



# The Ombudsman's Annual Report and Accounts 2014-15



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# Foreword from the Chair and Ombudsman

Ninety percent of people think they should complain when the NHS or another public service falls short, but only one in three people do.

Research<sup>1</sup> we conducted has shown why people often don't speak up when things go wrong. Over a quarter (29%) of people who had a reason to complain about an NHS organisation in England, a government department or another public organisation, but didn't, said they didn't believe complaining would make a difference. Others felt that making a complaint would be more hassle than it was worth, and time consuming.

We also heard that people are not always sure how to get started when it comes to making a complaint; 47% of people said they wouldn't feel confident knowing where to go to complain about a hospital, and 61% said the same about complaining about a UK government department or another public organisation.

This means concerns are going unheard or unaddressed, and public services are unable to learn from these complaints to improve their services.

Yet this is often why people do complain - because they want services to learn from their mistakes and improve.

Our research shows that people are more likely to make a complaint to an organisation they are unhappy with, when they know they can escalate that complaint to a public ombudsman service if it is not resolved.

So, in 2013 we set out on a simple mission - to have more impact for the people who are affected when public services fall short. We began a five-year journey to achieve this, and

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<sup>1</sup> *What people think about complaining*, research we commissioned from YouGov, published in June 2015.





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two years in, we are on track to do what we committed to do. We are now meeting the demand for our service, and last year we completed ten times more investigations into unresolved complaints compared to two years ago. This was only possible because of our staff's tremendous hard work, flexibility and commitment.

But moving from fewer than 500 investigations a year to over 4,000, in the space of just two years, has not been without its challenges. One of the very real knock-on effects has been the delays that some people have unfortunately experienced when they have used our service. We know this has been a big problem for the people we are here to help, and we are actively tackling it.

To inform our modernisation, we have been asking people who use our service what they want and expect from an Ombudsman service. It is clear that people's confidence in our service is greatest, even when we do not uphold their cases, when we explain our role and what we can and cannot do, are transparent about the methods or processes we follow, and consistently provide a timely, empathetic service that keeps people up to date about progress on their case.

We are really grateful to everyone who has taken the time to give us feedback. It is informing our own service changes and the commitments we will make to people who use our service in the future.

But longer term, and to make a real difference, public ombudsman services need to be streamlined and some powers need to be changed. This will make it easier for people to get final decisions on unresolved complaints about public services, will help Parliament in its role of holding services to account, and will be better value for money for the taxpayer. We are delighted the Government has committed to draft legislation to bring about these changes.

**Dame Julie Mellor, DBE**  
**Chair and Ombudsman**

**October 2015**

# Message from the Managing Director and Deputy Ombudsman

People use our service because they want a final decision on their complaint that has not been resolved by the NHS in England, a UK government department or another UK public organisation. Our priority has been to achieve more impact for more people by carrying out more independent and impartial investigations.

In 2014-15, we investigated over 4,000 cases – a record for us. In doing this, we started to meet the demand that is clearly there for our service. This was a major achievement for our organisation, and I am proud of our staff whose hard work made it possible.

We achieved this because our staff focused on making sound

evidence-based decisions on the complaints that were brought to us. They looked at each complaint on its merits, and gathered and considered all the information available. Though we do find service failure and injustice, we also very often find that organisations provided really good service and, when necessary, have put things right.







We heard that we need to be more open and transparent in the way we do things, be more timely, and be better at communication and engagement.

While we have increased the number of investigations we undertake, and are meeting the demand for our service, we recognise that our organisation needs to fundamentally change to meet the challenges and opportunities of becoming a 21st century public services ombudsman.

We know that there is a lot that we do well already – the many letters and emails our staff receive, thanking them for their work, are testament to this. But over the last year we have carried out a comprehensive exercise to get more feedback about our service and the way we work. We've listened to people who use our service, other stakeholders, and our own staff. We heard that we need to be more open and transparent in the way we do things, be more timely, and be better at communication and engagement. Most of all, we need to do these things consistently.

Being able to reassure people about what happened in their case is a key part of our work. Inevitably people sometimes disagree with decisions we make. But what's really important is that we listen and stay open minded, while we clearly explain our approach and help people understand how we reach our decisions. We are confident that we make sound decisions based on fair, impartial and rigorous investigations. But we have to be able to demonstrate this for others to have confidence in us.

We have responded to feedback by developing a new set of working practices for our staff so they know what we expect from them. These will be underpinned by a new service charter, which we

will publish in 2016, so everyone who uses our service knows what they can expect from us. We will put in place clear measures to show that we are living up to the promises we make.

But change of the size we need is far from easy and whilst progress is apparent, so are some of the problems and issues associated with it. As leaders we have not always done a good enough job to help and support our staff through the changes, nor have we celebrated enough how positively many of our people have adapted to new working practices and requirements.

Our ambition is to become a more modern, more efficient organisation, comparable with the best ombudsman services. We will continue to listen, and to seek feedback to make this a reality. We will continue to focus on improving the value for money we provide the taxpayer. We will look at how we can invest in technology to make efficiencies, and will review the size of our corporate services, including our human resources, finance and external affairs functions. We need to balance this with our ability to provide an excellent and consistent service and make sure we help provide insight and learning opportunities for organisations from the cases we see.

There are further challenging times ahead of us, and lots of work still to do, and I look forward to leading our organisation through this important transformation.

**Mick Martin**  
**Managing Director and Deputy Ombudsman**

**October 2015**

# Our vision and strategy

## Our vision

Our vision is for everyone to be confident that complaining about public services is straightforward, fair and makes a difference.

## Our role

We make final decisions on complaints that have not been resolved by the NHS in England and UK government departments, and other UK public organisations. We do this independently and impartially.

We were set up by Parliament to provide an independent complaint handling service.

We are not part of Government, the NHS in England, or a regulator. We are neither a consumer champion nor arbitrator.

Our service is free for everyone.

We look into complaints where an individual believes there has been injustice or hardship because an organisation has not acted properly or fairly, or has provided a poor service and not put things right.

We normally expect people to complain to the organisation first so it has a chance to put things right. If an individual believes

there is still a dispute about the complaint after an organisation has responded, they can ask us to look into the complaint.

We share findings from our casework with Parliament to help them scrutinise organisations that provide public services, and we share these findings more widely to help others drive improvements in public services.

We are accountable to Parliament and our work is scrutinised by the Public Administration and Constitutional Affairs Committee.

## More impact for more people: our five-year strategy

In 2013 we embarked on a five-year journey to achieve more impact for more people. We identified five strategic aims, which we refreshed last year:

1. We will make it easier for people to find and use our services.
2. We will help more people by resolving and investigating more unresolved complaints, and providing an excellent customer service for everyone who contacts us.

3. We will share what we learn from complaints with others to help them make public services better.
4. We will work with others to make it easier to complain about public services and to help public services resolve complaints better.
5. We will make sure our organisation works well to help us achieve our aims.

We are delivering this in three linked stages:

- 2013-15 – meeting demand for our service by making more final decisions on unresolved complaints.
- 2015-17 – transforming and modernising our service.
- 2013-18 – moving to a new public ombudsman service.

You can read about the progress we have made in this annual report.

## Five years at a glance, 2013-14 to 2017-18

**2014-15 was the  
second year of our  
five year strategic plan**

### Years 1-2 Building

Years 1 and 2 were about building the foundations for change:

- ▶ Investigated 10 times more complaints and now meeting demand
- ▶ Established new governance arrangements and appointed a new senior team
- ▶ Built closer relationships with Parliament to help them to hold public services to account
- ▶ Built stronger relationships with other organisations nationally and locally
- ▶ Established the case for change to streamline public ombudsman services

### Years 3-4 Transforming

Years 3 and 4 are about transforming what we do and how we do it:

- ▶ Releasing the full potential of our staff to contribute to the success of our organisation
- ▶ Embedding new casework methodologies and quality frameworks and maintaining the volume of delivery
- ▶ Raising awareness of our services and making them more accessible
- ▶ Realising the benefits from our investment in technology for new casework management systems
- ▶ Improving how we use insight from individual cases and systemic investigations to bring about change
- ▶ Working more closely with the Local Government Ombudsman and other public ombudsman services, and working towards streamlined public ombudsman services, depending on the legislative timetable

### Year 5 Realising

Years 5 and beyond are about a new public ombudsman service:

- ▶ Continuing the transition to streamlined public ombudsman services
- ▶ Improving awareness of the role of ombudsman services
- ▶ Putting in place mechanisms for the seamless referral of complainants across public services
- ▶ Making full use of digital technology to deliver our services
- ▶ Developing a system wide approach to insight into improvements to complaint handling and big and repeated mistakes in public services

# Our year at a glance

Aim 1: Making it easier for people to find and use our services.

Public awareness of our service **increased to 22% from 19%.**

We launched a new online complaint form to make it easier for people to bring complaints to us.



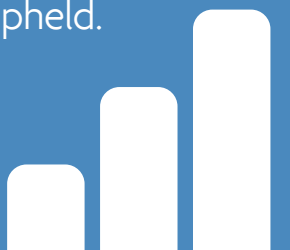
Aim 2: Helping more people by resolving and investigating more complaints, and providing an excellent customer service for everyone who contacts us.

► **29,000**  
cases handled

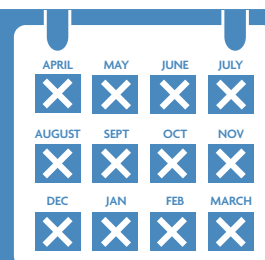
► **6,815**  
cases assessed  
(looked at in depth)

► **5,058**  
cases investigated or  
resolved without needing  
a full investigation.

Customer satisfaction with our service remains steady - 88% where complaints are fully upheld, 49% where not upheld.



We reduced the average length of an investigation from 137 days to 117 days.



We completed **97% of all case assessments and investigations within 12 months.**

A new quality framework is helping us assure the quality of our casework.



## Aim 3: Sharing what we learn from complaints with others to help them make public services better.

### 7 out of 10

organisations that provide public services agree that we work with others to help them make public services better.



Midwifery supervision and regulation: the Government has **committed to legislate to improve safety** following our report.

**Sepsis: evidence of real change** last year as a result of our 2013 report.

Our evidence on end of life care and on the quality of NHS investigations has enabled Parliament to hold Government to account.



## Aim 4: Working with others to make it easier to complain about public services and to help public services resolve complaints better.



*My Expectations*: our user- led vision for raising health concerns and complaints is being adopted by the NHS as a way of measuring improvements in complaint handling.

Government has committed to draft legislation which will streamline public ombudsman services.

## Aim 5: Making sure our organisation works well to help us achieve our aims.

In 2014-15 our net operating costs were just under £37m and we delivered 5,058 investigations and resolutions.



We took practical steps to align our service with the Local Government Ombudsman, in preparation for the creation of streamlined public ombudsman services.





# Our service

When people have not been able to resolve their complaint with a service provider, we can help. Our role is to make the final decision on these complaints. Last year we completed over 5,000 investigations and resolutions. In 37% of the cases we investigated we found that things had gone wrong and not been put right.

## Our complaint handling in detail

When people bring their complaints to us, we consider them under a three-stage process:

**Stage 1:** We carry out some initial checks to see if the complaint is one we can look into. If it is not, we give information to people on what they can do next.

**Stage 2:** We assess the complaint and decide if we should investigate.

**Stage 3:** We make a final decision on the complaint following an investigation.

### Stage one: initial checks

We usually expect people to try to get their problem sorted out with the organisation they are unhappy with before they ask us to look into it. Many people who contact us haven't done this, but we can give them information to help them get started.

Other people who come to us for help have already complained to the organisation but might have got stuck in 'the system'; we can sometimes get things moving again and help them get their complaint resolved.

### In 2014-15...

Our information line received over 100,000 phone calls, emails, online enquiries and letters, including from people needing help with complaints.<sup>2</sup>

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<sup>2</sup> In our 2013-14 *Annual Report* we reported that we received around 40,000 contacts; these were phone calls only.



But not every enquiry becomes a new case for us to look into. We handled a total of 29,000 new cases in the year in the following ways:

19,131

We gave information on making a complaint to the NHS in England or a government department or other public organisation, or to another organisation that could help.

8,037

We referred these cases for more in-depth consideration (an assessment - stage two in our process).

1,254

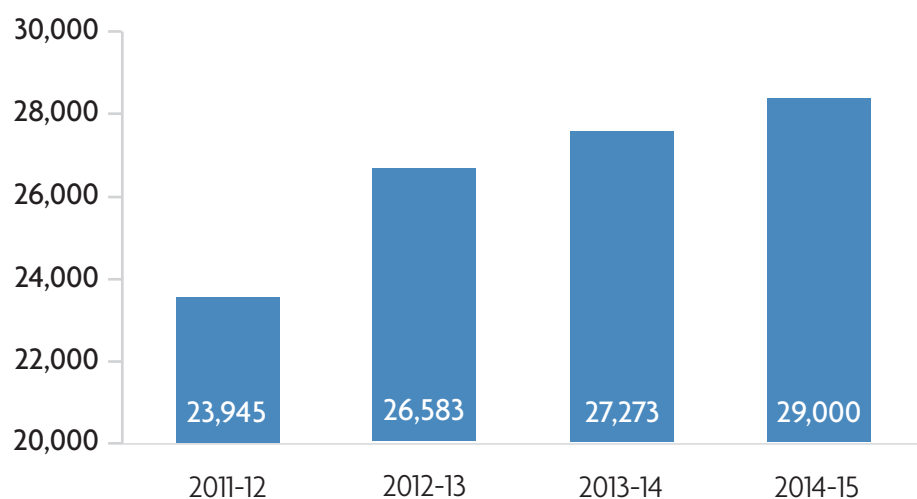
We closed these cases because they were not pursued by the people who brought them to us.

578

We helped people to get their complaints resolved, often by stepping in and speaking to the organisation they had complained about.

The chart below shows how the number of new cases we have handled has steadily increased year on year.

#### New cases we have handled, year on year



## Complaints or cases?

Our role is to make final decisions on unresolved **complaints**.

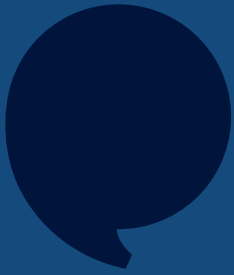


When we look into somebody's complaint, we call it a **case**.



Sometimes people bring complaints to us which involve more than one organisation. We record these as **one case but more than one complaint**.





## Resolving cases early on

We aim to resolve cases as quickly as we can. A formal, statutory investigation is not always the right course of action, depending on what the person who has complained to us wants as an outcome.

By speaking to the organisation complained about and agreeing what it will do, we can often get cases resolved more quickly than if we carried out a formal investigation. This is an important part of our work and can get people answers and make things happen.

For example, in 2014-15:

- We got a trust to refund £250 for private treatment which had been booked because of delays to an NHS appointment.
- We negotiated an offer of compensation for poor end of life care without the need for an investigation.
- We arranged for UK Visas and Immigration to return a passport and other documents so that someone could travel abroad to visit a sick relative.



## Stage two: assessment

At the second stage in our process, we look at what has happened in more depth. We call this an assessment. This is where we decide whether we should investigate the case. We assess whether there is an indication that mistakes have been made that have led to somebody experiencing an injustice that has not already been put right. If we can see an indication of this, then we investigate.

Sometimes we can see that there have been failings in the service provided, but the organisation has, in our view, already done what it should to resolve the complaint. In these cases, we can't achieve anything more, but we can explain this to the person who made the complaint, to reassure them about what happened.

In some cases, we can see that we might be able to get somebody's complaint resolved quickly, without the need for a formal investigation.

### In 2014-15...

We assessed 6,815<sup>3</sup> cases. 5,531 were about NHS organisations in England. 1,271 were about UK government departments and other UK public organisations. 13 were about organisations that we can't investigate. The number of cases we assessed in the year is different to the number referred for assessment (8,037). Cases that were still awaiting assessment at the end of last year, were then brought forward to this year.

We made the following decisions at assessment:

4,280

We passed these cases to our investigations team - stage three in our process. This accounts for 63% of all the cases we dealt with at this stage.

2,214

We closed the remaining cases at this stage. There are a variety of reasons for this. For example, in some cases we found there was more the organisation concerned could do to respond to the complaint itself.

In a small number of cases the complainant had decided not to pursue the matter.

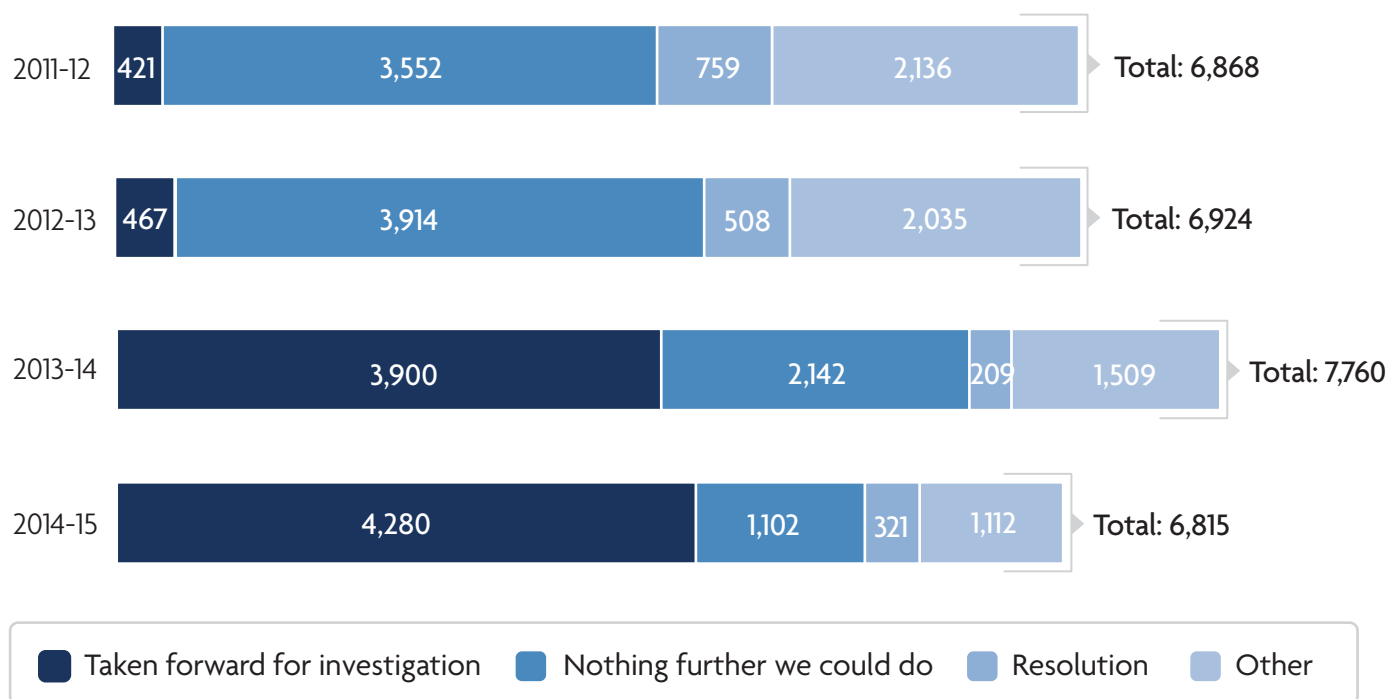
321

We were able to resolve these cases without the need for a full investigation, by working with the organisation complained about.

