrator of his SIPP informed Mr M that there were likely to be taxation changes in April 2006, but did not inform him that one of these would likely mean that Mr M could take a tax-free lump sum around £60,000 larger.

A few months after commencing draw down, Mr M found out about the change and tried to reverse his decision, claiming that, had he been told of the likely change he would have waited to take advantage of the higher lump sum.

Conclusion

The failure to mention the change to the treatment of the tax-free lump sums was found to be maladministration and that, on the balance of probabilities, had Mr M's attention been drawn to the change, he would have decided to defer drawing his pension until after April 2006.

However, calculating Mr M's loss was not straightforward. It was clearly not simply the tax on the additional £60,000 tax-free lump sum. Against that had to be set the fact that Mr M had benefited from drawing his pension sooner, and that, had he deferred, his pension, albeit taxable, would have been greater. It had also to be taken into account that Mr M might well have incurred some tax liability on any additional investment income generated on the £60,000 and that he would have had to use other resources in the meantime. In the interests of reaching a swift and pragmatic conclusion, and taking all these factors into account, it was directed that a payment was made to Mr M of £13,500. Mr M had struggled for some time to resolve this matter which had clearly caused considerable distress and inconvenience and, in recognition of that, an additional payment of £500 was also directed.



Recovery of overpayments

When benefits have been overpaid, the person receiving more than their entitlement will normally be expected to repay. It may be appropriate to allow them to repay over a period of time, possibly quite a long period depending on the amount involved. However, the person in receipt of the extra benefit may genuinely not have realised they were being overpaid, and may, exceptionally, have done something with the money which they would not otherwise have been able to afford. In that situation, they may have a defence against recovery of the overpayment. These can be controversial cases because it is quite unusual for somebody to be able to profit in this way from another's mistake.

Delay in implementing a pension sharing order

The complaint

Mr N and his wife were in the process of getting divorced and, whilst a pension sharing order was being finalised, Mr N agreed to pay voluntary maintenance payments of £335 each month. Shortly after the divorce was finalised, the pension sharing order – giving Mrs N 38% of Mr N's pension – was ratified, in March 2004. However, although Mr N did everything required of him promptly, his pension provider continued to pay him his full pension, and he continued to make the voluntary maintenance payments, until January 2005. He was then told that, because the effective date of the pension sharing order was March 2004, his pension should have been reduced sooner and he had been overpaid around £3,000.

Although the pension provider agreed to recover the overpayments over a four year period, and offered £150 in recognition of the distress and inconvenience caused, Mr N was unhappy as he blamed his provider for the delay and he had continued to make the maintenance payments.

Conclusion

It was accepted that the pension provider had four months from the effective date of the pension sharing order (or later if they were awaiting information) in which to implement it. It was decided that, but for their delays, the provider would have implemented the pension sharing order by 31 August 2004.

Mr N was unable to recover the maintenance payments he had made and the provider was directed to reduce the amount to be recovered by the maintenance payments made between 1 September 2004 and January 2005.

The £150 was considered a reasonable amount in recognition of the distress and inconvenience caused to Mr N.

2.3 Appeals to the Courts

There is a statutory right of appeal on a point of law against a determination of the Pensions Ombudsman or Deputy Pensions Ombudsman. The Pensions Ombudsman's office is of course supposed to be an accessible *alternative* to the Courts. There is an obvious irony in the fact that using the Pensions Ombudsman can bring the parties to the very place that the process was designed to avoid. It is likely to be most strongly felt by complainants, on finding themselves unwilling parties to an appeal and at risk of considerable expense if they participate.

For that reason the first holder of the post, Michael Platt, sought, with some hesitation, to participate in appeals. Turner J (in a preliminary hearing in the first ever appeal) agreed that he should, because:

“...it cannot lightly have been the intention of Parliament to give with one hand and take away with the other the supposed benefits of proceeding under [the legislation]” *Dolphin Packaging Materials Ltd v Pensions Ombudsman* [1995] OPLR 331.

The position was, however, generally accepted to be unsatisfactory. The choice, where a respondent appeals, is between the complainant being unheard or at risk of costs on the one hand, and the decision maker (the Ombudsman) defending his own decision on the other.

Various attempted solutions have failed. In particular, Julian Farrand, the second Pensions Ombudsman, tried writing “Dear Judge” letters attempting to be of assistance to the Court, without risking an award of costs against the office. This was described by the Court of Appeal (*Seifert v Pensions Ombudsman* [1999] PBLR 25) as “a somewhat curious procedure” and in due course was abandoned.

My immediate predecessor, David Laverick, decided that he would not actively participate in appeals unless some issue of importance to the office and its procedures was likely to arise. I intend to maintain a similar position, whilst noting that the arrangements as they stand are unsatisfactory – and of course retaining discretion to take note, in any particular case, of Mr Justice Turner's view of the intention of Parliament.

Figure 7: Appeals heard or made during the year

Appeals outstanding at start of year	New notices of appeal received	Appeals heard during year	Appeals remaining at year end
1	10 (to High Court) 1 (to Court of Appeal)	7 (including the appeal to the Court of Appeal)	3



Two of the new appeals (to the High Court) did not proceed: one settled and the other was discontinued. Appeals heard during the year under report are mentioned below.

The judicial review (of a decision to discontinue an investigation) mentioned in last year's annual report was due to be heard shortly after this report went to print.

***A F Blakemore & Son Ltd v Machin* [2007] EWHC 963 (Ch),
[2007] All ER (D) 22 (May)**

Correct calculation of benefits, trustees found to have wrongly excluded bonuses from pensionable earnings.