In other cases, we were satisfied that the organisation had already responded to all the issues and there was nothing further we could do.

The following chart shows how the number of cases that we take forward for investigation has increased since 2012-13.

#### Decisions we made on cases at assessment, year on year



<sup>3</sup> We did fewer assessments in 2014-15 compared to the year before (6,815 compared to 7,760 in 2013-14). This was because of the changes to our ways of working. In 2015-16 we should show improved productivity at this stage of our process.

## Stage three: investigation

At the start of our investigation, we discuss the scope of what we are going to look at with the person who made the complaint. We gather relevant information from them and from the organisation that the complaint is about, and listen to both sides of the story. Sometimes we take specialist advice from doctors and other professionals who are not connected to the organisation we are looking into.

We compare what happened with what should have happened, and we look at how that has affected the person concerned. We look at the information impartially and make a final decision on the complaint.

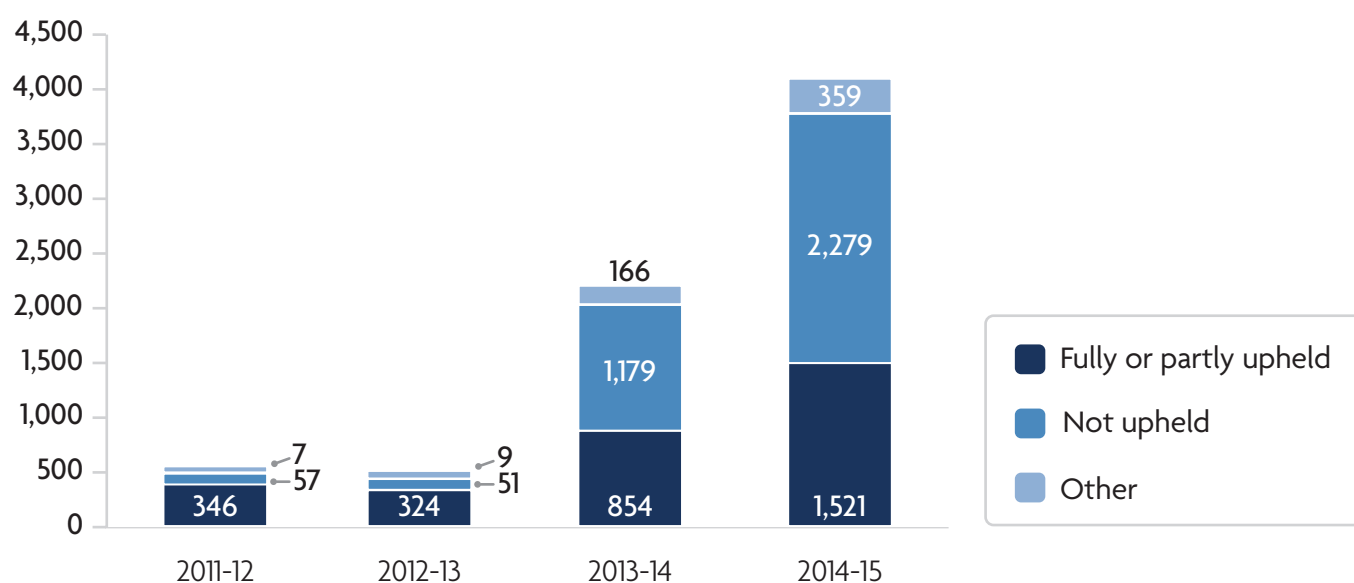
If we find that the organisation didn't act correctly, and it hasn't already put things right, we can make recommendations. For example, we might say the organisation should apologise or reimburse someone for costs they wrongly incurred. If we don't uphold the case, we explain why; it might be that we found the organisation acted correctly in the circumstances.

### In 2014-15...

We completed 4,159 investigations into 4,670 organisations, compared to 2,199 into 2,417 organisations in the previous year. Just over 21% (885) were about UK government departments and other UK public service organisations, and 79% (3,274) were about the NHS in England. This is consistent with the previous year.

We did 115 investigations jointly with the Local Government Ombudsman (LGO). The LGO looks at complaints about councils and some other authorities and organisations, including care homes and home care. Some of the complaints people bring to us are about issues we can look into but also come under the LGO's powers. We can investigate these complaints together. Most of the cases we investigated with the LGO related to adult mental health care or care of older people. During the year we set up a formal joint working team including staff from both organisations, which began work in April 2015.

## Investigation decisions made on cases, year on year



Of the total cases we investigated:

**1,521**  
(37%)

We upheld the case, either in relation to all of the issues or some of them.

**236**  
(6%)

We resolved the case before the investigation was concluded.

**2,279**  
(55%)

We did not uphold the case.

**123**  
(2%)

We ended the investigation for a variety of reasons, for example, because the complainant asked us to.

The chart on page 14 shows how the number of investigations we have completed has increased significantly in the last two years. We now investigate a complaint if there is an indication things have gone wrong that haven't been put right. In the past we would only investigate if we were likely to uphold the complaint. This has affected the proportion of complaints that we now uphold at investigation, as the chart shows, and this is in line with other ombudsman services.

- 1,101 service improvements, such as changing procedures or training staff
- 290 other actions to put things right, for example, asking a GP practice to consider how it will provide an accessible service to a Deaf patient for whom it had previously failed to make appropriate adjustments.

In over 99% of cases, the organisations agreed to act on our recommendations.

Last year, in the cases we did uphold, we made the following recommendations to organisations to put things right:

- 1,294 apologies
- 870 financial payments to make up for financial loss or recognise the impact of what went wrong: £1,089,812 from NHS organisations, £456,581 from government departments and other public organisations<sup>4</sup>

<sup>4</sup> This figure does not include two cases where the organisation had agreed to pay compensation for financial loss, but where the amount of the loss had not been finalised at the time of writing.

“The care with which the Ombudsman wrote the reply...making it obvious that they had actually communicated with people and got some answers from them, whether they were the [answers] I wanted or not.”

(Feedback on our service)



## Case study: Midwives failed to properly support a woman's choice of home birth because of epilepsy

Mrs F has epilepsy and takes medication for this. Her first baby, who was born at home, briefly went into hospital but was discharged the same day. During her second pregnancy, midwives repeatedly advised Mrs F to give birth in an obstetric unit because of risks to her baby from her epilepsy medication.

The midwives gave this advice without first seeking information from a consultant obstetrician. Mrs F was also told that her baby would be born 'barely breathing' because of her medication.

We partly upheld Mrs F's complaint. There were some failings in the care Mrs F received. The midwives did not support Mrs F's wish to have a home birth, and based their advice on wrong assumptions about the risk posed by her epilepsy medication. The delay in getting the opinion of a consultant was not good practice.

These failings meant that Mrs F was stressed during her pregnancy. She was also unsure about seeking midwifery care from the same midwife team for the birth of her third child, and so went elsewhere for this.

The Trust apologised to Mrs F for these failings. It prepared plans to avoid a recurrence, and reviewed its policies for women requesting care outside guidelines.





## Our casework in 2014-15 by organisation type

### Cases, assessments and investigations

Organisation type	Cases handled	Cases assessed	Cases resolved without the need for full investigation	Cases accepted for investigation	Completed investigations
NHS in England	20,109 into 22,046 organisations	5,531 into 6,424 organisations	647	3,472 into 4,016 organisations	3,274 into 3,689 organisations
Government department/ public organisation	6,957 into 7,265 organisations	1,271 into 1,384 organisations	252	808 into 886 organisations	885 into 981 organisations
Not an organisation we can investigate	1,934	13	N/A	N/A	N/A
<b>Total</b>	<b>29,000</b>	<b>6,815</b>	<b>899</b>	<b>4,280</b>	<b>4,159</b>

**1,521** cases upheld



**1,294** apologies as a result of our investigations



**Over 99%** compliance with our recommendations to put things right


## Working to investigate cases more quickly

In 2014-15, our investigations took us an average of 117 days to complete compared to 137 days in 2013-14, and 305 days in 2012-13. We also reduced the average time we took to assess cases. However, we were over ambitious about what we could achieve in our second year of doing more investigations. We met only one of the service standards we set for our complaints process - we acknowledged 100% of enquiries in 48 hours - and people experienced delays with our service. In particular, we kept some people waiting for too long once we had decided to investigate their case, due to a backlog of cases.

We have been taking steps to address these delays. This includes recruiting more staff so people don't have to wait as long, and adopting more modern working practices and applying these consistently, to improve performance and customer experience.

Under new legislation<sup>5</sup> which came into effect earlier in 2015, if an investigation is taking us more than a year, we must write to the complainant to explain why. We are also required to report to Parliament how long we take to conclude investigations, how many took more than 12 months, and what we are doing to make sure that all investigations are concluded within 12 months.

Some of the cases that come to us can be very complex and it can take time to gather all the information we need for our investigation. But in 2014-15 we reduced the proportion of investigations that took us more than a year to complete. 360 investigations took us more than a year - 9% of the total 4,159 investigations we did, compared to 14% in 2013-14. 233 were about the NHS in England and 127 were about UK government departments and other UK public organisations.



“I think they could have done it a bit more quickly”

(Feedback on our service)

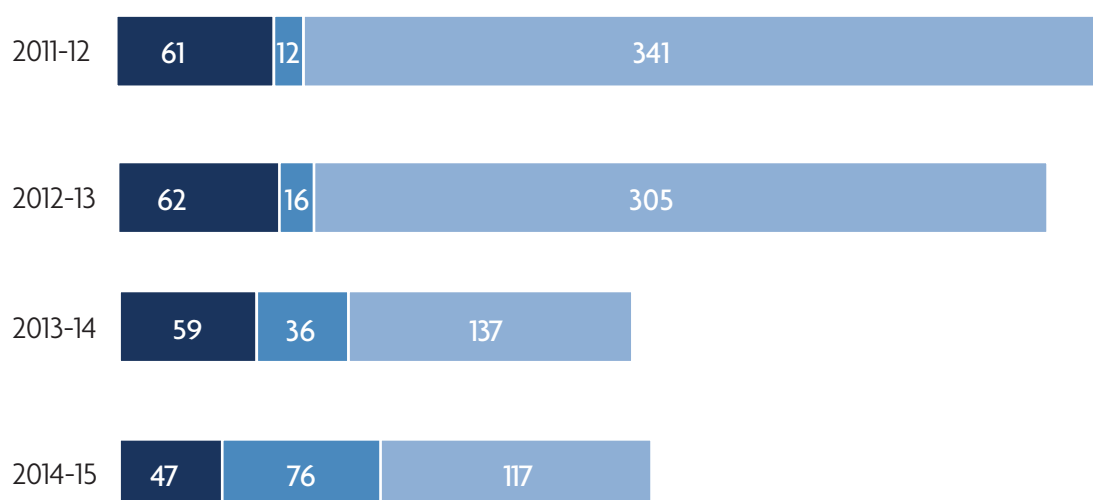


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<sup>5</sup> *Health Service Commissioner for England (Complaint Handling) Act 2015.*

Service standards 2014-15	Our performance
Acknowledge 100% of enquiries in 48 hours	100%
Conclude 90% of initial checks and assessments in less than 20 working days	78%
Conclude 65% of assessments and investigations in 13 weeks	60%
Conclude 85% of assessments and investigations in 26 weeks	76%
Conclude 98% of assessments and investigations in 52 weeks	97%


### How long we took to handle cases in calendar days, year on year



■ Time to complete an assessment

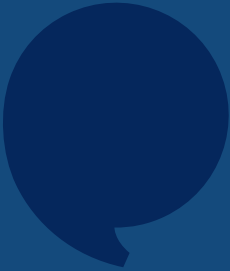
■ Time waiting for investigation to begin

■ Time to complete an investigation



“I don’t think they understood the severity of what I was saying.”

(Feedback on our service)



## Learning from feedback

During the year we gathered extensive feedback from our staff, the people who use our service, and the whole range of external organisations we work with, to help us improve our service and the way we work. We sought views from hundreds of people on everything we do and how we do it: from the way we explain our work and what people can expect from our service to how we carry out our investigations; how long we take; and how we keep people updated.

The feedback we’ve gathered has shown us that, for people to have confidence in the quality of our decisions on their complaints, we need to be more open and transparent and more consistent. This is important given the increase in the number of cases we don’t uphold - a result of taking on many more cases for investigation.

We have identified four areas we need to focus on:

1. We need to be clear with people about our role, what we can do and what is not part of our role, and what people can expect from our service.
2. We need to embed a transparent and standard method for gathering information and making decisions on cases.
3. We need to get better at how we communicate, be more empathetic and we need to deal with cases swiftly and keep people informed at different stages of our process. There is a lot we do well, but there is too much variation.
4. We need to be more transparent about how we do our work, and how we check the quality of our work, so that people have confidence in our decisions.

These four areas are the bedrock of the new framework we are designing for the way we deliver our service. These will be developed into a service charter, which will set out clearly what everyone can expect from our service in future.

## Quality assurance: building confidence in our decisions

Recognising that a lack of consistency in how we work has been one of our challenges, last year we designed and put in place a new quality framework. It builds on and incorporates existing processes. The framework provides a systematic approach to measuring, and providing assurance about, the quality of our decisions. By capturing learning, it will help us get better at what we do.

Our initial work has included setting up a new customer care team to deal with feedback and complaints about our service and decisions.

We also now require line managers to report centrally every month on a sample of cases that their teams have handled. Managers review the service provided to the complainant, the methods used to look into the case, and the final decision on the case. The outcomes of these reviews are analysed and reported to senior managers, and are shared and discussed in teams, to encourage learning and improvement.

A sample of the cases handled by each team are now reviewed by a different team, and we are planning to expand this activity in 2015-16. We also set up a Board-led Quality Committee to scrutinise our work on quality.

We will further develop our approach to quality to make sure we measure our performance against the promises we make in our new service charter.

## Customer feedback

We ask people who use our service to tell us about their experience through our rolling customer satisfaction survey. Last year our survey captured feedback from almost 22% of people whose cases we investigated, and just over 4% of people whose cases we closed at an earlier stage in our process.


People using our service reported similar levels of satisfaction compared to the previous year. 88% of people whose cases we investigated, and then upheld in full, told us they were satisfied with our service, compared to 87% in 2013-14. Just under three quarters (71%) of people whose cases we investigated but only partly upheld, said they were satisfied with our service, compared to 75% in 2013-14. Around half (49%) of people whose cases we did not uphold, told us they were satisfied, compared to 53% in 2013-14.

There has been a fall in satisfaction levels among people whose cases we look at in depth through our assessment process, but decide not to investigate. For this group, satisfaction has fallen from 66% in 2013-14 to 51% in 2014-15.



“Their advice and letters were all in plain English and they were understandable.”

(Feedback on our service)



“I think they were very clear on the goals, and the possible outcomes”

(Feedback on our service)



For people who contact our information line, but whose cases are not taken forward for assessment, satisfaction has remained the same - 70% in 2014-15 and in 2013-14.

It is inevitable that sometimes we make decisions that people can't agree with. People feel very passionate about the issues they bring to us, and if we don't give them the answer they had hoped for, it can affect how they feel about our service overall.

This is common among ombudsman services, for example, 93% of Financial Ombudsman Service customers who felt they had 'won' their case were happy with the service, compared to 49% who felt they had 'lost' their case.<sup>6</sup>

This year we plan to start publishing the results of our customer feedback survey on our website every quarter.

## Complaints about us

During 2014-15 we set up a new customer care team to take feedback from people on their experience of our service. The team is the first point of contact for anyone with concerns about their case which they have not been able to sort out directly with the team responsible for their case.

## Complaints about our decisions

Our decisions on cases are final, but we will consider whether to review our decision, if we have got something wrong. We will take a further look and conduct a review of the case if someone is able to show us that:

- we made our decision based on inaccurate facts that could change our decision or
- they have new and relevant information that was not previously available and which might change our decision or;
- we overlooked or misunderstood parts of the complaint or did not take account of relevant information, which could change our decision.

If, having looked again at the case, we think we may have made an error, we will take action to put that right. This can sometimes involve reopening an investigation.

Last year we reviewed 392 decisions. We upheld 78 of these reviews - less than 1% of all the decisions we made.

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<sup>6</sup> Taken from the Financial Ombudsman Service's annual review 2014-15.



## Complaints about our service

Last year we handled 103 formal complaints about our service and upheld 48 of them, representing 0.2% of all the cases we made a decision on in the year. This is consistent with the year before.

One of the most common complaints was about the length of time people spent waiting for their case to be allocated to an investigator. In the year we took steps to address this, including recruiting more staff and introducing new and more efficient ways of working.

## Judicial review

If a person feels that we have not followed lawful procedures in reaching a decision about their case, then they can apply to the High Court for that decision to be reviewed by the courts. If their application is granted permission to proceed, then there is a full court hearing.

There were 12 applications for judicial review of our decisions in 2014-15, compared to 10 the year before.

Of these, seven were refused permission, two were granted permission to proceed, two were waiting for a permission decision, and one was withdrawn. One of the claimants whose application was refused subsequently applied to the Court of Appeal.

During the year, one case was heard at a full court hearing. The judge ruled that we had followed lawful procedures and awarded us substantial costs.

## Data Protection and Freedom of Information


We met our corporate service standard: responding to 90% of Freedom of Information and Data Protection requests within the statutory deadlines.

We received 718 Freedom of Information and Data Protection requests compared to 636 in 2013-14, and 434 in 2012-13.

There were 87 complaints about decisions or service in relation to Data Protection and Freedom of Information requests. Of these, eleven were fully or partly upheld. Every upheld complaint is an opportunity to learn from an error and look to improve either our administrative processes for handling requests or to reflect on how we exercise our judgment in the application of specific exemptions.

## Decisions made and decisions reviewed

	2013-14		2014-15	
	Enquiry and assessment	Investigation	Enquiry and assessment	Investigation
Decisions made	28,348	2,199	27,778	4,159
Decisions reviewed	536	60	203	189
Reviews upheld	70	4	46	32
% of reviews upheld against decisions made at this stage	0.2%	0.2%	0.2%	0.8%



“I felt that I was being supported by somebody who had some real power to ask questions and access appropriate expert advice.”

(Feedback on our service)



## A service for everyone

Overall public awareness of our service has increased to 22%, compared to 19% in 2013-14<sup>7</sup>, after a previous downward trend in awareness.

In 2014-15 we started the next phase of our *Complain for Change* campaign. The campaign aims to give people the confidence to complain when things go wrong with public services, and to raise awareness of our own service. We focused on groups who are less likely to use our service, including the South Asian community.

We developed tailored information, translated into five Asian languages, and worked closely with groups in the community to help support people to complain.

We produced videos in British Sign Language to help improve awareness in the Deaf community of our service and how to complain, and we worked with Disability Rights UK to develop staff understanding of issues including how to make reasonable adjustments for people trying to use our service.

We continued to promote our role more generally through our leaflet, *Tips on making a complaint to the NHS in England*, distributing over 12,000 copies to NHS complaints teams, local Healthwatch offices, local Citizens Advice, and advocacy providers.

We tested our new online complaint form with the public. This has helped us to make some improvements, including making the form easier to find on our website; streamlining it; making the language clearer, so people know what information to provide; and simplifying the registration process, which allows people to start writing up a complaint and come back to it later.

But there is more we need to do to improve access to our service, and to increase our visibility. A national survey of over 4,000 people commissioned by us last year revealed that only 24% of people who had complained to an organisation that provides public services had been given information by them about how to escalate their complaint to us.

In 2015-16 we will work closely with organisations we investigate, and the consumer advice and advocacy sector, so that people whose complaints are not resolved locally get to know about us.

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<sup>7</sup> *What people think about complaining*, research we commissioned from YouGov, published in June 2015.

	People who used our service	UK population benchmark
Male	44%	49%
Female	56%	51%
18-34	15%	29%
35-54	44%	35%
55-74	36%	27%
75+	5%	10%
Disabled	34%	19%
Not disabled	66%	81%
Black, Asian and minority ethnic	21%	17%
White British	79%	83%

## Who we helped

Understanding the diversity of the people who use our service can help us identify barriers to complaining, and steps we can take to support people to complain. As part of our feedback survey, we ask people for information which we use to work out the profile of our customers.

Our survey tells us that:

- Last year there was a small increase in the proportion of people using our service who were from a black, Asian and minority ethnic background (BAME) - from 19% to 21%.
- More of the people who used our service last year declared a disability compared to the year before – from 30% to 34%.
- Looking at the last two years, little has changed in terms of the age of the people who used our service. Most people were between 35 and 54 (44%) or 55 and 74 (36%). This is consistent with the year before.
- A smaller proportion of young people use our service. This may be because they are less likely to use the services of the organisations we can investigate, compared to other groups of people.

“...everything they said they would do they did - nothing too much trouble”

(Feedback on our service)

A survey of over 4,000 people showed that just one third of people who had been unhappy after using a service made a complaint, despite the majority feeling that they should.







# What our casework tells us

We publish information about the number and types of complaints we investigate to help the NHS in England, government departments and other public service organisations to assess their own performance, both in relation to the services they provide and the way they deal with complaints, and identify areas for improvement.

## Attitudes to complaining

Research<sup>8</sup> we conducted in 2014-15 suggests that many people don't complain when public services fall short. A survey of over 4,000 people showed that just one third of people who had been unhappy after using a service made a complaint, despite the majority feeling that they should. And only 4% of people who had complained to the organisation providing that service, and were unhappy with the outcome, took the matter further.

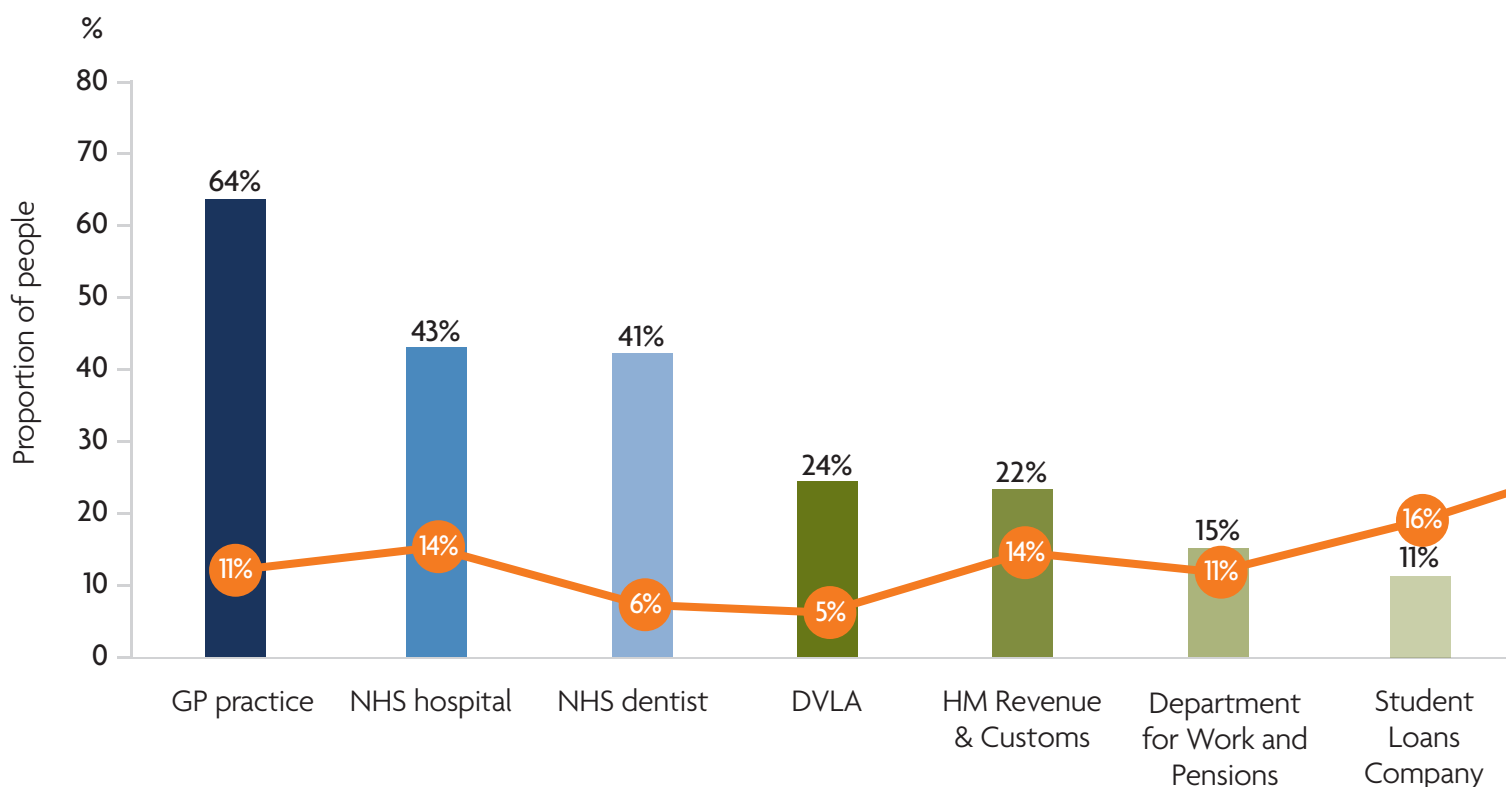
The charts on pages 28 and 29 show the proportion of people in our survey who had used certain services in the past 12 months, the proportion that were unhappy with something to do with that service and the proportion that went on to complain about it. The data shows significant variation.

For example, 11% of people who used GP services had been unhappy about something, and of these only 30% went on to complain (3% of all users).

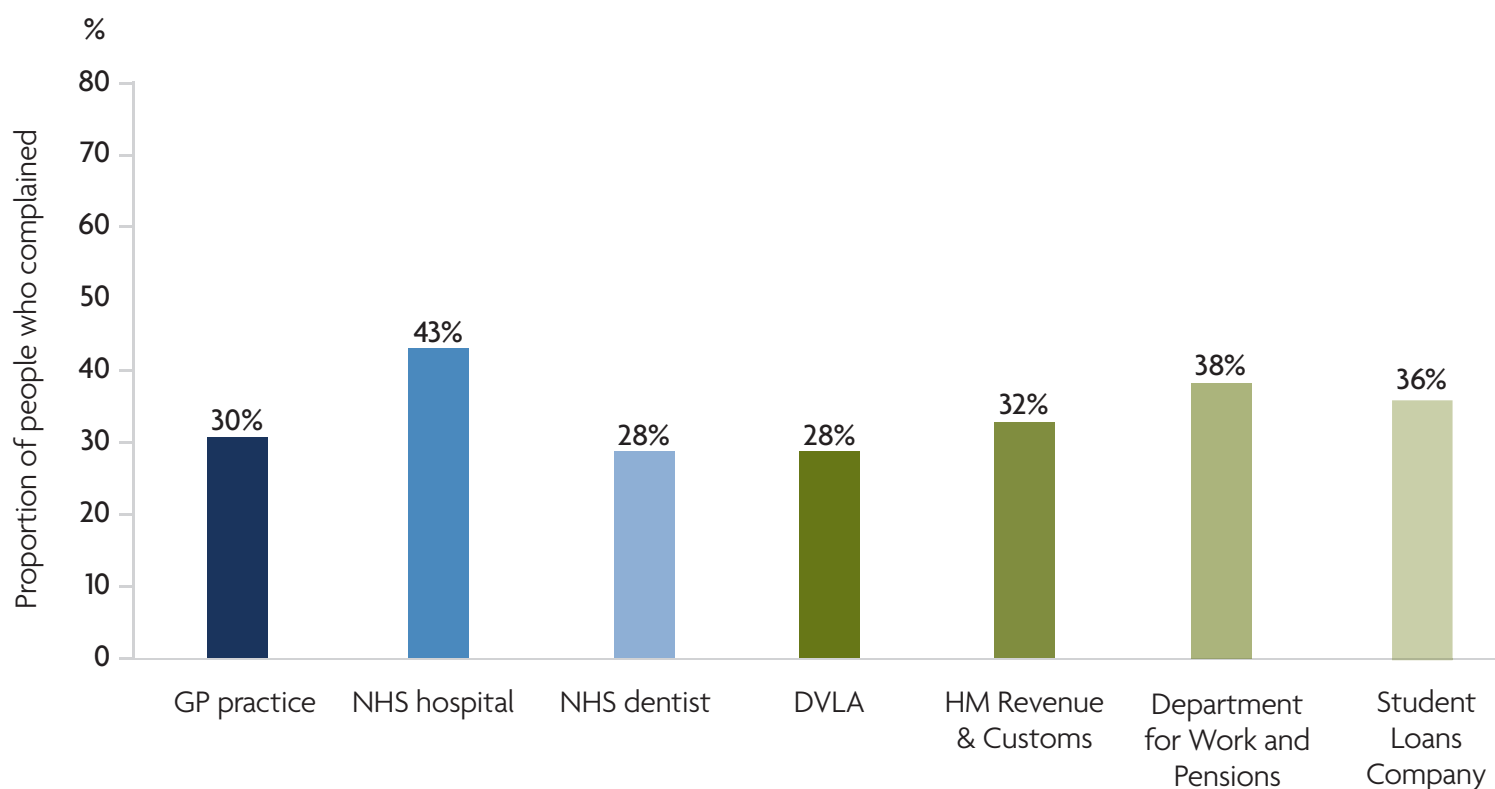
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<sup>8</sup> *What people think about complaining*, research we commissioned from YouGov, published June 2015.

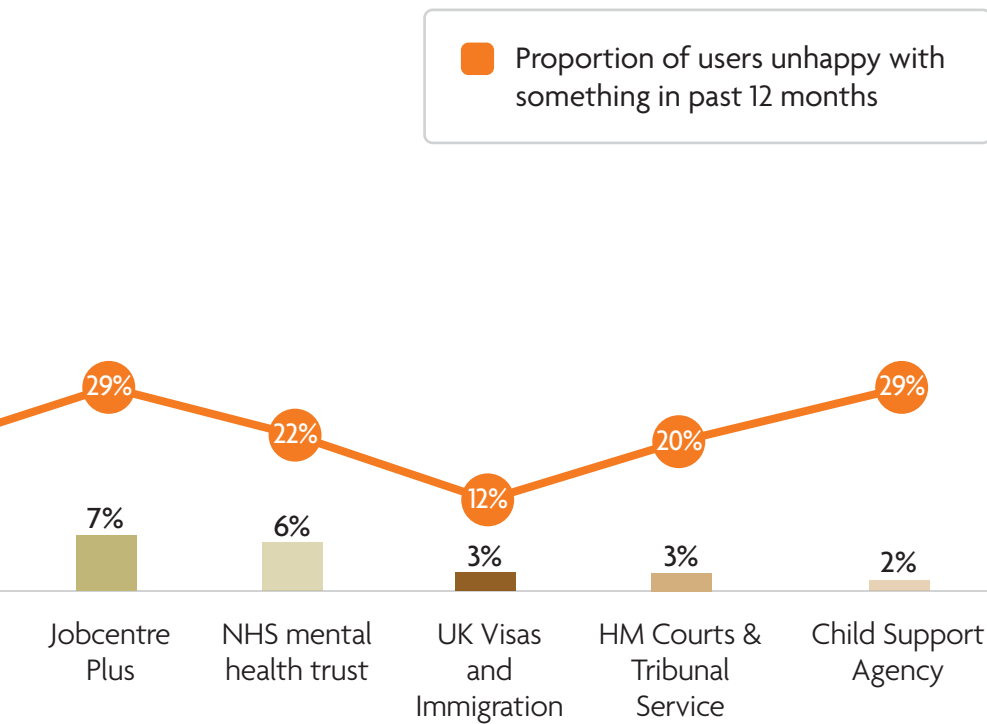
## Proportion of people who used services and proportion who had reason to complain



## Proportion of people who had reason to complain and did complain<sup>9</sup>





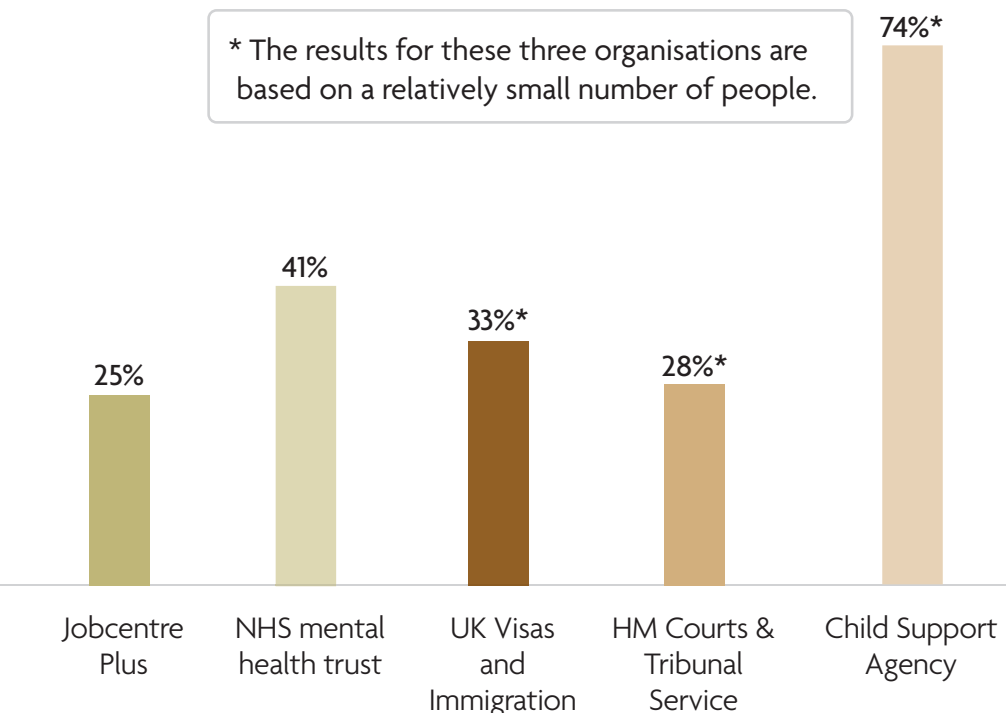


For people who had used an NHS hospital, 14% were unhappy and 43% of these went on to complain (6% of all users).

The findings of our research raise important questions for organisations to consider.

The differences in how likely people are to complain about some services compared to others could be because of the extent of the impact on people's lives when things go wrong with that service.

Another factor affecting how likely people are to complain could be a concern about their future ongoing relationship with the organisation, for example, in the case of GP and dental practices.



<sup>9</sup> Where users said they were unhappy with more than one service we only asked them to tell us if they had complained about the most recent problem they had experienced.

## Our investigations about the NHS

Out of the 4,159 investigations we completed in 2014-15, 3,274 (79%) were about the NHS in England. Some of our investigations involve complaints about more than one NHS organisation - for example, someone could complain to us about the actions of a GP practice and a hospital at the same time. We count these as two separate complaints, but one investigation. In total last year we investigated 3,689 complaints about NHS organisations.

## Increase in investigations

In 2013 we changed our processes and as a result we now investigate many more of the complaints that people bring to us: in 2014-15 we investigated almost 11 times (10.9) as many complaints about the NHS as we did in 2012-13. For some types of NHS organisations, the number of complaints that we have investigated has increased at a higher rate. This is the case for GP practices, mental health, social care and learning disability trusts, independent providers and ambulance trusts.