Appeal by employer and trustees claiming the then Pensions Ombudsman had erred in law, inter alia, in failing to consider whether the complainants were estopped from claiming that bonuses were pensionable, not holding an oral hearing and in failing to determine that a compromise agreement precluded the applications to the Pensions Ombudsman.

Appeal upheld: compromise agreement extinguished claims against the employer, including claims requiring action by the employer. Issue determined (whether the complainants were aware of an oral agreement to reduce their pension benefits) was not the issue before the Pensions Ombudsman (whether that oral agreement existed). That issue could only properly be decided by an oral hearing. Question of any estoppel should also be reconsidered. Directions set aside and complaint remitted for reconsideration.

***AGCO Ltd and another v Kellaway* [2007] All ER (D) 132 (Jul)**

Entitlement to immediate unreduced early retirement on volunteering for redundancy if aged over 50. Found that Mr Kellaway had retired from service at his employer's request and was entitled to an immediate unreduced pension under the scheme rules (as clarified in 2003 by the Court of Appeal).

Appeal by the former employer on the grounds, inter alia, that the Deputy Pensions Ombudsman had misconstrued the relevant rule and had erred in construing Mr Kellaway's situation as a consensual dismissal (voluntary redundancy).

Appeal upheld: Mr Kellaway's redundancy was compulsory not voluntary.

***Carnegie v NHS London* [2007] All ER (D) 306 (Oct)**

Failure to grant ill health early retirement, not upheld.

Mr Carnegie's appeal dismissed: his employment had come to an end by mutual consent. He had not retired because of physical or mental incapacity and at the time it was not known whether his medical condition meant that he would be permanently unable to return to work.

***Royal Mail Pensions Trustees Limited v Gosling* [2007] EWHC 2871 (Ch)**

Added years. Illustration indicated Mrs Gosling would gain an additional 4 years 183 days' pensionable service in return for contributing an extra 9% of her salary. No indication that as she was part time her additional contributions would be pro rated and purchase less service than was quoted. Found she had entered into a contract with the trustees which should be honoured. Trustees directed to credit her with 4 years 183 days' service (subject to her maintaining her payments).

Appeal upheld: the illustration (and notes) provided did not amount to a contract. The direction (set aside) gave her considerably more than her entitlement under the Plan rules.

***Chittoo v British Telecommunications Plc* [2007] EWHC 2944 (Ch),
[2007] All ER (D) 155 (Dec)**

Refusal of ill health early retirement, not upheld.

Ms Chittoo's appeal dismissed: British Telecom's decision was reasonable. The Pensions Ombudsman had not erred in law, nor had he come to a perverse decision.



***Davies v Meadwestvaco Calmar Ltd (formerly Saint-Gobain Calmer Ltd)* [2008] EWCA Civ 8, [2008] All ER (D) 247 (Jan)**

Several issues including definition of “total emoluments” (by reference to which final salary was calculated). Found that certain emoluments not assessable to UK income tax were not included.

Mr Davies successfully appealed: it could not be implied that certain payments not expressly excluded should be excluded from that definition.

Subsequently, appeal (to the Court of Appeal) by the former employer on several grounds not upheld: if the respondent to an appeal had not issued its own notice of appeal, it was not open to it to challenge findings or directions made; the judge in the High Court was correct to refuse to reconsider findings of fact as opposed to law and in finding that there was no implied term as to whether certain emoluments were pensionable.

***Sampson v Hodgson* [2008] All ER (D) 395 (Apr)**

Initial complaint about failure to grant ill-health benefits. Trustees found to have applied wrong test in considering permanency. Directed to reconsider.

Trustees decided Mr Hodgson entitled to ill-health benefits from 1994. But payment suspended from September 1999 as Trustees considered Mr Hodgson was then fit enough to return to full time sedentary work.

Further complaint that trustees were wrong to suspend his ill-health pension and did so from a date which was not permitted by the Fund Rules (which error the Trustees admitted) upheld. Trustees found to have disregarded relevant evidence and reached a perverse decision.

Appeal upheld: the Deputy Pensions Ombudsman had confused the question of what evidence should be taken into account with what weight was to be given to that evidence, the latter being a matter for the trustees whose decision was not perverse.

Appeals outstanding at year end

Bainbridge v Quarters Trustees Limited (case reference R00568)

Secretary of State for Health v Marshall (case reference Q00471)

Conway Belwell Williams (Forensic Consultancy) Ltd v Leigh Danks, Colin Prosser and Michael Brooke (case reference P01257)

3

Pension Protection Fund Ombudsman Casework Review

The Pension Protection Fund (**PPF**) Ombudsman and Deputy PPF Ombudsman:

- review decisions made by the PPF Board; and
- investigate and determine complaints of maladministration on the part of the PPF.

In addition, although nothing directly to do with the PPF, the PPF Ombudsman and Deputy PPF Ombudsman also:

- determine appeals against decisions made by the manager of the Financial Assistance Scheme (**FAS**). (Complaints of maladministration on the part of the FAS are dealt with by the Parliamentary Ombudsman as the FAS is part of the Department for Work and Pensions.)

3.1 Pension Protection Fund (PPF)

Reviewable Decisions

The PPF Ombudsman can only consider a matter after it has been reviewed by the PPF Board and then been through their Reconsideration Committee.

During the year, we received nine new requests to review decisions. Of these three had either not been through the Reconsideration Committee or were otherwise outside jurisdiction and were rejected. The remainder mainly related to the levy that the PPF imposes on pension schemes.

In all of the five cases concluded, the decision of the PPF was upheld. However, there was a clearly emerging theme, in that a number of the cases related to the PPF's calculation of the levy for 2006–07, which was based on the information held at 31 March 2006, even if that information was subsequently shown not to reflect the true position.