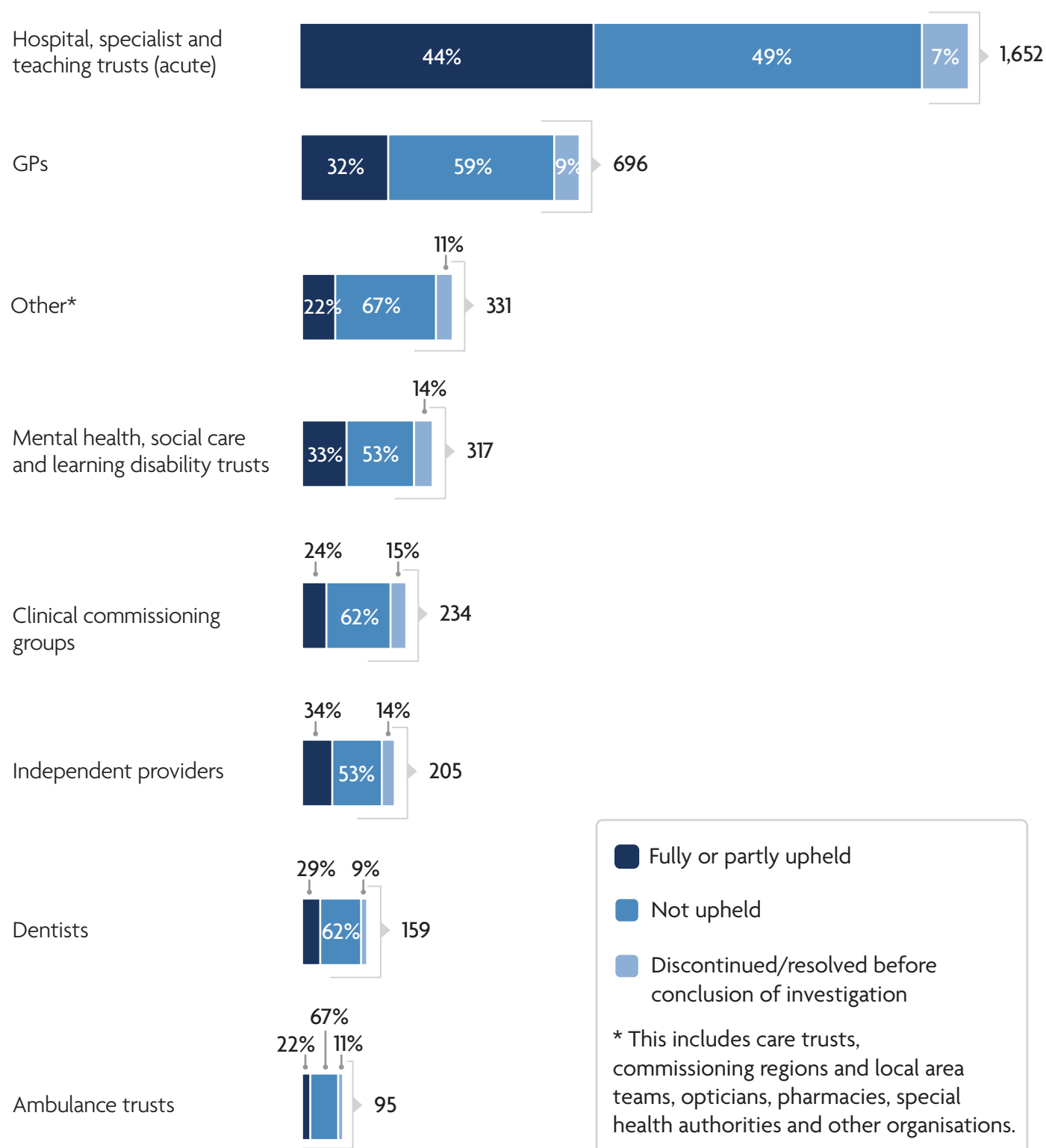
An above average increase in the number of investigations about particular types of organisations is not necessarily an indication of a problem, and it could even be seen as positive. For example, it could be that organisations have improved how they signpost to us, making sure people know they can escalate their complaint to us if they are not happy with how it was dealt with locally.

We publish this data to help organisations assess their own performance. We also publish on our website data about individual NHS organisations.


### Rate of increase in investigations about different types of NHS organisations in England

	Number of completed investigations in 2012-13	Number of completed investigations in 2014-15	Rate of increase
Hospital, specialist and teaching trusts (acute)	199	1,652	8.3
GPs	52	696	13.4
Mental health, social care and learning disability trusts	22	317	14.4
Independent providers	10	205	20.5
Dentists	15	159	10.6
Ambulance trusts	8	95	11.9

## Completed investigations in 2014-15: volume and outcomes<sup>10</sup>



<sup>10</sup> Percentages do not all add up to 100% due to rounding.



“...the lady was polite, efficient, answered my questions and sympathised with my case.”

(Feedback on our service)



## Investigations in 2014-15

The chart on page 31 shows the types of NHS organisations we investigated complaints about in 2014-15, how many investigations we did, and the outcomes.

Almost half (45%) of the complaints we investigated about the NHS involved acute trusts. Acute trusts include all hospital, foundation, specialist and teaching trusts. One in five of our NHS investigations were about GPs. As more people are likely to use the services of hospitals and GP practices, and more frequently, compared to other health service providers, it may not be surprising that we investigate more complaints about these two types of organisations.

Overall we upheld 36% of the NHS complaints we investigated last year. We upheld a significantly bigger proportion of complaints about acute trusts (44%) and a smaller proportion of complaints about GPs (32%).

## Joint investigations with the Local Government Ombudsman

We carried out 115 investigations jointly with the Local Government Ombudsman. Of these 56% were fully or partly upheld, 39% were not upheld, and 5% were discontinued or resolved before the conclusion of the investigation.

## Reasons for complaints about the NHS in England: concerns about service

Across all the complaints we investigated and upheld about the NHS in England, diagnosis, including delays, failure to diagnose, or misdiagnosis, featured more than any other issue; it was a factor in 30% of the complaints we upheld. The attitude of staff, and issues around communication and information, were also strong themes.

## Reasons for complaints about the NHS in England: concerns about complaint handling

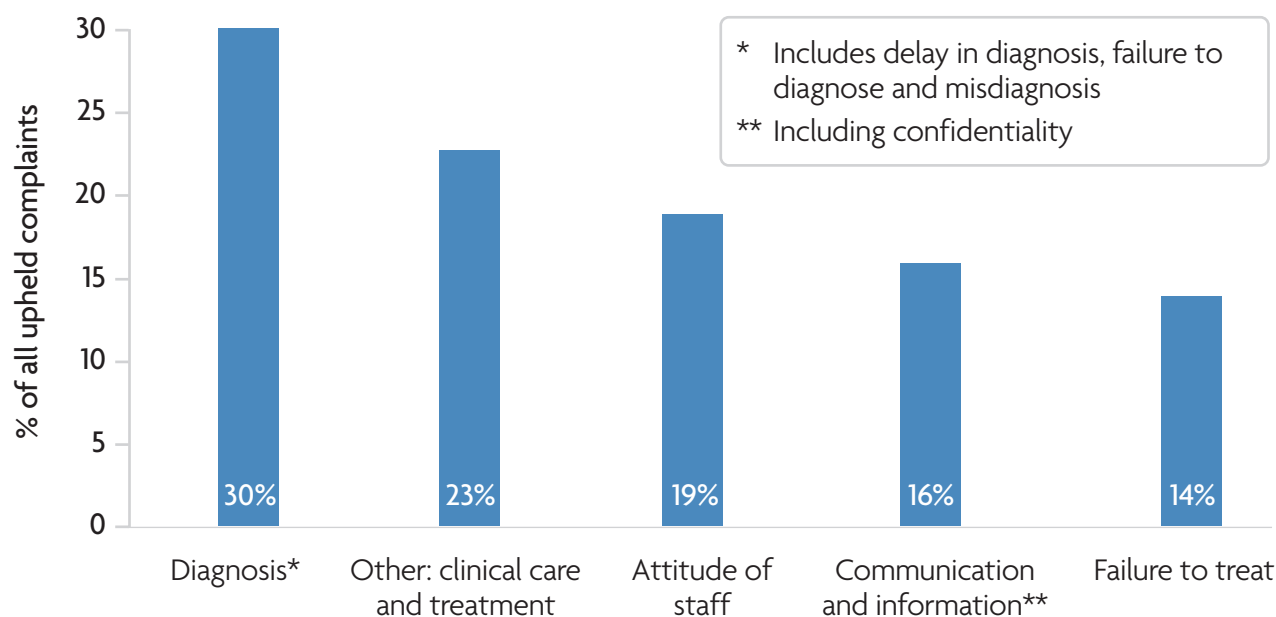
When we investigate complaints, we look at how the organisation concerned has handled the person's complaint. Sometimes we find that an organisation has failed in the service it provided, but has handled the complaint appropriately and done what we would expect to put things right. In other cases, we can see that more should have been done.

We know that when things go wrong with public services, people are often simply looking for an apology. However, we noted a failure by the organisation to give a proper apology, or do enough to put things right for the person who had complained, in 34% of the complaints that we investigated and upheld about the NHS in England in 2014-15. This was the most common failing in complaint handling that we identified.

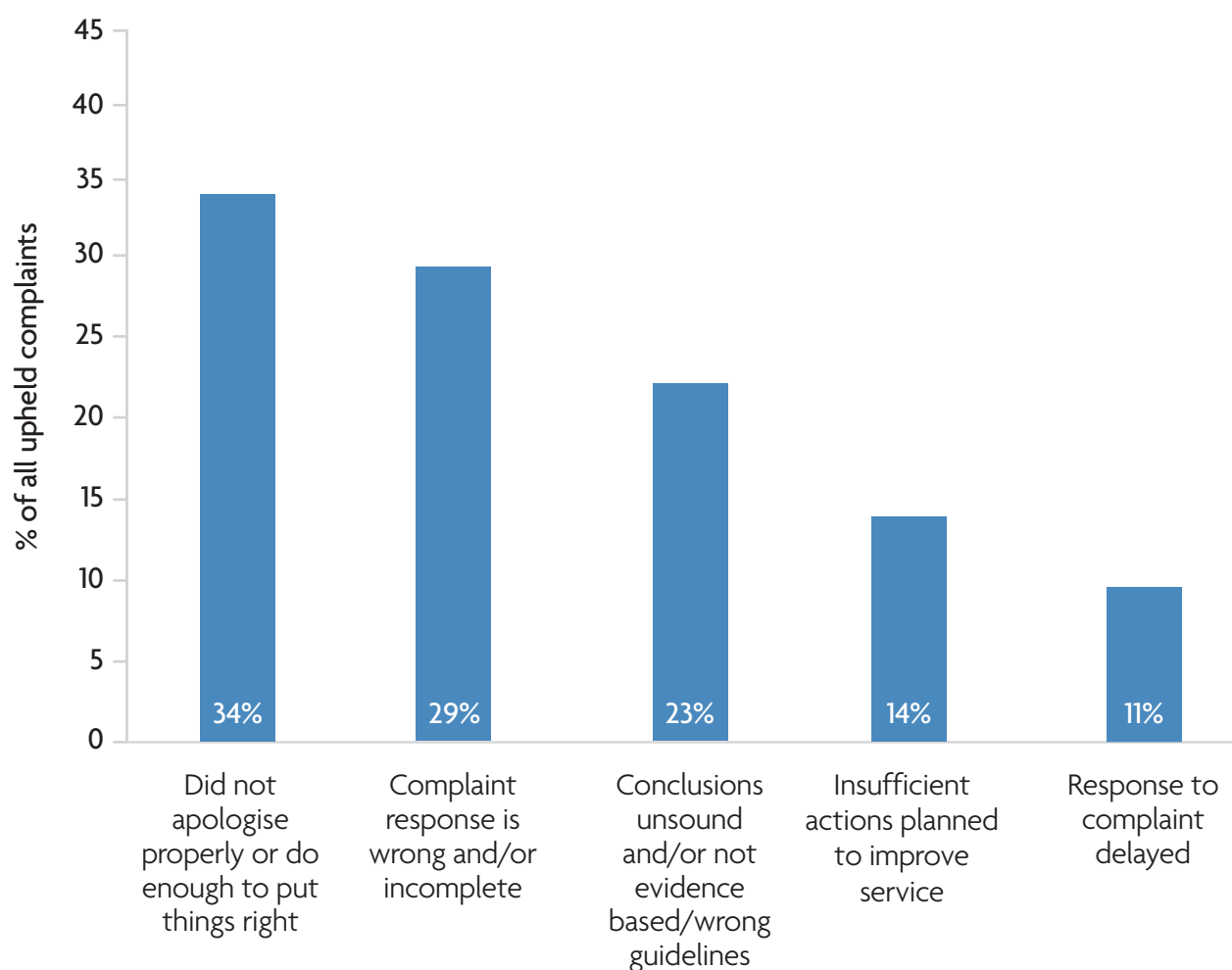
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<sup>11</sup> Complaints can involve more than one issue, so the percentages in the two charts on page 33 don't add up to 100%.

### Top five most common issues raised in the complaints we upheld about the NHS in England, 2014-15<sup>11</sup>



### Top five most common complaint handling concerns raised in the complaints we upheld about the NHS in England, 2014-15



## Our investigations about UK government departments and public organisations

Out of the 4,159 investigations we completed in 2014-15, 885 (just over 21%) were about government departments and other public organisations. Some of our investigations involve complaints about more than one organisation. Last year we investigated a total of 981 complaints.

## Increase in investigations

As a result of changing our criteria for referring complaints for investigation, last year we completed nine times as many investigations about government departments and other public organisations as we did in 2012-13. The table below shows the four government departments, including their agencies, that we did the most investigations about in 2014-15 and shows how the number of investigations about some government departments has increased by a greater proportion.

It is important to note that this is not in itself an indication of a problem. The data should also be considered alongside the data on the outcomes of our investigations - see page 35 - and in the context of changes in the responsibilities of different government departments since 2012-13.

### Rate of increase in investigations about government departments and their organisations, 2012-13 to 2014-15

	Number of completed investigations in 2012-13	Number of completed investigations in 2014-15	Rate of increase
Ministry of Justice	38	348	9.2
Department for Work and Pensions	16	201	12.6
Home office	20	158	7.9
HM Revenue & Customs	11	138	12.5



## Investigations in 2014-15

The chart below shows the four government departments we investigated the most complaints about. The figures include complaints about the agencies and, where applicable, second tier complaint handlers (like the Adjudicator's Office) that these departments are responsible for as well as complaints about the department itself. These four departments account for over 85% of all the investigations we did about government departments and other public organisations last year.

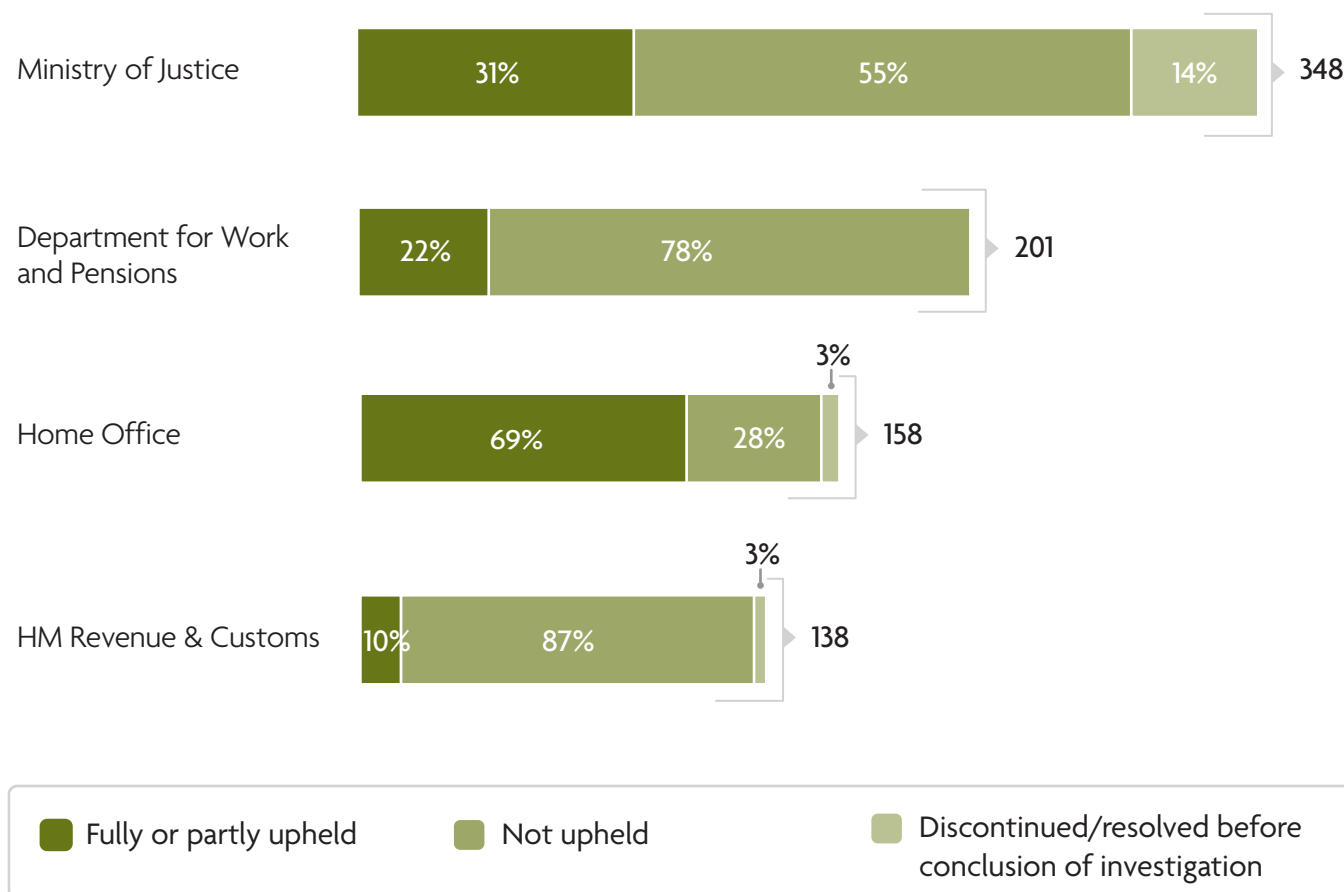
We investigated the most complaints about the Ministry of Justice and its agencies,

continuing the trend of previous years. Complaints about the Ministry of Justice made up roughly a third (35%) of all the complaints that we investigated about UK government departments and public organisations.

Overall, we upheld 33% of the complaints that we investigated about government departments and their agencies. There are some big variations in the proportion of complaints that we upheld about different departments. For example, we upheld seven in ten (69%) complaints about the Home Office, but only one in five (22%) of complaints about the Department for Work and

Pensions (DWP) and one in ten (10%) about HM Revenue & Customs (HMRC). These two departments both have second tier complaint handlers as part of their complaints process (the Independent Case Examiner for DWP and the Adjudicator's Office for HMRC) and this may partly explain why we uphold a smaller proportion of complaints about them. The smaller proportion of upheld complaints for HMRC is positive; it could be evidence that it is handling complaints particularly well within its organisation or that there were no grounds for some of these complaints in the first place.

## Completed investigations in 2014-15: volume and outcomes





## Case study: Failure to thoroughly investigate complaint about airport staff

Ms W came to the UK to study English, so that she could then apply for a visa to come and live here with her British husband. Before being granted entry, she was questioned by Border Force officers at Heathrow Airport about her proposed visit.

She complained to Border Force that one of the officers had been aggressive and intimidating.

Border Force investigated Ms W's complaint, but as the officer in question could not recall the incident, which had happened less than a month before, it could not substantiate the complaint.

We looked into Border Force's investigation of Ms W's complaint and we found that it was poor.

It took no further action when the officer said she did not remember the incident, and did not speak to a second officer who had been present when the officer had questioned Ms W. It also made no attempt to find out if CCTV footage of the incident still existed.

Although CCTV footage had no sound, it may have helped Border Force with its investigation because Ms W had said that the officer had stood very close to her in an intimidating manner. Border Force also did not try to identify the senior officer who had been dismissive when Ms W had raised the complaint at the airport.

Following our own investigation, Border Force apologised to Ms W and paid her £150. It also agreed to review its guidance on complaint handling to improve the way it investigates complaints.



## Reasons for complaints about government departments and other public organisations: concerns about service

Service delays came up more than any other issue in the complaints that we upheld about government departments and other public organisations. As with complaints about the NHS, communication failure was also a common theme.

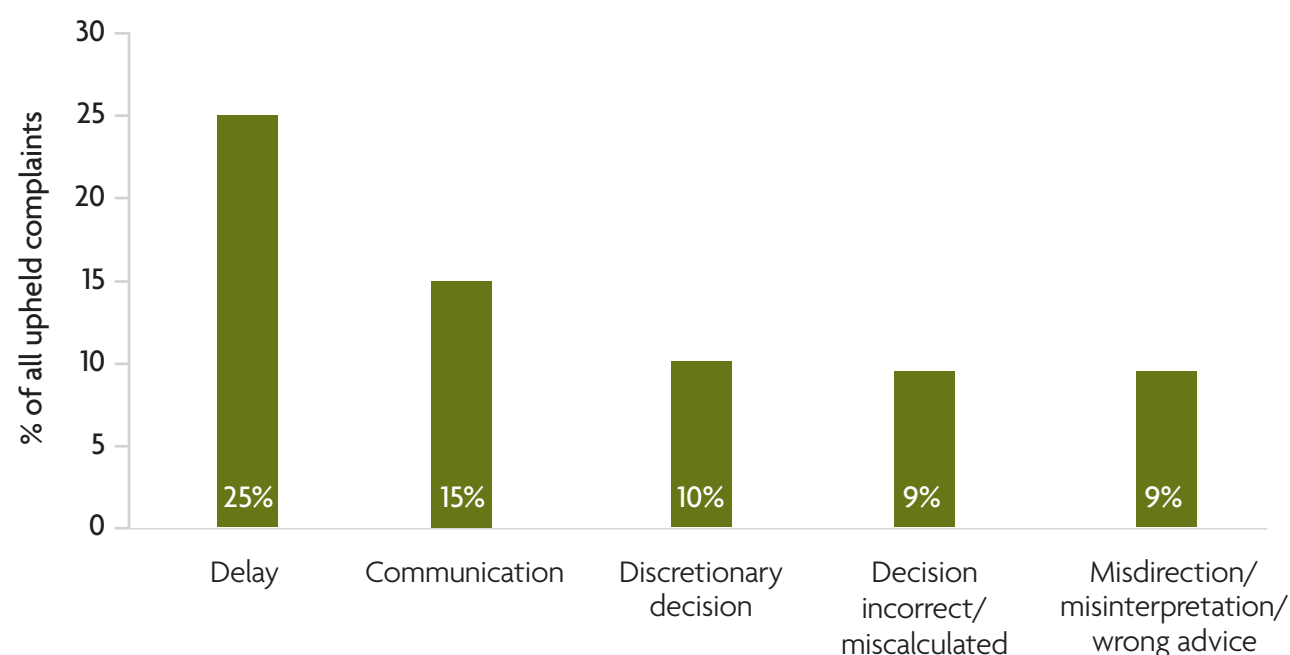
## Reasons for complaints about government departments and other public organisations: concerns about complaint handling

The most common reason for complaint handling to have fallen short at a local level, according to our data, was a failure to give an appropriate apology or to do enough to put things right for the person complaining. This was a factor in 40% of the complaints that we upheld.

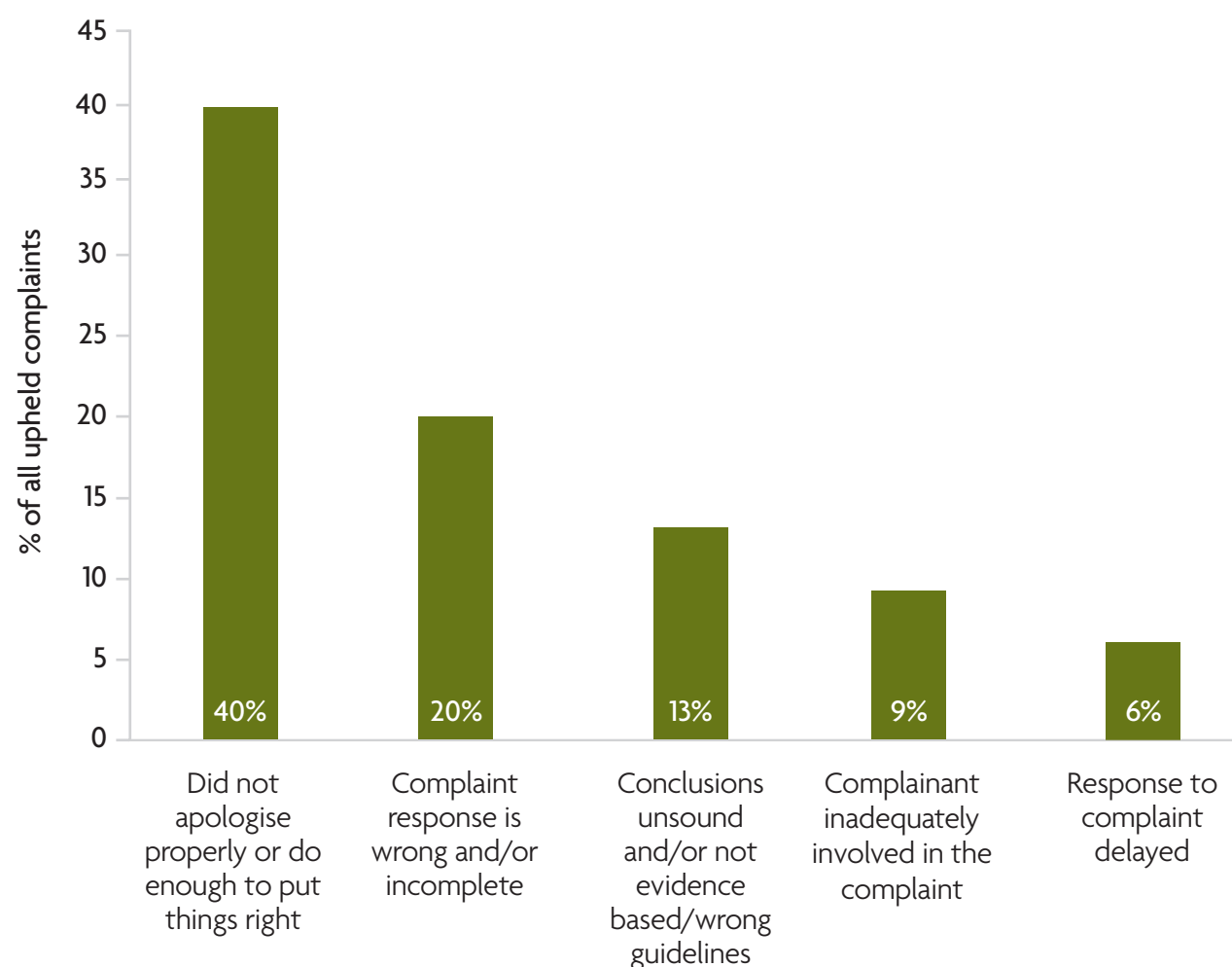
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<sup>12</sup> Complaints can involve more than one issue, so the percentages in the two charts on page 37 don't add up to 100%.

### Top five most common issues raised in the complaints we upheld about government departments and other public organisations, 2014-15<sup>12</sup>



### Top five most common complaint handling concerns raised in the complaints we upheld about government departments and other public organisations, 2014-15



# Working with others

We share the unique insight from our casework with Parliament to help it to hold the NHS in England, government departments and other public organisations to account for the services they provide. We also share this learning more widely, with the organisations we investigate, with regulators and policy makers to help them to improve complaint handling and public services for everyone.

Our role is to shine a light on the changes that are needed but it is for others to take these forward. Our work in the last year has helped to bring about real and lasting change.

## Sharing insight from our everyday work

In 2014-15 we began to regularly publish anonymised summaries of a selection of our investigations on our website. These provide a snapshot of the complaints we deal with every day.

All organisations that provide public services can learn something from the summaries. MPs and members of the

public can also see the types of complaints we deal with, and what we can do to help. We hope that seeing how we've helped others, gives people confidence to complain themselves when things go wrong.

We published more than 600 summaries of cases during the year, and they are one of the most popular features on our website.

## A safer NHS for mothers and babies

Our report on midwifery supervision and regulation led to positive steps towards improving safety for mothers and their babies.







We published more than 600 summaries of cases during the year, and they are one of the most popular features on our website.

In our report, *Midwifery supervision and regulation: recommendations for change*, published in 2013-14, we revealed that the lives of mothers and babies could be put at risk because supervisors of midwives have two potentially conflicting roles. On the one hand they investigate incidents their peers are involved in, and on the other they are responsible for the development and support of these same people. We found that this could put at risk the ability to identify and learn from mistakes.

We recommended that supervision and regulation should be separated as it is in other regulated professions, and that the Nursing and Midwifery Council (the regulator responsible for nurses and midwives) should be in direct control of regulating midwives.

A review by the King's Fund echoed our recommendations, and in January 2015 the Nursing and Midwifery Council voted to accept these recommendations and called for legislative change.

In July 2015 the Government made a commitment to legislation which will lead to more modern and robust regulation of the midwifery profession putting the safety of mothers and babies first.

## Acting on sepsis

Our report, *Time to Act*, published in 2013-14, had found

that faster diagnosis and treatment of sepsis could save thousands of lives. In 2014-15, Parliament's Public Administration Select Committee (PASC)<sup>13</sup> held a one-off hearing on our report.

Since then the Secretary of State for Health has announced measures to improve the diagnosis and treatment of sepsis, including training for healthcare workers, and asked Public Health England to explore the benefits of an awareness campaign. He also announced treatment goals for hospitals to help raise standards and plans for an electronic tool to prompt GPs to check for sepsis.

NHS England has created a cross system project board to improve the treatment and care of people with sepsis, and Health Education England has committed to making sure healthcare workers and trainees receive training and education on sepsis.

Following our recommendation, the National Institute for Health and Care Excellence (NICE) has been developing a guideline to improve the recognition and diagnosis of sepsis.

## End of life care

We presented evidence from our casework to Parliament's Health Select Committee demonstrating the poor care and treatment patients who were dying, and their loved ones, had received from the NHS.

We highlighted instances of poor communication between healthcare professionals and patients, and between different healthcare professionals. We found access to out-of-hours palliative care was often limited, and we identified a need for better training of healthcare staff.

The Committee cited our evidence in their report to Government in March 2015.

*"Our case work has shown that there is a need to communicate in a way that is both sensitive, but also makes clear the prognosis and what options there are for care based on the outcomes individuals may want for themselves. For this reason, it is vital that carers and family members and friends know who to speak to about any concerns they may wish to raise, and that staff are proactive and provide opportunities for concerns or fears to be raised and discussed."*

Our evidence, cited in a Health Select Committee report, *End of Life Care*

In May 2015, we published our own report on these issues. We called for the Ambitions for Palliative and End of Life Care Partnership<sup>14</sup> to use the learning identified in our report to underpin any new ambitions for end of life care, and for the whole of the NHS in England to make those ambitions a reality.

<sup>13</sup> The Public Administration Select Committee became the Public Administration and Constitutional Affairs Committee following the 2015 General Election.

<sup>14</sup> For more information about the partnership and its membership, visit [www.endoflifecareambitions.org.uk](http://www.endoflifecareambitions.org.uk).



Our report is helping to keep the spotlight on end of life care, and has been encouraging debate in Parliament.

## Avoidable death and harm

Our case work has highlighted significant variation in the quality of local NHS complaints investigations where these relate to an avoidable death or avoidable injury resulting in serious harm.

We reviewed 150 cases where the complainant (or their representative) had alleged in their complaint that they had suffered avoidable harm or death. The review looked at the quality of the NHS trusts' investigations into those complaints. We found that over one-third were not good enough to identify if something had gone wrong. 28 of the 150 should have been investigated by the NHS as a Serious Untoward Incident (SUI), but only 8 had been.

After hearing evidence from us, and other organisations, at an inquiry into NHS clinical incidents, the Public Administration Select Committee concluded that there is a significant gap in the capability of the NHS to conduct investigations about clinical incidents. It called for a new, national investigative body to provide leadership, resources and expertise, and to promote a just and open culture across the whole health system.



## Case study: Failure to diagnose breast cancer

A 41-year-old mother with terminal breast cancer was badly let down by her hospital.

The Trust did not carry out appropriate tests and wrongly reassured Ms G that she did not have breast cancer.

We found that if the cancer had been detected and treated when Ms G was first referred, it was unlikely the cancer would have become terminal.

A year later, tests revealed she had advanced inoperable breast cancer and secondary cancers of the liver, brain and bone.

Following our investigation, the Trust paid Ms G £70,000 for the pain, suffering and additional medical treatment caused by their service failure.

During our investigation we were pleased to learn that the Trust had taken action to prevent a recurrence of the failings we identified. This included setting up a mandatory training programme for all tumour site doctors (doctors dealing in cases where there is a possibility of cancer).

We also laid our investigation report before Parliament, calling for trusts to make sure there are mechanisms in place to identify and monitor patients that are at risk.





## Case study: Our Liaison Managers

During the year, two members of staff worked full time with complaint handlers in the NHS in England to increase understanding of our role, and help improve the way NHS complaints are dealt with.

They worked with NHS England's regional and local teams, sharing the findings from our casework to help organisations identify areas for improvement as well as recognising good practice. They gathered feedback to inform the development of our service charter (see page 20), and the networks they have been building are helping us to raise awareness of *My Expectations* - our user-led vision for health and social care complaint handling.

In July this year, we welcomed the Government's announcement to establish an Independent Patient Safety Investigation Service (IPSIS).

IPSIS will provide capability at a national level from April 2016, offering support and guidance to NHS organisations on patient safety investigations, and carrying out certain investigations itself.

We plan to publish findings of further research we have done, on how the NHS conducts these investigations, together with our conclusions and recommendations.

## Dentistry charges

Our casework highlighted that the current system for dental charges is confusing for both patients and dentists, and sometimes this means patients are overcharged. We supported the *Which?* campaign that called for greater transparency in dental charges.

We published examples of complaints we had dealt with on these issues, and called for dentists to explain treatment plans to patients and to be clearer about charges.

## Acute hospital trusts

Our statistical report into complaints about acute hospital trusts showed that poor communication, errors in diagnosis and poor treatment were the top three reasons for people to complain. We encouraged chief executives and trust board members to use

this data to examine how their organisation is performing relative to others, and to identify areas for improvement.

## Health and social care: My Expectations

In partnership with Healthwatch England and the Local Government Ombudsman, we launched *My Expectations* for raising concerns and complaints - patients' and service users' expectations for good complaint handling by the NHS and social care.

The public inquiry into the failings at Mid Staffordshire NHS Foundation Trust, the Government's response to it, and the Clwyd-Hart review into NHS complaints systems, have all highlighted the need for NHS and social care organisations to recognise the importance of people's complaints, to measure people's experience of complaining, and to make sure lessons are learnt from complaints. *My Expectations* is our response to this.

*My Expectations* is based on research we commissioned with over 100 service users, providers, and policy makers and describes what it feels like from the complainant's point of view when an organisation handles a complaint well. It aims to help NHS and social care organisations to measure how well they are responding to, and learning from, complaints.

The Care Quality Commission (CQC) now uses *My Expectations* as part of its regulatory

framework when it inspects organisations, to assess how responsive they are to complaints. We are working with NHS England to create a model survey that will support organisations across health and social care to measure to what extent they are meeting the measures contained within *My Expectations*, as well as using the learning from complaints. *The Freedom to Speak Up Review*, chaired by Sir Robert Francis, also adapted *My Expectations* for staff who are raising concerns.

In addition to the CQC and NHS England, *My Expectations* has the backing of the Department of Health, Monitor, NHS Confederation, the Trust Development Authority and NHS Providers - all have signed up to use the report to improve complaint handling - and we are supporting health and social care organisations to implement it across a variety of different care settings, including primary care.

## Working towards streamlined public ombudsman services

In 2014-15, with the Local Government Ombudsman, we supported the government in paving the way for the creation of streamlined public ombudsman services covering UK reserved matters and all public services delivered in England.

Our vision is for everyone, whoever they are, to be confident that complaining about public services is straightforward and fair and will make a difference. We are not

there yet. We know from our recent research that the majority (92%) of the public agree that they have the right to complain about a public service if they are unhappy with it, and 90% agree that someone who is unhappy with a service should complain.

However, only one in three of those who feel they have experienced poor service in the past 12 months went on to complain. Barriers to complaining included a belief that complaining wouldn't make a difference and that the process was too complicated.

The fact that there are currently several different ombudsmen, all responsible for investigating complaints about public services in England, can create added confusion.

Streamlining public ombudsman services will make it easier for people to know where to go to get final decisions on their complaints, and it will be easier for Parliament to hold the Government to account, and better value for money for the taxpayer.

This year's Cabinet Office consultation on the recommendations made by Robert Gordon was a significant step forward, and in May of this year the Queen's Speech made a firm commitment from the new Government to introduce draft legislation. We will continue to work closely with the Cabinet Office, the Local Government Ombudsman and other stakeholders to realise this vision for change.



“A service that is safe, responsive and well-led will treat every concern as an opportunity to improve, and will respond to complaints openly and honestly. These expectations for complaints handling published today are consistent with the good practice we look for.”

David Behan,  
Care Quality  
Commission chief  
executive, responding  
to *My Expectations*.



# Our organisation, our people

We recognise that we are operating in a challenging austerity environment and that we must demonstrate that we can deliver more impact for more people at a reduced level of investment from the public purse.

## Delivering greater value for money

In 2014-15 we delivered ten times more investigations than we did in 2012-13, thanks to the commitment and dedication of our staff. As we move towards a streamlined public ombudsman service, we recognise there will be opportunities to become more efficient and effective and achieve greater value for money. We will focus on how we can make savings through smarter ways of working, further investment in technology, re-sizing our corporate teams, and reducing our office accommodation costs.

We have already started to identify these opportunities. We're changing the way we conduct investigations so they are more efficient and transparent and we're adopting more modern working practices to improve performance and customer experience.

And we are making more use of technology, including developing our online complaint form to make it easier for people to bring complaints to us and to help us be more efficient in the way we handle complaints.

### **In 2014-15 we achieved the following against our strategic plan:**

#### **Aim 1**

Increased public awareness of our service from 19% to 22%.

Launched an online complaint form to make it easier for people to bring complaints to us.

#### **Aim 2**

Completed 5,058 investigations and resolutions.

Reduced the average length of an investigation from 137 days to 117 days.



### Aim 3

Our evidence on end of life care and on the quality of NHS investigations has enabled Parliament to hold Government to account.

Government has committed to legislate to improve safety following our report on midwifery supervision and regulation.