Although the decision in those cases was that the PPF had acted properly in accordance with the legislation, it was observed that, arguably, the effect was not to ensure that the levy truly reflected the risk of the scheme in question being taken on by the PPF. As the Deputy PPF Ombudsman commented in one of these cases:

“...it was with some reluctance that I accept the Board's argument that the information they held as at 31 March 2006 was not “incorrect”. There can be no doubt that the factual position which persisted at that date was markedly different to that adopted by the Board in calculating the levy. It follows that, as [the appellant] rightly points out, if there is an overarching objective of pitching the levy at a level which reflects the true risk of a scheme being taken on by the PPF, that has not been achieved. However, as I have concluded that the Board have correctly applied the legislation, the fact that any such objective may or may not have been achieved is a matter for the legislature.”

The following case study illustrates this point:

Reviewable Matter

The trustees of a scheme were unhappy with the PPF's calculation of the pension protection levy for the scheme for the period 1 April 2006 to 31 March 2007.

The scheme is a multi-employer scheme so that the likelihood of an insolvency event may be assessed in relation to each scheme employer, where the Board of the PPF have received sufficient information on or before 31 March 2006 to make such an assessment. The Board gathered the necessary information via a Declaration of Scheme Structure form or a Participating Employers form, which were annexed to its 2006 Determination setting out how the levy would be calculated.

The scheme had not submitted a Declaration of Scheme Structure form or a Participating Employers form by 31 March 2006. In those circumstances, the levy was calculated by reference to the probability of insolvency of the employer with the most scheme members. The levy would have been lower had the other participating employers been included in the calculation.

The PPF took the information it used in the calculation of the levy from the scheme return submitted in December 2005. The scheme return did not include certain critical information about the scheme, such as the fact that it was a non segregated scheme with neither a requirement nor discretion to segregate on cessation of participation of an employer (known as a last man standing scheme). This information could have been given in the Declaration of Scheme Structure form or a Participating Employers form.

The trustees asked the PPF to review the scheme's levy on the grounds that only one trustee had been aware of the need to submit the appropriate forms and he had left shortly before the March 2006 deadline.

The PPF said that it had no discretion to use the failure score for any other employer associated with the scheme unless a Declaration of Scheme Structure form and/or a Participating Employers form had been submitted by 31 March 2006. The PPF said that there had been ample time for the trustees to ascertain what needed to be done between the individual trustee leaving and the March 2006 deadline and that it would be unfair to other schemes to allow them to submit the information late in these circumstances. It also said that it had taken appropriate steps to publicise its requirements prior to the March deadline.



Conclusion

It was determined that there was some discretion for the PPF to consider information which had been submitted late, where there had been certain specified communication problems, or where the information upon which the levies had been based was incorrect. However, although the factual position at 31 March 2006 was different to that upon which the levy was based, the levy was correctly based on the information held at that time by the PPF. It could not therefore be said that the information was “incorrect” and it was not appropriate to remit the decision for reconsideration.

The PPF was not required to take any action.

Complaints of Maladministration

During the year only one complaint of maladministration was dealt with, and this was not upheld.

3.2 Financial Assistance Scheme (FAS)

During the year, we received three appeals against FAS decisions, and determined that same number. In all cases the FAS decision was upheld. The cases, whilst small in number, fall into two main categories, whether a scheme is eligible to be accepted by the FAS and whether members of such schemes receive the correct entitlement. The following case study illustrates that second category.

The complaint

Mr O appealed against the FAS decision that he was ineligible for an award. To assess whether an award is payable, the FAS calculate 80% of the expected core pension and deduct any benefits that are already in payment, making up any shortfall that then exists. The expected core pension figure is achieved, by revaluing the sum of the GMP and excess over GMP.

The FAS was informed that Mr O was in receipt of an annuity of £3,140.76 a year. Based on information provided by the independent trustee, the FAS calculated Mr O's expected core pension figure to be £5,298.57, 80% of this to be £4,238.85 and an award of £1,098.09 per annum was, therefore, payable.

Mr O complained in June 2007 that he had been provided with a statement of benefits that had indicated a pension of around £8,000 would be payable by the scheme which would have meant much higher FAS awards being made. His complaint prompted a review of his case by the FAS, as the copy statements he had provided revealed that he had also received a lump sum of over £16,000, from the same scheme.

The FAS re-assessed his case using the same expected core pension figure, the same annuity in payment figure, but adding in a notional annuity figure of £1,169.76, in respect of the lump sum. As benefits in payment to Mr O then exceeded 80% of the expected core pension figure, there was no shortfall to be made up by the FAS and no award payable to Mr O.

Conclusion

It was concluded that the FAS calculation was correct and Mr O's appeal was accordingly dismissed.

Other Activities

4

The previous sections of this report concentrated on our casework; that is most of what we do. But there are of course inevitable and necessary ancillary functions.

External affairs

The pensions industry is interested in what we do. We encourage that interest. The better we are understood the more likely it is that pension schemes will settle disputes before they reach us, or if they must reach us then at least the schemes will participate more willingly in the process.

So I have been delighted to accept invitations to talk at a wide range of functions – including the annual conference of the Association of Pension Lawyers, the Pensions Management Institute's Autumn Conference, the Annual Dinner of the Society of Pension Consultants, meetings of groups from the Association of Corporate Trustees, the National Association of Pension Funds and so on. I have also contributed articles when asked and been interviewed for the Pensions Management Institute's webcast, "PMI TV".

Liaison with related bodies

We have strengthened our relationship with the Pensions Advisory Service. They make an important contribution to dispute avoidance and resolution (and of course most matters that come to us will have been to them first). We hold regular meetings at senior level and encourage informal day to day communication between staff.