But there is more we need to do to make sure we are giving the taxpayer value for money and to improve our service. When considering how we can achieve this, we recognise that any efficiencies must be considered in light of us being able to deliver a safe service and the impact we expect to have.

## Preparing for a streamlined public ombudsman service

The Government has committed to draft legislation which will streamline public ombudsman services. As a practical step towards the changes, during the year we started work to align our back office processes with the Local Government Ombudsman. This included moving onto the same finance system. The new system fulfils many of the recommendations of the National Audit Office for best practice and has been designed to introduce a standardised rigour in the procurement process. We also set up a separate joint working team, comprising staff from both our organisations, to handle investigations of cases which cover our two remits.

### Aim 4

Introduced user-led vision to raising health complaints (*My Expectations*) which is being adopted by the NHS in England.

Government has committed to draft legislation which will streamline public ombudsman services.

### Aim 5

In 2014-15 our net operating costs were £36,809,000 and we delivered 5,058 investigations and resolutions.

In 2013-14 our net operating costs were £34,793,000 and we delivered 2,408 investigations and resolutions.

We're changing the way we conduct investigations so they are more efficient and transparent...

## Listening to our people

Our staff experienced a continued period of change last year as we adapted to the significant increase in the number of investigations we do and developed new ways of working to modernise our service. We made improvements to how we communicate with our staff through a new intranet, a series of employee listening sessions led by the Managing Director and Deputy Ombudsman, and quarterly events for our managers. But we did not do as well as we could at helping and supporting our staff through the changes.

In March 2015 we were reassessed against the core Investors in People (IiP) standard and met this. We are doing well in some areas, such as in the induction and training we give our staff, and the passion our people feel for their work, but the review also highlighted communication as something we need to get better at. As the pace of change continues for our organisation, we need to improve how we engage, consult and inform our staff to bring them along on our journey to become a modern ombudsman service.

## Developing our staff

In 2014-15 our staff took part in 2.5 days of formal training on average, across a range of topics including continued professional development and personal effectiveness. While this is below our target of five days of formal training, our staff also had opportunities for informal

learning, for example, through our on-line learning portal, away days (including an annual all staff event), one to one coaching and ongoing feedback and support within teams.

We overhauled our approach to inductions for people who join us, and introduced an on-line workbook and videos to make the process easier and interactive. We introduced a programme of quarterly training events for our investigations staff, and provided a suite of training events for new investigators.

## Rewarding our staff

We developed a new approach to pay and performance, based on paying the market rate for our job roles and on performance based reward. Measures of performance include productivity, quality, and behaviour competence. We are introducing the system in 2015-16, demonstrating our commitment to use public money to deliver value.

## Our staff profile

We think a diverse workforce is an asset. It can bring a wide range of skills, experience, ideas and viewpoints into our organisation, and can help us to better understand our customers.

In 2014-15 we started to expand our diversity profile monitoring to actively encourage greater diversity within our workplace. The table on page 47 shows the opening position at the end of quarter 1 and the closing position at the end of the year.

This year we will continue to actively encourage diversity at all levels within our organisation through external recruitment and internal promotion.

## Staff numbers

At the end of March 2015, the number of staff we employed was 446 full-time equivalents (FTE). The average number of people employed by us during 2014-15 was 423 FTE.

Staff turnover was 18.7%; lower than the 21.3% in 2013-14. This is higher than the public sector benchmark of 9.4%. If we exclude staff who left on voluntary exit terms, or who were employed on fixed term contracts, our staff turnover reduces to 9.4%.

## Sickness absence

Sickness absence increased from 5.6 days to 6.6 days per FTE. This was actively managed throughout the year with no particular trends or patterns identified. This takes us above our target of four days per FTE but remains below the public sector average of 7.9 days. Long-term absence accounts for 46% and short-term absence accounts for 54%.



## Our staff profile

	Q1 - June 2014	Q4 - March 2015	UK population benchmark where available
Female	59%	62%	51%
Black, Asian and minority ethnic (BAME)	17%	16%	14%
Disabled	9%	9%	19%
Lesbian, gay, bisexual and transgender	5%	5%	-
Religious belief	81%	82%	-
Part time	21%	19%	-
Age 50+	26%	25%	-

## Our staff profile by grade as of March 2015

Grade	BAME	Disabled	Female
0/1 – Executive leadership, director and senior executive	8%	0%	54%
2 - Senior manager	28%	2%	48%
3/4/5 - Middle manager, junior manager, supervisor, senior technician and senior support (this includes our caseworkers and investigators)	13%	8%	64%
6/7/8 - Senior clerical, technician and support, skilled support and semi-skilled support	28%	15%	65%

“...the majority of people do continue to recognise that PHSO remains at heart a good place to work and still has a purpose they believe in. PHSO is seen by most as a good, caring employer.”

Investors in People report



# Our Board

We recruited two new non-executive Board members at the end of 2014-15 with experience in consumer advocacy, complaints and health. We also appointed an Executive Director of Finance and Governance, reflecting our focus on these issues at Board level.

## Executive Chair

**Dame Julie Mellor, DBE** was appointed Parliamentary and Health Service Ombudsman on 3 January 2012.

She was chair of the Equal Opportunities Commission from 1999 to 2005. Her career spans the public and private sectors including being a partner at PricewaterhouseCoopers and HR Director at British Gas.

She is a former board member of the Commission for Racial Equality and the National Consumer Council and is currently on the Board at Nesta, the national innovation organisation.

In 2006, she was made a Dame Commander of the Order of the British Empire (DBE) for her services to equal opportunities.

## Non-executive members

Our non-executive Board members bring an external perspective to our corporate governance. They come from diverse professional backgrounds and bring a wide range of experiences.

**Peter Freedman** has over 30 years' experience working in the consumer goods, retail and healthcare industries. He is currently the Managing Director of the Consumer Goods Forum, an organisation of the world's leading retailers and consumer goods manufacturers, which implements programmes for positive change in areas including environmental and social sustainability, product safety, and health and wellness. He is also a non-executive director of a health food business and a trustee of a food waste charity. Previously he has served as a non-executive director of the Whittington Health NHS Trust

## Current membership of our Board



**Dame Julie Mellor, DBE**  
Ombudsman and Chair



**Peter Freedman**  
Non-executive member



**Dr Jane Martin**  
Non-executive member



**Ruth Sawtell**  
Non-executive member  
- Since April 2015



**Sir Jon Shortridge, KCB**  
Non-executive member



**Dr Julia Tabreham**  
Non-executive member  
- Since April 2015



**Helen Walley**  
Non-executive member



**Mick Martin**  
Managing Director and  
Deputy Ombudsman



**Gill Kilpatrick**  
Executive Director of Finance  
and Governance  
- Since May 2015

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## Previous members

**Sharmila Nebhrajani OBE**  
Non-executive member  
- Until July 2014

**Mike Proctor**  
Executive Director of Business  
Transformation  
- Until July 2015

**Sally Sykes**  
Executive Director of External  
Affairs and Strategy  
- Until August 2015

and was a director of McKinsey & Company where he led their European consumer goods practice.

**Dr Jane Martin** is the Local Government Ombudsman (LGO) and Chair of the Commission for Local Administration in England. She has extensive knowledge and experience of delivering public services. She conducted research into public management and governance in the fields of education, health and local government at the University of Birmingham and Warwick Business School. She has worked with local authorities across England for the Improvement and Development Agency for Local Government (IDeA) and was the first Executive Director of the Centre for Public Scrutiny. Before joining LGO, she was Deputy Chief Executive at the Local Better Regulation Office, and a non-executive director of Coventry Primary Care Trust.

**Ruth Sawtell** has had a long career as a board member in organisations that handle complaints, in both the health and consumer sectors. She is currently a board member at PhonepayPlus, where she was previously an independent member of the appeals panel. Ruth recently completed a six-year tenure as a Council member at the Advertising Standards Authority, where she was Deputy Chair. Previously, she acted as an adjudication panel member, a lay council member and Chair of the Audit Committee at the Nursing and Midwifery Council. Before this, Ruth was a non-executive director at Hertfordshire Partnership University NHS

Foundation Trust, where she also worked as a *Mental Health Act* manager, adjudicating on patient detentions under the *Mental Health Act*.

**Sir Jon Shortridge, KCB**, is an experienced public servant and leader and was Permanent Secretary in Wales between 1999 and 2008. He is currently Chair of Volunteering Matters, the largest volunteering charity in the UK, and Chancellor of Glyndwr University. He is an advisory member of the Commission for Local Government in England and is Chair of its Audit Committee. Sir Jon also chairs our Audit Committee.

**Dr Julia Tabreham** has worked in the third sector for 23 years after an early career in banking. In 1992, she established the Carers Federation, which delivers a range of advice and support services to carers and organisations in the healthcare sector. These have included ICAS (Independent Complaints Advocacy Service), patient and public involvement forums and most recently Healthwatch Pathfinders and Healthwatch Local. She also serves on the National Institute for Health and Care Excellence (NICE) Guideline Development Group for mental health in the criminal justice system and has been a non-executive director in the NHS for 15 years.

**Helen Walley** trained as a nurse and has had a long career in the NHS in both primary care and hospitals. She was Chief Executive at the Mayday Hospital for three years and before that she ran Wandsworth PCT. She now works as a consultant and is Chair of the Governors at

Croydon College. Helen was appointed from September 2012 following open competition.

## Executive members

Our executive members form part of the Executive Team.

**Mick Martin's** 25-year career in management has spanned the public and private sectors. He was on the Board of Derbyshire NHS Foundation Trust, serving as Deputy Chair and then Chair. He was the Royal Mail's Quality and Service Integrity Director and a partner in a consulting company driving business performance.

**Gill Kilpatrick** is a qualified accountant with 25 years experience of financial management. She has worked in a number of financial roles across local government, including four years as County Treasurer for Lancashire County Council and Lancashire County Pension Fund. Gill was appointed to the role of Executive Director of Finance and Governance on 1 May 2015.



# Governance statement

## 1. Statutory position and scope of responsibilities

The Parliamentary and Health Service Ombudsman combines two statutory roles of Parliamentary Commissioner for Administration (the Parliamentary Ombudsman) and Health Service Commissioner for England (the Health Service Ombudsman), whose powers are set out in the *Parliamentary Commissioner Act 1967* and in the *Health Service Commissioners Act 1993* respectively. A Regulatory Reform Order enables the Parliamentary and Health Service Ombudsman and the Local Government Ombudsman to carry out joint investigations.

The Ombudsman service makes final decisions on complaints that have not been resolved by the NHS in England and UK government departments and other UK public organisations. We do this independently and impartially. We are a free service, open to everyone.

In law, the Ombudsman has a personal jurisdiction. He or she is accountable for casework decisions and, as Accounting Officer, for the proper conduct and administration of work carried out by his or her office. Casework decisions can be judicially reviewed by application to the courts. The Ombudsman is appointed for seven years by the Queen, following a process led by Parliament. I took office as Ombudsman on 3 January 2012.

We have chosen to strengthen our governance by establishing a unitary board. The Ombudsman is Chair of the Board. Although not part of Government, we seek to comply with the spirit of the HM Treasury and Cabinet Office's *Corporate governance in central government departments: Code of good practice*, and the HM Treasury's *Managing public money*. Having a Board facilitates such compliance.

We account to Parliament through our *Annual Report* and Accounts, which are audited by the National Audit Office. Parliament's Public Administration and Constitutional Affairs Committee hold an annual scrutiny hearing following the publication of this report.

## 2. Summary

This statement sets out the key challenges faced by the organisation, the issues that have arisen, the risks that remain, and the system of control to manage those risks. The statement is set out in three sections to describe our governance arrangements and the effectiveness of our Board (section 3, page 54); the governance, risk and control issues we have faced this year (section 4, page 59), and the audit opinions provided by our internal auditors and the Audit Committee (section 5, page 65).

2014-15 was the second year of our five-year strategic plan to achieve more impact for people failed by public services. We are in the process of a very significant transformation. The implementation of our strategic plan has led to a substantial increase in the number of investigations on complaints from just over 2,000 in 2013-14 to just over 4,000 in 2014-15 while maintaining satisfaction levels. We have published hundreds of case summaries and reported to Parliament on organisations' repeated mistakes to support their role in optimising learning from complaints.

Our proposals for streamlining public ombudsman services have been supported by Parliament and Government, and our vision, led by people who use our service, for raising concerns and complaints in health and social care has been adopted by NHS organisations to enable them to measure improvements in complaint handling. These results have delivered greater value to the public and we have also further reduced the cost per case investigated, which provides better value for money for the taxpayer.

We have made important steps to further develop our governance, which is vital to managing the challenges our organisation has faced in 2014-15:

We are:

- Developing, and beginning the implementation of a systematic approach to providing assurance on the quality of our casework, including the establishment of a Quality Committee which reports to the Board;
- Strengthening our experience and expertise of consumer advocacy, health, and complaints by recruiting additional non-executives to bring external perspective and challenge; and

- Improving transparency of our decision-making through publishing Board minutes, our performance information, and the National Audit Office's report into our procurement processes on our website.

However, we face considerable organisational challenges, and attention to risk management will be critical to making sure we take actions to mitigate them in good time. We are now meeting demand for our service, but this achievement has been at a cost to our staff morale and engagement, and there have also been delays at key points in delivering our service, which has resulted in people waiting too long.

This is an important area of focus for us, and work is in progress to introduce a new service model to make sure we deliver a consistent service in compliance with clear and transparent processes and embeds quality assurance. These changes, combined with providing greater clarity about our role, will give people more confidence in the soundness of our decision-making, and as a result, improve public confidence in our service.

We receive our annual funding from Estimates (our proposed budget for the year) that are sanctioned by HM Treasury and approved by a vote of Parliament.

Our funding consists of four elements:

- Voted Resource DEL (Departmental Expenditure Limit), which includes the cash funding required to pay for our day-to-day operational expenditure;
- Non-voted Resource DEL, which includes the notional funding required to pay for the salary (and on-costs) of the Ombudsman, which is directly funded separately;
- Voted Resource AME (Annual Managed Expenditure), which includes the non-cash funding required to create, increase or utilise, accounting provisions for the year; and
- Voted Capital DEL, which includes the cash funding required to pay for investment in non-current assets.

In addition, we have a Net Cash Requirement total which sets the total cash available that we must work within.

Our 2014-15 accounts have been qualified as a result of exceeding our 2014-15 net cash requirement. The breach of our net cash requirement is a serious failure in our control framework. I have taken immediate action to identify the weaknesses in the control framework by commissioning an independent review by our internal auditors, KPMG, and to strengthen our cash management and reporting controls.



KPMG have concluded that the breach of our net cash requirement was due to inadequate cash flow forecasting and management. Further details on this, and the steps we have taken to resolve this, are set out in section 6. It is important to stress that all expenditure and income were properly made and accounted for, and the accounts represent a true and fair view of our financial affairs.

As part of our financial efficiency plans, we vacated some of our accommodation at Millbank Tower and sub-let this to create an income stream and reduce our costs. However, this has now created an onerous lease for us in 2014-15, and in accordance with proper accounting practice under International Accounting Standard 37, we have made provision for this within the accounts. Creating this provision will result in an excess of our Resource AME Estimate, and a further accounting qualification.

This breach is also a serious failing. It arose because inadequate consideration was given to the financial reporting implications of the changes arising from lease arrangements. As a result the necessary provision was not sought during the Supplementary Estimates process. The steps we have taken to resolve this are set out in section 4.3.

Both these failures have resulted in the qualification of the Comptroller and Auditor General's (C&AG) regularity opinion. I am confident however, that the measures I have put in place to strengthen financial controls and improve governance will ensure that there is no recurrence of these issues in future, and that the matters reported by the C&AG to Parliament are being addressed appropriately.

**Dame Julie Mellor, DBE**  
**Chair, Ombudsman and**  
**Accounting Officer**

**27 October 2015**

## 3. Our governance framework

### 3.1 Our governance arrangements

At the end of the 2014-15 business year (the second year of our five-year strategic plan), the Board was made up of eight members: the Chair, four non-executive, and three executive members. Three new Board members were recruited at the end of 2014-15.

Two non-executive directors were appointed with experience in consumer advocacy, complaints and health. A permanent appointment was made to the new role of Executive Director Finance and Governance, reflecting our focus on these issues at Board level. We have further strengthened the Audit Committee through the appointment of an independent Audit Committee member.

The Board is of the view that its members have an appropriate and diverse mix of skills, experience and qualities to carry out its duties effectively. The Board is supported by four committees.

The Ombudsman chairs the Board and is the Accounting Officer. The respective roles of the Board and its committees, Ombudsman, Managing Director and Deputy Ombudsman are described diagrammatically below and in more detail on the next page.



## The Board

### Responsible for:

- Leadership, performance scrutiny, risk and governance, the preservation and building of public confidence.

### Matters reserved for the Board include:

- Vision, mission, strategy and key policies
- Annual business plan and budget
- Annual report and accounts
- External expenditure above £100k.

## Audit Committee

### Responsible for:

- Providing assurance to the Board based on the work of external and internal audit
- Financial reporting
- Internal financial controls
- Assurance of risk management processes.

## Remuneration and Nominations Committee

### Responsible for:

- Reviewing and agreeing Executive Director pay and performance review arrangements, including criteria for any performance related pay elements
- Confirming appointments and remuneration of PHSO Board members
- Determining the skills needed for the PHSO Board.

## Quality Committee

### Responsible for providing assurance to the Board that:

- Appropriate quality assurance mechanisms are in place

- Quality reporting to the Board is accurate
- Plans are in place to address any gaps identified, and to maintain and improve levels of quality reported.

## Convergence Committee

### Responsible for:

- Overseeing convergence work that takes place between the Parliamentary and Health Service Ombudsman and the Local Government Ombudsman, and making recommendations to both boards as needed.

## The Chair

### Responsible for:

- Leadership of the Board
- Speaking on behalf of the organisation
- Making judgements on behalf of the Board between meetings
- Reflecting the Ombudsman's statutory accountability, the post holder has the right to disagree with the Board's decisions, but will do so as a last resort and put their reasons in writing to the Board.

## Accounting Officer

### Responsible for:

- Accountability to Parliament, for stewardship of resources within our control through good governance, quality decision-making and good financial management
- Personal responsibility for regularity and propriety, programme appraisal, affordability and sustainability, value for money, management of opportunity and risk, learning from experience, and

accounting for financial position and transactions.

These accountabilities are discharged through assurance via the Managing Director (the Accountable Officer) and through Board and Audit Committee assurance and challenge.

## Ombudsman

### Responsible for:

- Making final decisions on cases under our delegation scheme
- Making final decisions on recommendations where we identify big or repeated mistakes
- Speaking on behalf of the organisation on case decisions and leading relationships with those we seek to influence.

Executive leadership is delegated to the Managing Director and Deputy Ombudsman.