We have a memorandum of understanding in place with the Financial Ombudsman Service in order to be clear about how the overlap in jurisdiction is handled. As importantly, on a practical level we are in regular communication about individual cases to make sure that they do not get passed back and forth needlessly.

We also have a memorandum of understanding in place with the Pensions Ombudsman for Ireland, but rarely, if ever, do cross border issues arise.

We participate in the meetings of the Pensions Institutions Forum, set up during the year to encourage communication and understanding between the several governmental and statutory bodies in the pensions landscape.

Intended merger with the Financial Ombudsman Service

Early in the year Ministers accepted the recommendation that the Pensions Ombudsman's functions should be merged with the Financial Ombudsman Service (A Review of Pensions Institutions, Paul Thornton's independent review for the Department for Work and Pensions). We are committed to working constructively towards the merger with the interested parties (principally DWP, the Financial Ombudsman Service and the Financial Services Authority). A steering group and associated working groups have been established and for a small office, a considerable investment of senior time has been needed. The work continues.

5

Management Commentary

5.1 Staff

At the end of the year, we had 36 staff in post, excluding the Pensions Ombudsman and the Deputy Ombudsman, down from 42 at the start of the year. The reduction resulted from not replacing some staff who left during the year and reflects expected future needs. One of our four team leaders (each of whom is a member of the Management Team) left during the year. We have taken the opportunity to restructure the teams, without replacing her.


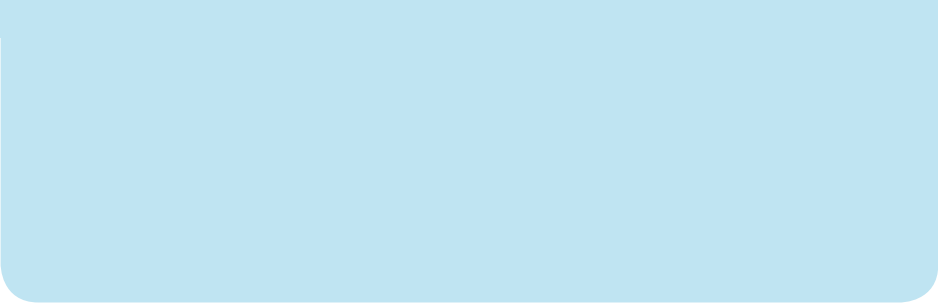
At the beginning of the year, as explained in the financial reports, we switched from direct DWP funding to grant-in-aid. A side effect of that change was the need to arrange our own pay settlement (consistent with Treasury guidelines) and have it approved by the Secretary of State. In previous years we had been bound to follow DWP's own settlement. In practice we decided to align our settlement in the year with the first year of DWP's intended three year package for its staff. Unfortunately that meant a significant delay – because DWP's settlement was itself delayed. We hope to be quicker in future, and over time may consider using our new found freedom to modify the pay structure if necessary so that it best fits our needs.

The office has Investors in People accreditation, due to expire in November 2009. We intend to revisit our approach to staff development and training, with or without the possible spur of reaccreditation.

5.2 IT

For many years the office has been in need of new IT systems. Our casework management system, in particular, had been in place and substantially unaltered since the 1990s. My predecessor secured that DWP would fund new hardware (implemented in the year before I took office) plus software for casework and document management, management information and knowledge management. The bulk of that software went live on 1 September 2007, the same day that I took up office.

With hindsight the implementation was premature. There had been considerable pressure from the contracting parties (the Pensions Ombudsman is not one) for implementation in a project that was significantly behind schedule. But the system had not been adequately tested, training was perfunctory and functionality was not as expected – in some respects well behind the system it replaced. On top of that, in the early months of 2008, a fault that was apparently untraceable caused daily crashes and loss of access. By the year end we were still struggling to make the system work, with management information supported by separate manual records.



We have avoided becoming embroiled in an unproductive debate about who might be at fault. We are working hard to get the new systems up to scratch. We do not have a dedicated IT resource, though in practice two of our staff have been working full time on it for much of the year. Thanks are due to them in particular, amongst others, for their commitment during a time of considerable frustration. At the time of writing there is a distant glimmer at the end of a very long tunnel.

5.3 Complaints about us

There are times when people are unhappy with the service we provide. Often, that unhappiness will have its roots in the fact that their complaint has not been upheld, but sometimes applicants will be unhappy with how we have handled their complaint, for example that it has taken longer to deal with than it should have one.

We will try in the first instance to resolve any such complaints informally. But if that is not possible, the matter will be referred to the casework director to respond to the complaint formally. If somebody is still unhappy with the way in which their complaint has been handled after our internal process has been exhausted, they can refer it, via a Member of Parliament, to the Parliamentary Ombudsman.

During 2007/08 we received only five formal complaints. This compares favourably with the 17 we received during 2006/07, which reflects positively on arrangements we introduced to keep people more regularly informed about what was happening to their complaint as it progressed through the office.

We were not advised during the year of any formal investigations by the Parliamentary Ombudsman of complaints about us.

5.4 Social and Community Issues

We are introducing a sustainable development policy that includes measures such as reduced paper consumption and the recycling of papers and toners. We are working towards reducing energy use.

We made a charitable donation of £500 in place of sending Christmas cards.

5.5 Risks and Uncertainties

We maintain a risk register which identifies key risks to the effective functioning of the office as a whole, and how we manage them as best we can.

The key risks are:

- intake of cases varies significantly from forecast – with obvious consequences for workflow and/or costs;
- IT does not perform as intended – our new systems are not yet proven, and in particular we are dependent on good quality MI to monitor our goals throughout the year;
- FOS merger plans detract from productivity – staff motivation and retention is essential at a crucial time; and
- unexpected events in the wider pensions landscape dramatically affect workload – but there is a very low probability of any such events.

5.6 Key Performance Indicators

In 2007/08 there were no Key Performance Indicators set. Key Performance Indicators for 2008/09 will be reported on in the next Annual Report.

5.7 Accounting

Our accounting systems are also new. Until the change to grant-in-aid our accounting needs were very limited. We now have all of the systems appropriate to a business of our size, with supporting software that, happily, has been much more successful than our document and case management system.

We have a policy of paying invoices within 30 days and in future our systems will identify the extent of compliance with this.

So far as the Ombudsman is aware there is no relevant audit information of which the auditors are unaware, and the Ombudsman has taken all the steps that he ought to have taken to make him aware of any relevant audit information and to establish that the auditors are aware of that information.



Tony King

Pensions Ombudsman

Pension Protection Fund Ombudsman

23 June 2008

Remuneration Report

6

Remuneration policy

In accordance with Sections 145 and 145A of the Pension Schemes Act 1993, the current and future remuneration of the Ombudsman and the Deputy Ombudsman is determined by the Secretary of State for Work and Pensions. The current and future remuneration of the Pension Protection Fund Ombudsman and Deputy Pension Protection Fund Ombudsman is determined by the Secretary of State in accordance with Sections 209(4) and 210(6) of the Pensions Act 2004. For the year 2006/07 (paid in the accounting year) the Deputy Ombudsman's pay included a bonus element of up to 10% of salary as assessed by the Departmental Steward on behalf of the Secretary of State. For the year 2007/08 (to be paid in the following year) the Deputy Ombudsman's payment includes a bonus element of up to 10% of salary as assessed by the Departmental Steward on behalf of the Secretary of State following a recommendation by the Ombudsman. The basis of further performance related payments for the Ombudsman and/or the Deputy Ombudsman is not yet settled.

Service contracts

The length of service contracts is determined by the Secretary of State for Work and Pensions. Tony King was appointed for 3 years on 1 September 2007 succeeding David Laverick who retired on 31 August 2007. Charlie Gordon's current contract expires in March 2009.

Name	Notice period
Tony King	6 months from post holder
Charlie Gordon	6 months from post holder

Each appointment may be terminated early by the Secretary of State on the following grounds:

1. misbehaviour;
2. incapacity; and
3. bankruptcy or arrangement with creditors.

Any decision to remove on one or more of the above three grounds will be taken by the Secretary of State with the concurrence of the Lord Chief Justice. No compensation will be paid if the appointment is terminated on any of the grounds set out above. Should the appointment be terminated on the grounds set out above one month's notice will normally be given. Where conduct is so serious as to warrant immediate removal from office, pay in lieu of notice will be paid.

The notice periods shall not prevent the Ombudsman, Deputy Ombudsman or Secretary of State waiving the right to notice or the Ombudsman or Deputy Ombudsman accepting a payment in lieu of notice.

Remuneration

	Annual Salary £000	Salary Paid 2007/2008 £000
David Laverick*	£120–£125	£50–£55
Tony King	£120–£125	£70–£75
Charlie Gordon	£90–£95	£100–£105**

* Retired 31/8/07

** This includes the 2006/07 bonus

Pensions

	Accrued pension at age 60 as at 31/3/08 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/08 (£'000)	CETV at 31/3/07 (£'000)	Real Increase in CETV as funded by employer (£'000)
Tony King	15–20 0	0–2.5	336	281	11
Charlie Gordon	25–30 85–90	0–2.5 0–2.5	555	477	4

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.



Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer public service defined benefit scheme, made under the Superannuation Act 1972. Participating employers make contributions which are calculated on a basis consistent with those that might have applied had the scheme been funded, making allowance for amortised surpluses or deficits that would have arisen in a funded scheme based on an assumed notional investment return. The most recent assessment was carried out by Hewitt Associates, as at 31 March 2007, and included recommendations for the contribution rates applicable from 1 April 2008.

A quadrennial review of the accruing superannuation liability charges at 31 March 2007 can be found on the PCSPS website www.civilservice-pensions.gov.uk.

The existing Schemes closed to new members in July 2007. Existing members retained membership and existing benefits. A new Scheme was established for new members from that date.

Although the PCSPS is unfunded, employer contributions are set at the level of contributions that would be paid by private sector employers to pension schemes for their employees. For 2007/2008, employers' contributions were payable to the PCSPS in the range 17.1% to 25.5% of pensionable pay, and in the range 17.1% to 25.5% from 1 April 2008 based on salary bands as follows:

Band	2007/2008		From 1 April 2008	
	Salary Band (£)	Rate of charge	Salary Band (£)	Rate of charge
Band 1	19,000 and under	17.1%	19,500 and under	17.1%
Band 2	19,001 to 39,000	19.5%	19,501 to 40,500	19.5%
Band 3	39,001 to 66,500	23.2%	40,501 to 69,000	23.2%
Band 4	66,501 and over	25.5%	69,001 and above	25.5%

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

Further staff cost disclosures are included in the notes to the accounts staff note 3. The financial disclosures within the Remuneration Report are subject to audit.

Tony King
Pensions Ombudsman
Pension Protection Fund Ombudsman
23 June 2008

7

Statement of Accounting Officer's Responsibilities

Under Section 145(8) of the Pension Schemes Act 1993 and Section 212A of the Pensions Act 2004, the Secretary of State for Work and Pensions (with the consent of the Treasury) has directed the Pensions Ombudsman and Pension Protection Fund Ombudsman to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Pensions Ombudsman and Pension Protection Fund Ombudsman and of their income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State for Work and Pensions, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Accounting Officer of the Department for Work and Pensions has designated the Pensions Ombudsman as Accounting Officer of the Pensions Ombudsman and Pension Protection Fund Ombudsman. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Pensions Ombudsman's and Pension Protection Fund Ombudsman's assets, are set out in the Non-Departmental Public Bodies Accounting Officers Memorandum and in *Managing Public Money* issued by the Treasury.