## Managing Director and Deputy Ombudsman

### Accountable to the Board for:

- Leadership of the organisation
- Development and execution of the business plan
- Delivery of service and quality
- Leading relationships with operational stakeholders
- As Accountable Officer, assuring the Accounting Officer regarding effective operations and high standards of probity in the management of public funds, and making sure that the Accounting Officer can meet the personal requirements of the role
- Making final decisions on cases under our delegation scheme.

## Dates of appointments and attendance at Board and Committee meetings

This table displays the attendance of executives and non-executives at meetings where they are members of the Board or of the Committee in question.

Permanent Board members	Date of appointment	Date of expiry	Attendance (seven meetings in 2014-15 including Board conference calls)	Audit Committee (four meetings in year)	Remuneration and Nominations Committee (three meetings in year)	Joint Convergence Committee (four meetings in year)
Dame Julie Mellor (Chair)	2 January 2012	1 January 2019	7	N/A	N/A	4 (As Parliamentary and Health Service Ombudsman)
<b>Non-executive members</b>						
Peter Freedman	1 September 2012	31 August 2017	7	4	N/A	N/A
Dr Jane Martin	1 February 2014	10 January 2017	7	N/A	3	4 (As Local Government Ombudsman)
Sharmila Nebhrajani OBE	1 January 2013	31 December 2015*	2*	1*	N/A	N/A
Sir Jon Shortridge, KCB	1 April 2013	31 March 2018	7	4 (Chair)	3	4 (Chair)
Helen Walley	1 September 2012	31 August 2017	7	4	3 (Chair)	N/A

\*resigned in July 2014 to take up full time appointment elsewhere.

Permanent Board members	Date of appointment	Date of expiry	Attendance (seven meetings in 2014-15 including Board conference calls)	Audit Committee (four meetings in year)	Remuneration and Nominations Committee (three meetings in year)	Joint Convergence Committee (four meetings in year)
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### Executive members

Mick Martin (Managing Director and Deputy Ombudsman)	11 November 2013	N/A	7	N/A	N/A	N/A
Mike Procter (Executive Director Finance and Governance)	20 May 2013	1 July 2015 (Fixed term)	7	N/A	N/A	N/A
Sally Sykes (Executive Director External Affairs and Strategy)	23 September 2013	N/A	7	N/A	N/A	N/A

## 3.2 Maintaining effective governance - the work and effectiveness of the Board and its committees

### Ensuring the Board's effectiveness

As a critical part of making sure we manage the challenges we face as an organisation, we review how the Board operates on an annual basis. This is so that the Board is effective in its role, and we also identify how the Board can develop. The themes and actions from our annual Board effectiveness review are described in the table below.

2014-15 themes	Action planned	Progress
Making sure the Board develops more impact for the organisation, both internally and externally	<p>Determining Board assurance requirements in order to inform the development of a corporate assurance framework</p> <p>External impact:</p> <ul style="list-style-type: none"> <li>Individually and collectively listen to and engage with external stakeholders</li> <li>Determine Non-Executive Director and Executive Director roles in stakeholder engagement</li> </ul>	<p>In progress</p> <p>Assurance requirements included in our governance arrangements. Work finalised in 2015-16 to develop appropriate mechanisms to demonstrate assurance required</p> <p>All Board members have responsibilities in the stakeholder management plan</p>
Getting to know and understand PHSO	Develop a Board 'buddy' system for executive and non-executive directors	'Buddies' identified and area of special interest identified for each non-executive director. Non-executives feed insight into each Board meeting
Board focus on priorities	Board focus on: service design and delivery, staff engagement, championing the role of the Ombudsman	Board agendas - Executive and Chair make sure the Board is focused on priorities
Define our values	Shared values identified by the Board	Executives to use Board values to inform development of organisational values with staff in 2015-16
Bring greater depth to risk analysis	Board to focus on the content of level of risk and adequacy of mitigation	<p>Implemented in year.</p> <p>Audit Committee to focus on risk management for each strategic aim and seek/test assurance that appropriate management arrangements are in place</p>

360-degree feedback was obtained for each Board member and fed into their annual appraisal. The senior Non-executive Board member, Sir Jon Shortridge, conducted an annual appraisal of the Chair.



## 4. The governance, risk and control issues we have dealt with this year

### 4.1 The Audit Committee

During 2014-15 the Audit Committee considered 12 internal audit reviews. Of these reviews, two provided a 'significant assurance' opinion:

- Overtime and flexitime
- Governance and risk management

Six reviews provided a 'significant assurance with minor improvement opportunities' opinion:

- Strategic and annual planning
- Staff recruitment and exit processes
- Corporate performance management
- Procurement
- Financial and accounting systems
- Casework process and quality assurance

Four reviews provided a 'partial assurance with improvements required' opinion:

- Budgeting and financial reporting - this report made significant recommendations in respect of PHSO's transition to a new finance system and feedback from budget holders. The Audit Committee noted management's assurance that the successful implementation of the

new finance system, and its associated benefits, would address the issues raised in the report.

- Customer services - this report made significant recommendations; recognising that there had been a large amount of developmental change in our customer services and that this developmental change continued. The Audit Committee noted management's response to the findings and required a follow-up review to take place in 2015-16 to check that planned management actions were effective in addressing the issues raised in the report.
- Financial and accounting systems: data migration - this report made significant recommendations; having found a lack of documented evidence to support the processes and controls in place during data migration to a new finance system. The Audit Committee noted management's response to the findings, and required assurance during 2015-16 that these had addressed the issues raised in the report.
- Medium term financial planning - reflecting the need to make sure plans are in place to deliver the required savings. The Audit Committee noted management's response to the findings, and required assurance during 2015-16 that these had addressed the issues raised in the report.

Our internal auditors undertook an additional review outside the 2014-15 internal audit plan at the request of management. This examined the causes of the breach in our cash control total and made a number of important recommendations on how our treasury management and associated control framework needs to be strengthened. We have accepted all the auditors' recommendations and these are being implemented as a priority. Further details on this are set out in section 4.3. The Audit Committee will be seeking assurance in 2015-16 that the new control system has been fully implemented and is operating effectively.

### 4.2 Managing the risks in order to deliver our strategic aims

Throughout the year we assess how achieving our aims can be affected by the risks we face, and have a system of internal controls designed to mitigate those risks. With one exception, we have completed all the actions in the assessment scheduled in last year's governance statement. The one action remaining is to conduct a value for money review against investment in delivery of our strategy. This is scheduled for 2015-16.

We have strengthened our approach to risk management in 2014-15. It is not possible to eliminate all risks, but we aim to reduce the likelihood of risks occurring and to mitigate the potential impact. We aim to manage them efficiently and effectively, balancing the potential impact of risks against the cost of controls.

The Board's focus remains on delivering our strategic aims, and reviewing the risks which could either prevent, or hinder the achievement of those aims. The Board has set out expectations for their delivery, together with the lowest level of achievement acceptable before intervention by the Executive or Board.

The table below outlines the key high level strategic and underlying causal risks to the organisation's achievement of its strategic aims, which are being actively managed by the Executive Team with the oversight of the Board and Audit Committee.

Strategic aim	Risks to the achievement of our aims
Aim 1: Make it easier for people to find and use our service	<ul style="list-style-type: none"> <li>• Lack of public profile (people not knowing to come to us)</li> <li>• Lack of diverse access channels, including digital</li> <li>• Barriers to access</li> <li>• Adverse publicity in respect of specific cases</li> </ul>
Aim 2: Help more people by investigating more complaints and providing excellent customer service	<ul style="list-style-type: none"> <li>• Organisational capability cannot be harnessed quickly to achieve 'more impact for more people' promises</li> <li>• Operational changes have less impact than expected on performance</li> <li>• Pace of change is too ambitious to meet challenging targets and deliver the expected benefits</li> <li>• Poor engagement with staff leading to difficulty embedding change</li> </ul>
Aim 3: Work with others to use what we learn from complaints to help them make public services better	<ul style="list-style-type: none"> <li>• Lack of capability to systematically generate insight from casework</li> <li>• Ineffective planning and/or engagement with the Public Administration and Constitutional Affairs Select Committee and Cabinet Office</li> <li>• Ineffective engagement with organisations we investigate and regulators</li> <li>• Lack of urgency and/or resources to develop systemic themes</li> </ul>
Aim 4: Lead the way to make the complaints system better	<ul style="list-style-type: none"> <li>• Ineffective engagement with the Public Administration and Constitutional Affairs Select Committee and Cabinet Office</li> <li>• Loss of authority due to adverse publicity</li> <li>• Relying on others for implementation of shared vision</li> </ul>

Aim 5: Develop our organisation so that it delivers these aims efficiently and effectively	<ul style="list-style-type: none"> <li>• Pay and reward system</li> <li>• Failure of corporate governance and controls</li> <li>• Poor engagement and low morale of staff regarding transformational changes and pace required. Lack of clarity around the change and how it translates to operational effectiveness</li> <li>• Lack of change control and planning needed to identify change impacts and interdependencies</li> <li>• Impact of external criticism on staff morale</li> <li>• Capability and capacity of finance function</li> <li>• Ineffective budget delegation and financial management reporting</li> <li>• Unexpected impact of events, for example, IT disruption</li> </ul>
Overall reputation, resilience and public confidence in us	<ul style="list-style-type: none"> <li>• Failure to sustain and improve public confidence in our service</li> <li>• Impact on staff engagement arising from criticisms of our service</li> <li>• Qualification of our accounts, including breaches of <i>Managing public money</i> standards</li> <li>• Increased volume of investigations means that although we uphold 37% of our cases, there are a greater number of cases that are not upheld which intrinsically links to dissatisfaction with the outcome of our service. This is in line with other ombudsman services</li> </ul>

## The effectiveness of risk management

The majority of our strategic risks were effectively managed in 2014-15, and this is underlined by the further step change in service provision and external impact we have been able to deliver.

However, there are lessons from the breach of our cash control total, and we shall be further strengthening our risk management arrangements in relation to financial reporting.

In order to make sure we manage the risks to the delivery of our aims effectively, we must focus on the other key challenges. The Board will focus its attention in 2015-16 on the following:

- Make sure we manage the issues which could prevent, or hamper delivery of Aim 2 – to help more people by investigating more complaints and providing excellent customer service
- Improve staff engagement as it is critical to our success and delivery of our aims; staff engagement will be a key focus for the Board
- Enhance our reputation, resilience and public confidence in our service, and
- Make sure we manage public funds effectively.

### 4.3 Managing resources

The 2014-15 audit of the accounts by the National Audit Office identified that we had exceeded our net cash requirement in 2014-15, as a result of inadequate cash flow, forecasting and monitoring. This led to an overdraft on our bank account at 31 March 2015. By exceeding the net cash requirement, we

have exceeded the limits voted by Parliament, leading to an automatic qualification of the accounts.

An investigation by our internal auditors into this has shown that we had inadequate cash flow forecasting in place during the year, with inaccurate reporting to the Board against the cash control. In part, these failures

were due to high staff turnover within the finance team, resulting in vacancies in all senior finance positions.

Under the leadership of the new Executive Director of Finance and Governance, we have taken immediate action to strengthen the financial control framework and ensure robust reporting and assurance on financial matters.

Action	By when
Appointment of interim senior finance team with significant experience in financial management, financial control, financial accounting and cash management. They will embed strong cash forecasting and management, and develop procedure notes	Complete
Implementation of recommendations arising from internal audit review of cash controls	<p>All recommendations accepted and will be implemented by us as matter of urgency. The review made the following priority one recommendations:</p> <ul style="list-style-type: none"> <li>We are to prepare a rolling 12 month cash flow forecast that is reviewed against the actual cash position on a monthly basis</li> <li>We have implemented this recommendation</li> <li>Executive and Board review of cash position</li> </ul> <p>To implement this recommendation we prepared an annual cash flow in July 2015. As part of the process to set the 2016-17 budget, this will be extended to ensure a consistent process and document</p> <ul style="list-style-type: none"> <li>Provide induction and regular finance staff training, and maintain up-to-date process notes</li> </ul> <p>We implemented this recommendation immediately for interim staff. We will proceed with training and development through central government routes, and also with the Chartered Institute of Public Finance and Accountancy (CIPFA). We will agree mentoring arrangements and there will be a formal skills and experience review of the finance team once the permanent team is appointed, and training plans put in place</p>

Action	By when
Implementation of recommendations arising from internal audit review of cash controls	<ul style="list-style-type: none"> <li>Maintain a control mechanism to oversee the net cash requirement balance</li> </ul> <p>We implemented this recommendation through integration into the methodology and documentation for the rolling cash flow forecast</p> <ul style="list-style-type: none"> <li>Comprehensive working papers are maintained to support supplementary supply adjustments</li> </ul> <p>We implemented this recommendation by making sure it is fully integrated in the supplementary estimates process, and it will be the focus of improvement work across the finance team</p> <p>Our Audit Committee to monitor progress in implementing the recommendations</p>
Permanent team recruited. There will be a period of dual running with an interim team to make sure there is continuation of safe and effective procedures. This will be supported by ongoing training of staff in central government financial arrangements, with mentoring from experienced central government practitioners	End of 2015
Financial reporting will be revised to make sure there is proper and correct reporting of the cash position to both the Executive and to the Board. This will be integrated within the assurance framework which supports the Accounting Officer	Complete
A rolling 12 month cash flow forecast will be implemented with oversight and quality assurance provided by the Executive Director of Finance and Governance	Cash flow forecast implemented July 2015, oversight and quality assurance within the August 2015 performance management arrangements
Our performance reporting will be developed to incorporate wider financial health metrics, including cash, supported by improved performance management within the finance service	September 2015



In 2014-15 we also reduced our accommodation requirement and sub-let the accommodation we vacated in order to reduce our costs and increase value for money. Because the rent we are receiving does not fully cover the cost to us of the accommodation, this has created an onerous lease, and in accordance with proper accounting practice, we have created an onerous lease provision within the 2014-15 accounts.

Because we did not secure provision for this in our Supplementary Estimate we have exceeded our AME limit, which has resulted in an automatic qualification of the accounts.

To avoid a repetition we are strengthening our processes to ensure that in future the potential impact of operational decisions on financial reporting, accounting and Supply Estimates are taken into account. This will be taken forward as part of our 2015-16 review of governance and the Finance Code. In addition, a review of all provisions will form part of the work done to prepare for the Supplementary Estimates process, and will be implemented with immediate effect.

## 4.4 Information and data control and fraud controls

### Transparency

As part of our modernisation of governance, we are committed to improving transparency. We continue to put minutes of Board meetings on our website; we publish aspects of operations

performance online monthly; and we have published hundreds of case summaries.

### Information and data

During the year we continued to proceed with our information assurance programme to improve compliance in line with the government's Information Assurance Maturity Model (IAMM). We chose to adopt the model to enable us to make incremental improvements. As a result of work completed during 2014-15, we developed an Information Risk Register; reviewed and modified our Information Asset Register; and reviewed and updated our Records Management Policy, Information Sharing Policy, and Information Promise. We have begun work on an Information Requests Policy.

Data protection training for all staff was rolled out and completed at the start of the year, with plans for refresher training every two years for existing staff, and training for all new staff on joining. More regular meetings with the senior information risk owner (SIRO) are being held, and information assurance topics are regularly discussed at Executive Team meetings. The IAMM project was closed and subsumed into a project to implement the international standard for Information Security Management (ISO 27001). The IAMM will be revisited once an ISO 27001-compliant position has been confirmed.

We seek to be fully compliant with the *Data Protection Act 1998*, and information about our response to data requests is well communicated and utilised. We handle over 75,000 documents each year, many of which contain personal and sensitive data. Maintaining the security of this information is essential to our work, and the management of information is a risk that is monitored by the Board.

### Personal data related incidents

We take very seriously the responsibility for holding personal data securely. As SIRO, our Managing Director is responsible for making sure that information risks are managed and that we use information for the public good. Our commitments are set out in our Information Promise and our Privacy Policy, available on our website. Serious personal data incidents are escalated to the SIRO, who makes sure that appropriate action is taken and any lessons are learnt and applied.

All data security incidents are reported to the Head of Information and Records Management who manages them in accordance with Information Commissioner Guidelines. All incidents are recorded and shared quarterly with the Security and Information Assurance Committee, the Executive Team and the Audit Committee.

In line with established criteria based on the Information Commissioner's Office (ICO) guidelines, we reported one 'major' incident to the ICO. It involved the loss of five case files by our contracted couriers. The ICO noted that they were transferred (and lost) by a reputable courier firm, with which we had a contract, and that we took all reasonable and appropriate organisational measures to make sure that the files were delivered safely. We have subsequently not renewed our courier contract with the supplier.

We continue to raise awareness of data security with our staff. Our information assurance programme (2013-15) included revising existing processes to make sure we are fully compliant with the *Data Protection Act 1998*, publishing new policies, and rolling out annual mandatory data protection training for all staff and contractors.

## Fraud

We have an anti-fraud and bribery policy and associated response plan in place. This was considered by our Audit Committee to make sure both the policy and the response plan meet good practice standards, and reflects our governance and structure. In 2014-15 no action was required under this policy.

## 5. Audit Opinions

### 5.1 Opinion of Tamas Wood, Head of Internal Audit

#### Significant assurance with improvement opportunities

Our overall opinion for the period 1 April 2014 to 31 March 2015 is that:

- The systems of internal control are generally well designed, though some improvements could be made and some exceptions in operation have been identified
- Some of these improvements and exceptions are serious and only partial assurance can be provided in the specific areas of customer service and financial control.

#### Commentary

The commentary below provides the context for our opinion, and together with the opinion should be read in its entirety.

Our opinion covers the period 1 April 2014 to 31 March 2015 inclusive, and is based on the 12 internal audit assignments that we completed in this period.

#### *The design and operation of the risk management framework*

Overall our work found that a risk management process is in place. The risk register and associated reporting is reviewed by the Board and its nominated committees. The register

reflects the key objectives of the organisation. Processes to capture risks and map assurances that controls are effectively mitigating those risks continue to evolve.

The range of individual opinions arising from risk-based internal audit assignments contained within our risk-based plan that have been reported throughout the year are set out below:

For eight internal audit assignments, the assurance rating was 'significant' or 'significant with minor improvement opportunities'.

For four internal audit assignments the assurance rating was 'partial':

- **Customer Services** – our assurance rating for this review was given in the context that this is an area of significant change, and development is ongoing. Our recommendations focus on developing and embedding efficiency and the customer-focused approach.
- **Budgeting and Financial Reporting** - this review was undertaken before the implementation of the new finance system. Our recommendations provided areas for consideration in the development of the new system and process specification. We understand that progress has been made in addressing the weaknesses identified during our review.

- **Medium term financial planning** – our recommendations in this area acknowledge that the model is still currently under development. Our recommendations provide considerations for PHSO in developing the sophistication of the model, and in particular the downside scenario planning and associated required actions.
- **Data migration** - we undertook a review of the process for migrating from the former to the new finance system. Our recommendations focus on improvements that PHSO could make to the process for future similar projects.