Statement on Internal Control

8

Scope of responsibility

I was appointed Accounting Officer on 1 September 2007, my predecessor having retired on 31 August 2007. As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies and objectives of the Pensions Ombudsman's office, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned in Managing Public Money and the Management Statement and Financial Memorandum.

The purpose of the system of internal control

The system of control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievements of our policies, aims and objectives to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of control has been in place for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

During the year ended 31 March 2008 we worked with Department for Work and Pensions (**DWP**) Risk Assurance Division to develop a robust risk strategy which we are currently implementing. This will involve adding risk as a standing item on the monthly Senior Management Team Agenda when we will discuss any action taken to mitigate each risk, identify new risks, upgrade, downgrade or remove risks from the register.

We have now established an Audit Committee. The Committee will meet at least once a year and is responsible for monitoring risks and ensuring policies and procedures are in place to manage the risks. The Audit Committee reports back to the Accounting Officer on its findings.

The risk and control framework

Risk is controlled through:

- using clearly documented financial and management procedures;
- monitoring by the Audit Committee;
- appointing outside bodies in November 2007, to undertake an internal audit; and
- comprehensive budgeting systems and financial reporting which indicates financial performance against the budget and forecast. Quarterly reports are made to DWP.

The most significant business risks we monitor are:

- IT system functionality;
- reliance on DWP for funding;
- loss of key staff;
- administration of staff pension is carried out effectively and correctly;
- intake of cases varies significantly from forecast;
- process review inhibited or delayed by lack of stakeholder support or statutory constraints;
- Financial Ombudsman Service merger plans detract from productivity; and
- unexpected events in the wider pensions landscape dramatically affect workload.

In accordance with our responsibilities, we have in place various robust and specific arrangements to ensure information security. We are complying with the CESG guidance and are currently developing a revised security policy that will apply to all staff. Other arrangements include secure and confidential storage of data, the prevention of any unauthorised use of removable media such as USB memory sticks and data CDs with laptops and/or PCs and a fixed asset register to track the location of items of IT equipment. We have recently purchased and installed the recommended encryption software onto all laptops in compliance with the Cabinet Office guidance. We also have on-site shredders and confidential waste disposal arrangements in place.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness is informed by the work of the Business Manager within the office who has responsibility for the development and maintenance of the internal control framework, DWP Risk Assurance Division reports and comments made by the external auditors in their management letters and other reports. A plan to address weaknesses and ensure continuous improvement is in place.



Tony King

Pensions Ombudsman

Pension Protection Fund Ombudsman

23 June 2008

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

9

I certify that I have audited the financial statements of the Pensions Ombudsman and Pension Protection Fund Ombudsman for the year ended 31 March 2008 under the Pension Schemes Act 1993 and the Pensions Act 2004. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Ombudsman and auditor

The Ombudsman as Accounting Officer is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Pension Schemes Act 1993 and the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions with approval of HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pension Schemes Act 1993 and the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions with approval of HM Treasury.

I report to you whether, in my opinion, the information, which comprises the Management Commentary, Introduction and Remuneration Report, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Ombudsman has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Ombudsman's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Ombudsman's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Management Commentary, Introduction and Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Ombudsman's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.



Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Pension Schemes Act 1993 and the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions with approval of HM Treasury, of the state of the Ombudsman's affairs as at 31 March 2008 and of its net expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pension Schemes Act 1993 and the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions with approval of HM Treasury; and
- information, which comprises the Management Commentary, Introduction and Remuneration Report, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
1 July 2008

**THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND
OMBUDSMAN**

INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 MARCH 2008

	Note	Year to 31 Mar 08 £
Expenditure		
Staff costs	3	2,130,186
Other operating charges	4	536,083
		<hr/>
Expenditure on ordinary activities before notional interest on capital employed		(2,666,269)
Notional interest payable on capital employed		(6,159)
		<hr/>
Expenditure on ordinary activities after notional interest on capital employed		(2,672,428)
		<hr/>
Reversal of notional cost of capital		6,159
		<hr/>
Expenditure for the financial year	12	(2,666,269)
		<hr/> <hr/>

All activities were continuing throughout the year.

There were no other recognised gains or losses or special payments during the year. Consequently, no separate Statement of Total Recognised Gains and Losses has been provided.

The notes on pages 53–62 form part of these accounts.



**THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND
OMBUDSMAN**

BALANCE SHEET

31 MARCH 2008

	Note	£	2008 £
Fixed assets			
Tangible assets	5		111,044
Current assets			
Debtors	6	18,621	
Cash at bank and in hand	7	257,814	
			276,435
Creditors: Amounts falling due within one year	8	36,254	
Net current assets			240,181
Total assets less current liabilities			351,225
Capital and reserves			
General reserve	12		351,225

Tony King
Pensions Ombudsman
Pension Protection Fund Ombudsman
23 June 2008

The notes on pages 53–62 form part of these accounts.

**THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND
OMBUDSMAN**

CASH FLOW STATEMENT

YEAR ENDED 31 MARCH 2008

	Note	Year to 31 Mar 08 £
Net cash outflow from operating activities		(2,565,186)
Financing		2,823,000
Increase in cash	7	257,814

**Reconciliation of net expenditure to
net cash outflow from operating activities**

	Year to 31 Mar 08 £
Net expenditure for the period	(2,666,269)
Other working capital introduced	6,251
Depreciation	77,199
Increase in debtors	(18,621)
Increase in creditors	36,254
Net cash outflow from operating activities	(2,565,186)

Reconciliation of net cash flow to movement in net funds

	Year to 31 Mar 08 £
Increase in cash in the period	257,814
Movement in net funds in the period	257,814
Net funds at 1 April 2007	—
Net funds at 31 March 2008	257,814

The notes on pages 53–62 form part of these accounts.



THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND OMBUDSMAN

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

I. ACCOUNTING POLICIES

Basis of accounting

The accounts are drawn up in accordance with a direction given by the Secretary of State for Work and Pensions. The accounts are prepared in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP), the disclosure and accounting requirements contained in HM Treasury's Fees and Charges Guide, and the accounting and disclosure requirements given in Managing Public Money and in the Financial Reporting Manual (FRM), in so far as these are appropriate to the Ombudsman and are in force for the financial year for which the statements are prepared. The accounts are prepared under the modified historical cost convention by the inclusion of fixed assets at their value to the business by reference to current replacement cost.

Government grants & grant-in-aid

Grant-in-aid and grant received used to finance activities which support the statutory and other objectives of the entity are treated as financing, credited to the general reserve, because they are regarded as contributions from a controlling party.

Notional costs

Certain expenses included in these accounts have not involved actual payments. They include various expenses and notional interest on capital employed (notional interest has been calculated at the Treasury standard rate of 3.5% of the average value of total assets less liabilities). These costs are included in the accounts to ensure that the results reflect the full economic costs of the Ombudsman.

Other income and expenditure

Other income and expenditure is recognised on an accruals basis. Where income received relates to the period of time covering more than one accounting period, that part extending beyond the current accounting period is treated as deferred income.

VAT

The Ombudsman was not registered for VAT during the financial year 2007/08.

THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND OMBUDSMAN

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

Tangible fixed assets

Tangible fixed assets are valued at current replacement cost which is calculated by applying appropriate Office for National Statistics (ONS) indices to the historical cost of each asset. Any surplus on revaluation of tangible fixed assets is credited to the General Reserve. Any permanent diminution in the value of a fixed asset on revaluation is charged to the income and expenditure account when it occurs. The ONS indices for IT equipment remained static during the year to 31 March 2008 and consequently no adjustment is required. The Ombudsman is required to remit the proceeds of disposal of fixed assets to the Secretary of State.

Tangible fixed assets are recognised where expenditure is in excess of £500.

Depreciation

Depreciation is calculated so as to write off the carrying value of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

IT Equipment – 3 years straight line.

A full year's charge is made in the year of acquisition.

Assets are not depreciated until they are commissioned or brought into use.

Operating lease agreements

Rent payable under operating leases is charged to the income and expenditure account on a straight line basis over the term of the lease.

Pension arrangements

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory, except in respect of dependants' benefits. The Ombudsman recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' service by payment to the PCSPS of amounts calculated on an accruing basis. Liability for the payment of future benefits is a charge on the PCSPS.



THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND OMBUDSMAN

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

Comparative figures

As the Office of the Pensions Ombudsman (and the Pension Protection Fund Ombudsman) was first funded by way of grant-in-aid on 1 April 2007, these financial statements do not reflect any comparative figures.

2. PPFO ELEMENT OF COSTS

Given the limited scale of PPF Ombudsman activity, no formal mechanism was in place during the year to identify costs and assets attributable to the PPF Ombudsman. PPF Ombudsman casework is broadly comparable to Pensions Ombudsman casework and we have therefore estimated the PPF Ombudsman element of expenditure and assets by reference to relative volumes of casework. Nine PPF Ombudsman cases and 1,039 Pensions Ombudsman cases were dealt with during the year. Approximately 1% of expenditure and net assets (£26,000 and £3,000 respectively) is therefore deemed attributable to the PPF Ombudsman.

3. STAFF COSTS

	Year to 31 Mar 08 £
Wages and salaries	1,610,845
Employer's national insurance contributions	129,181
Staff pension contributions	328,862
External case workers	5,361
Agency staff	55,937
	<u>2,130,186</u>

The average number of staff employed excluding the Ombudsman and Deputy Ombudsman during the period was 40.

THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND OMBUDSMAN

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

Principal Civil Service Pension Scheme

From 1 October 2002, civil servants and others approved by the Cabinet Office, including certain designated staff of the Pensions Ombudsman, may be in one of three statutory based 'final salary' unfunded multi-employer defined benefit schemes (Classic, Premium, and Classic Plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Entrants after 1 October 2002 may choose to join a 'money purchase' stakeholder arrangement with a significant employer contribution (Partnership Pension Account). Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with changes in the Retail Prices Index. Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus.

Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).



THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND OMBUDSMAN

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

The existing schemes closed to new members in July 2007. Existing members retained membership and existing benefits. A new scheme, Nuvos, was established for new members from that date. In Nuvos a member builds up pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

During 2007/2008 employers contributions of £328,862 were payable to the scheme.

Band	2007-2008		From 1 April 2008	
	Salary Band (£)	Rate of charge	Salary Band (£)	Rate of charge
Band 1	19,000 and under	17.1%	19,500 and under	17.1%
Band 2	19,001 to 39,000	19.5%	19,501 to 40,500	19.5%
Band 3	39,001 to 66,500	23.2%	40,501 to 69,000	23.2%
Band 4	66,501 and over	25.5%	69,001 and above	25.5%

**THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND
OMBUDSMAN**

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

4. OTHER OPERATING CHARGES

	Year to 31 Mar 08 £
Education and exams	1,303
Rent and rates	216,958
Insurance	2,442
Travel and subsistence	6,709
Telephone	15,162
Hire of equipment	9,808
Printing, stationery and postage	33,635
Staff training	9,033
Staff welfare	869
Sundry expenses	5,686
Donations	500
Computer expenses	10,801
Subscriptions	46,816
Staff recruitment	13,186
Legal and professional fees	46,705
Accountancy fees	22,075
Audit Fee	15,700
Depreciation	77,199
Bank charges	1,496
	536,083

The Auditors did not receive any remuneration for non audit work.



**THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND
OMBUDSMAN**

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

5. TANGIBLE FIXED ASSETS

	IT Equipment £
COST/VALUE	
Transfers	233,681
At 31 March 2008	233,681
DEPRECIATION	
Transfers	45,438
Charge for the year	77,199
At 31 March 2008	122,637
NET BOOK VALUE	
At 31 March 2008	111,044

6. DEBTORS

	2008 £
Other debtors: staff loans	12,028
Prepayments	6,593
	18,621

There are no intra government balances.

**THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND
OMBUDSMAN**

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

7. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Apr 2007 £	Cash flows £	At 31 Mar 08 £
Net cash:			
Cash in hand and at bank	–	257,814	257,814
Net funds	<u>–</u>	<u>257,814</u>	<u>257,814</u>

8. CREDITORS: Amounts falling due within one year

	2008 £
Accruals: other	36,254

There are no intra government balances.

9. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2008 the body had aggregate annual commitments under non-cancellable operating leases as set out below.

	2008	
	Land and Buildings £	Other £
Operating leases which expire:		
Within 2 to 5 years	198,760	8,634

10. CONTINGENCIES

There were no contingent liabilities at 31 March 2008.



THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND OMBUDSMAN

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

11. RELATED PARTY TRANSACTIONS

The Department for Work and Pensions are our Sponsor Department and grant-in-aid is received from them, the amounts are disclosed in note 12. Service Charges in respect of the accommodation were reimbursed to the Department for Work and Pensions in the sum of £17,270 during the year. During the year the office accommodation was rented from HM Revenue and Customs at an annual cost of £193,028. £1,149 was reimbursed to the Pensions Advisory Service during the year. No balances were outstanding at 31 March 2008.

12. GENERAL RESERVE

	Year to 31 Mar 08 £
Grant-in-aid to cover ongoing operations	2,823,000
Fixed assets introduced	188,243
Other working capital introduced	6,251
Net expenditure for the period	(2,666,269)
Balance carried forward	<u>351,225</u>

13. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amount to nil.

THE PENSIONS OMBUDSMAN AND PENSION PROTECTION FUND OMBUDSMAN

NOTES TO THE ACCOUNTS

YEAR ENDED 31 MARCH 2008

14. FINANCIAL INSTRUMENTS

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way it is financed, the Ombudsman is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies to which FRS 13 mainly applies. The analysis of risk excludes short term debtors and creditors. The Ombudsman has very limited powers to borrow or invest funds. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the Ombudsman in undertaking its activities.

Liquidity risk

The Ombudsman's net revenue resource requirements are totally funded by grant-in-aid from its sponsor department. The capital expenditure is also financed through grant-in-aid. The Ombudsman is consequently not exposed to significant liquidity risks.

Interest rate risk

The Ombudsman is not exposed to any interest rate risk. All surplus funds are placed on deposit with commercial banks at the prevailing deposit interest rate.

Foreign currency risk

There is no foreign currency risk as the Ombudsman does not deal in foreign currency.

15. POST BALANCE SHEET EVENTS

There are no post balance sheet events. These accounts are authorised to be issued on 1 July 2008.

Accounts Direction

The Secretary of State for the Department for Work and Pensions has issued the following accounts direction.

- I. The annual accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at year-end. Subject to this requirement, the Pensions Ombudsman/Pension Protection Fund Ombudsman shall prepare accounts for the financial year ended 31 March 2008 and subsequent financial years in accordance with:
 - a. the edition of the Government Financial Reporting manual which is in force for the financial year for which the accounts are prepared; and
 - b. other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;

except where agreed otherwise with the Treasury, in which case the exception shall be described in the notes to the accounts.

Appendix

Summary of Business Plan 2008/09

Work stream	Activity/target
Casework – dealing with the cases we receive.	<ul style="list-style-type: none"> • deal with initial enquiries, deciding whether or not to investigate, and if so what aspects should be investigated, in an average of 10 weeks; • complete our investigations within an average of 24 months from the date that the initial application is made; • have by 31 March 2009 no more than 50 cases on hand that are more than 12 months old; • achieve an average age of open investigations of 8 months at 31 March 2009; • support consistency and efficiency by maintaining knowledge management facilities and strengthening internal communication.
Process – examining how our service works, and could work better.	<ul style="list-style-type: none"> • review internally how we can act more efficiently within present constraints; • discuss with stakeholders where there may be scope for compromise between established and/or statutory process and proportionality; • put plans in place to modify processes accordingly, taking into account the expected need for consistency with the Financial Ombudsman Service's approach.
Communication – including clarity, access, understanding users' needs.	<ul style="list-style-type: none"> • establish effective liaison arrangements with appropriate interest groups; • consider and build on the results of the last customer satisfaction survey; • review, simplify and redesign our website; • establish a scheme to encourage accessibility, including our approach to equality issues and the use of technology.
Developing and supporting our staff	<ul style="list-style-type: none"> • review our approach to training and development; • plan for and move towards reaccréditation as an "Investor in People" (due November 2009); • encourage good communication, including establishing a representative communication forum.
Relationship and policy developments	<ul style="list-style-type: none"> • strengthen relationships with partners, in particular TPAS, the regulators and other ombudsmen in the field; • on the intended merger with the Financial Ombudsman Service, work constructively with all of the interested parties.