We are satisfied that in most instances actions are being taken in response to the recommendations we have raised.

However, one amber recommendation made in relation to cash flow forecasting had not been responded to by management sufficiently well to mitigate the identified risk of breaching the HM Treasury net cash requirement, and that requirement was breached in March 2015, resulting in a qualification to the annual accounts.

The Audit Committee subsequently commissioned a review outside the internal audit plan to look at the detailed cash management arrangements. This review has identified significant weaknesses in those arrangements. Management is taking action to address the findings.

**Tamas Wood**  
**KPMG LLP**  
**Chartered Accountants**  
**London**

## 5.2 Opinion of the Audit Committee

The Committee's Assurance Statement and Opinion is informed by the assessments it has received from KPMG and the NAO.

The Committee is very disappointed by the failings that have led to PHSO receiving two qualifications on its annual accounts. It is imperative that the financial controls and management framework within the organisation are strengthened significantly in 2015-16 to avoid such an event recurring. In addition, while the Committee acknowledges that the Head of Internal Audit has concluded in his Annual Opinion that significant assurance with improvement opportunities can be offered on the systems of internal control within PHSO, it is nonetheless concerned that several of his reports offered only partial assurance.

The Committee is firmly of the view that the organisation needs to learn from the recommendations contained in these reports and put in place clear plans for improvement, which the Committee will monitor throughout 2015-16.

Overall, the Committee believes that further improvements need to be made to the management of PHSO's control environment before the Accounting Officer can be satisfied that it fully meets the needs of the organisation.

**Sir Jon Shortridge, KCB**  
**Chair of the Audit Committee**

# Sustainability report

We share the public sector commitment to reducing our impact on the environment wherever we can. We aim to reduce our carbon dioxide (CO<sub>2</sub>) emissions, particularly in the areas of energy use, resource and estate management, and staff travel.

In 2014-15, our environmental initiatives included:

- reducing the space we occupy by 7,500 sq. ft., despite an increase in full-time equivalent (FTE) staff that we employed, resulting in a reduction of energy consumption
- purchasing more energy efficient laptops with larger screens and better specifications than previous models
- the procurement of a new electronic casework management system which will reduce the amount of paper we consume and reduce the need to transport documents by courier

We also continued to:

- recycle plastics, cans, paper, cardboard, general waste, and all electrical appliances at both our sites
- recycle batteries and printer toner cartridges

- use environmentally friendly cleaning products
- use video and tele-conferencing facilities for meetings, to reduce travel between sites
- donate, wherever possible, our old furniture and equipment to charities for reuse instead of disposal
- encourage business travel by public transport
- use water-saving measures including the use of zip taps that dispense instant hot and cold drinking water, and water-saving systems in toilet facilities

## Our performance

We lease accommodation at The Exchange in Manchester and at Millbank Tower in London. Both buildings have other tenants and are subject to shared services. We rely on our landlords to provide data to monitor performance.

The current recharging arrangements mean that significant elements of our emission-generating activity currently cannot be reported on.

We use an external provider for rail and air tickets and for car hire for business travel. These arrangements provide standard management information on the emissions impact of each journey booked.

We do not have information about the emissions impact of business travel using buses, taxis or private vehicles, although this is discouraged and is minimal.

Costs are shown where directly attributable to us. No analysis of renewable or non-renewable energy usage is available from the energy provider for communal areas in the accommodation.

## Managing carbon dioxide emissions

Indirect emissions fell between 2013-14 and 2014-15 due to a space reduction of 7,500 sq. ft., despite an increase in FTEs.

Business travel emissions have increased slightly in absolute terms but have reduced per FTE.

### Greenhouse gas emissions

Non-financial information: Emissions (CO <sub>2</sub> /tonnes)	2012-13	2013-14	2014-15
Scope 1: Direct emissions	-	-	-
Scope 2: Indirect emissions	498	484	347
Scope 3: Business travel emissions	112	26	31
<b>Total emissions</b>	<b>610</b>	<b>510</b>	<b>378</b>
Normalised comparison per FTE	1.39	1.19	0.84

Non-financial information: Energy (Kwh)	2012-13	2013-14	2014-15
Scope 1: Direct emissions	-	-	-
Scope 2: Indirect emissions	928,218	926,949	708,129
Scope 3: Business travel emissions	-	-	-
<b>Total energy</b>	<b>928,218</b>	<b>926,949</b>	<b>708,129</b>
Normalised comparison per FTE	2,129	2,171	1,624

Financial information (£'000)	2012-13	2013-14	2014-15
Scope 1: Direct emissions	N/A	N/A	N/A
Scope 2: Indirect emissions	86	87	74
Scope 3: Business travel emissions	237	149	318
<b>Total cost</b>	<b>323</b>	<b>236</b>	<b>392</b>
Normalised comparison per FTE	0.53	0.55	0.88

Scope 1 – Direct greenhouse gas emissions from sources owned or controlled by the organisation. We lease our accommodation (including air conditioning) and do not own any fleet vehicles.

Scope 2 – Energy indirect emissions arise from electricity that we consume which is supplied by another party. We report on usage, consumption and costs where we are invoiced directly by the energy supplier. We also incur energy charges for shared areas in jointly-occupied buildings but these charges are an apportioned element of the service charges, and specific usage data is not available.

Scope 3 – Official business travel directly paid for by the organisation.



## Waste minimisation and management

Non-financial information (tonnes)	2012-13	2013-14	2014-15
Waste recycled/reused	37.28	42.87	46.30

Waste recycled/reused includes all recycled waste in Manchester and paper shedding waste in London.

Since April 2014 all waste in London, with the exception of paper shedding waste, forms part of the accommodation service charge. A robust estimate is not possible, and would not be meaningful; there are 30 floors in Millbank, London, of which we occupy four, with a variety of tenants such as offices, cafes, a restaurant and a nightclub. Despite this data not being available, we are still showing an increase in waste being recycled.

In Manchester the costs and volume of non-recycled waste form part of the accommodation service charge.

### Water consumption

Our water usage is apportioned and recharged as part of our accommodation service charge. Specific data is not available on our usage or actual cost in London. A robust estimate is not possible, and would not be meaningful.

### Sustainable procurement

We have been working with our suppliers to reduce the emissions of the goods and services they provide. Where appropriate, sustainability clauses are being incorporated into all new contracts to help ensure suppliers are meeting the Government Buying Standards and supporting our efficiency work. All our contracts contain clauses relating to our environmental requirements.



# Resource Accounts 2014-15

## Strategic report

### Review of our financial performance in 2014-15

*This report examines our current and future financial position in light of our strategy as described in the Annual Report.*

### Funding

We have a four-year flat-cash settlement of which 2014-15 is the final year. This settlement requires us to absorb cost pressures from inflation and other sources and meet reasonable increases in demand for our services. We achieved our aims within the level of Resource Departmental Expenditure Limit (RDEL) voted by Parliament over this period, and we are on track to deliver within budget for 2015-16. We are currently developing our strategy for managing spending reductions within the 2015 Comprehensive Spending Review.

We receive our annual funding from Estimates that are sanctioned by HM Treasury and approved by a vote of Parliament. Our funding comprises four elements:

- Voted Resource DEL (Departmental Expenditure Limit), which includes the cash funding required to pay for our day-to-day operational expenditure. Resource DEL also includes non-cash funding in respect of depreciation and similar accounting items and cash funding in respect of working capital movements.
- Non-voted Resource DEL, which includes the notional funding required to pay for the salary (and on-costs) of the Ombudsman, which is directly funded separately.
- Voted Resource AME (Annual Managed Expenditure), which includes the non-cash funding required to create, increase or utilise accounting provisions for the year. In addition, in 2012, PHSO refined its accommodation strategy to reduce its footprint in Millbank Tower, thereby reducing its costs, creating an income stream and improving value for money. This was a key business decision. In 2014-15, the difficulties PHSO initially suffered in terms of sub-letting gave rise to an onerous lease, and by following proper accounting practice in relation to the creation of a provision has resulted in an excess against our Resource AME.
- Voted Capital DEL, which includes the cash funding required to pay for investment in non-current assets.
- In addition, we have a Net Cash Requirement total which sets the total cash available that we must work within. In 2014-15, due to inadequate cash management, we exceeded our net cash requirement resulting in an overdraft on our bank account. Further information on this can be found in our governance statement.

During the course of the year, there is an opportunity to amend the original Estimate voted by Parliament by means of a Supplementary Estimate. We used this facility in 2014-15 to do a budget exchange of £300k to 2015-16.

Our funding for 2014-15 is shown in the table below:

	2014-15		
	Main Estimate £000	Supp Estimate £000	Revised Estimate £000
<b>Resource DEL (Voted)</b>	33,263	(675)	32,588
<i>Of which:</i>			
Depreciation	1,600	-	1,600
Increase in debtors	-	-	-
<b>Resource DEL (Non-Voted)</b>			
Ombudsman's salary	187	-	187
<b>Total resource spending in DEL</b>	<b>33,450</b>	<b>(675)</b>	<b>32,775</b>
<b>Resource AME</b>	(400)	375	(25)
Total resource for Estimate	33,050	(300)	32,750
Capital DEL	728	-	728
Total DEL	34,178	(675)	33,503
<b>Net Cash Requirement<sup>15</sup></b>	<b>32,391</b>	<b>(675)</b>	<b>31,716</b>

<sup>15</sup> Net Cash Requirement comprises Resource DEL (voted) excluding depreciation plus Capital DEL, and also includes anticipated movements in creditors and debtors in the year. Resource AME and Resource DEL (non-voted) are non-cash items.



## Management commentary

### Review of our financial performance in 2014-15

In 2014-15 we delivered an underspend totalling £595k (1.8%) against our Resource Departmental Expenditure Limit (Resource DEL) for 2014-15, while delivering a change in the number of investigations completed in a year and meeting all three of our customer service standards.

The following table details our outturn position (final position at the end of year) compared to estimate.

	2014-15		Under spend/ (over spend)	
	Estimate	Outturn		
	£000	£000	£000	%
Resource Departmental Expenditure Limit <sup>16</sup>	32,588	31,993	595	1.8
Resource Annually Managed Expenditure (Resource AME)	(25)	4,638	(4,663)	-
Capital Departmental Expenditure Limit (net)	728	652	76	10.4
<b>Total Budget (Resource and Capital)</b>	<b>33,291</b>	<b>37,283</b>	<b>(3,992)</b>	<b>(12.0)</b>
Net Cash Requirement	31,716	31,991	(275)	(0.8)

Of the voted Resource DEL underspend of £595k, the main variance was in relation to depreciation, as depreciation charges were £506k less than budget.

<sup>16</sup> Only voted sums are shown, the non-voted element of our funding, in respect of the Ombudsman's salary has been excluded as outside of our budget management control.

The overspend in relation to Resource AME is due to the creation of the onerous lease provision, as set out on page 72.

## Financial management targets

Our financial management targets for the year are set out below. In 2014-15 we exceeded our Net Cash Requirement by £275k and our Resource AME total, as set out above. As a result, the audit opinion is qualified.

Service standard/target	2014-15 Outturn	2013-14 Outturn
We will not exceed the limits on our funding for 2014-15 sanctioned and voted by Parliament.	£000 Not achieved	£000 Achieved
In addition we will:		
limit any net resource (voted Resource DEL) underspend to less than £500k	595 <sup>17</sup>	595 <sup>18</sup>
limit any capital budget underspend to less than £100k <sup>19</sup>	76	67
recover 100% of income due for the year.	100%	100%
We will pay 99% of correctly presented supplier invoices within 30 days of receipt.	92.4%	99.9%

<sup>17</sup> We did not achieve our target to limit any net resource (voted Resource DEL) underspend to less than £500k, exceeding this by £95k as a consequence of depreciation charges being less than budget.

<sup>18</sup> Target not achieved.

<sup>19</sup> The total capital budget for the year was £728k in line with the Capital DEL excluding any notional capital receipts which cannot be reflected in internal budgets.

## Capital employed

The net capital we employed decreased in line with the ongoing depreciation of refurbishment and furniture assets purchased as part of the 2006 major refurbishment of our London offices in Millbank Tower. With leases due to expire at the end of 2018, and with accommodation still in good repair and fit for purpose, it is unlikely that a significant refurbishment will be undertaken.

The following table summarises the movements in assets and liabilities:

	31 March 2015	31 March 2014
	£000	£000
<b>Assets</b>		
<u>Non-current Assets</u>		
Property, plant & equipment:	<b>1,990</b>	<b>2,328</b>
Furniture & fittings	383	509
Information technology	588	724
Office machinery	31	51
Refurbishment	708	1,044
Assets in course of construction	280	-
Intangible Assets:	<b>303</b>	<b>407</b>
Software and other licences	303	407
<u>Current Assets</u>	<b>1,419</b>	<b>1,660</b>
<b>Liabilities</b>		
Current Liabilities	(3,027)	(3,404)
Provisions	(7,043)	(2,405)
Other Liabilities	(193)	(264)
<b>Net Capital Employed</b>	<b>(6,551)</b>	<b>(1,678)</b>

## Off-payroll arrangements

PHSO had one member of staff during the year who was appointed on a temporary contract and who met the disclosure requirements for off-payroll arrangements. This information is shown here out of compliance with HM Treasury guidance.

### Table 1

Off-payroll engagements as of 31 March, for more than £220 per day and that lasted for longer than six months:

<b>No. of existing engagements as of 31 March 2015:</b>	<b>1</b>
---	----------

Of which	
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No. that have existed for less than one year at time of reporting	1
---	---

This temporary member of staff was employed on an old contract which includes terms and conditions signed by the agency worker accepting responsibility for PAYE and NI.

### Table 2

New off-payroll engagements, or those that reached six months in duration between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than six months:

<b>No. of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015</b>	<b>1</b>
---	----------

No. of above which include contractual clauses giving PHSO the right to request assurance in relation to income tax and National Insurance obligations	0
--	---

No. for whom assurance has been requested	1
---	---

Of which	
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No. for whom assurance has been received	0
--	---

No. for whom assurance has not been received	1
--	---

No. that have been terminated as a result of assurance not being received	0
---	---

PHSO has revised the terms and conditions signed with the employment agencies to ensure that the required assurance can be obtained in the future. This member of staff no longer works for PHSO.

## Financial position

The Statement of Financial Position shows that, as of 31 March 2015, our total assets less the total liabilities were -£6,551k, which resulted in an increase in the negative net capital employed of £4,873k than at 31 March 2014.

Non-current assets decreased by £442k, as a consequence of the value of depreciation. We invested £652k during the year, mainly in respect of information technology non-current assets as part of the steps we are taking to modernise our business.

Total liabilities increased by £4,190k largely due to the changes in the level of provisions, particularly the creation of the onerous lease provision, and the reduced level of accruals offset by the bank overdraft at the end of the year. The overdraft arose as a result of breaching the net cash requirement.

## Going concern

The Statement of Financial Position at 31 March 2015 shows net liabilities of £6,551k. However, because our service is provided for in statute, we are able to continue as a going concern supported by Parliament. It is anticipated that the net liabilities will be greatly reduced in the next few years.

The current Government has announced it will bring forward a draft Bill to establish a single public services ombudsman to absorb the functions of the Parliamentary Ombudsman, the Health Service Ombudsman, and the Local Government Ombudsman and potentially the Housing Ombudsman. These proposals are, however, still subject to the completion of the consultation and a consideration of the responses received, and will require the passage of primary legislation through the full Parliamentary process. It is therefore too early at this stage to know either the timetable or nature of any changes that may follow, or to make any meaningful assessment of their implications for the future of PHSO. We are satisfied that this does not give rise to a material uncertainty around the going concern status of PHSO at this stage and our accounts have therefore been prepared on a going concern basis.

**Dame Julie Mellor, DBE**  
**Chair, Ombudsman and Accounting Officer**

27 October 2015



## Remuneration report

During the year the posts of Parliamentary Ombudsman and Health Service Ombudsman were held by one person, Dame Julie Mellor, DBE, who was appointed as Ombudsman by the Queen following a parliamentary led process, and then ratified by Parliament. Her appointment ends on 1 January 2019. One salary is paid for both posts direct from the Consolidated Fund. The salary for Julie Mellor was agreed by a resolution of the House of Commons on 18 July 2011.

The appointment to the Office of Ombudsman is now restricted by statute to a seven-year appointment. The appointee may be relieved of Office by Her Majesty at her own request, or may be removed from Office by Her Majesty in consequence of addresses from both Houses of Parliament.

The salary and benefits in kind of the Ombudsman were (full year equivalents, where applicable, are provided in brackets):

	2014-15				2013-14			
	Salary £000	Benefits in kind (to the nearest £100) £	Pension benefits £000	Total £000	Salary £000	Benefits in kind (to the nearest £100) £	Pension benefits £000	Total £000
Julie Mellor	155-160	n/a	63	220-225	150-155	n/a	58	210-215

The pension entitlement of the Ombudsman for this post was:

	Accrued pension at pension age at 31/03/15 £000	Accrued lump sum at pension age at 31/03/15 £000	Real increase in pension at pension age £000	Real increase in lump sum at pension age £000	CETV at 31/03/15 £000	CETV at 31/03/14 <sup>20</sup> £000	Real increase in CETV as funded by employer £000
Julie Mellor	25-30	n/a	2.5-5	n/a	377	307	41

<sup>20</sup> The CETV (Cash Equivalent Transfer Value) figures and other pension disclosures are provided by MyCSP, PHSO's authorised pensions administration centre.

## PHSO Executive Board members

Dame Julie Mellor is Executive Chair of the Board, her salary, benefits and pension details are shown on the previous page.

		Commencement date	End date
Mike Procter	Executive Director of Finance <sup>21</sup>	20 May 2013	1 July 2015
Mick Martin	Managing Director <sup>22</sup>	11 November 2013	n/a
Sally Sykes	Executive Director External Affairs & Strategy	1 November 2013	16 August 2015

All Board members were appointed under fair and open competition.

No performance-based remuneration for permanent and seconded executive members was undertaken by the Remuneration Committee during the year in line with public sector pay policy.

The Remuneration Committee determines senior staff's pay in accordance with PHSO's Pay Policy, the aims of which include taking into account: comparability with the Civil Service; public sector pay policy; and appropriate pay market data on external comparison.

<sup>21</sup> Mike Procter joined PHSO as Executive Director Business Transformation and was appointed Executive Director of Finance on 1 December 2014.

<sup>22</sup> Mick Martin became Managing Director on 1 September 2014, before this he was Executive Director of Operations and Investigations.

## Executive members' service contracts

The commencement dates of service contracts for each executive member are given above.

As the Crown has the power to dismiss at will executive members, they are not entitled to a period of notice terminating their employment. However, unless their employment is terminated by agreement, they will normally be given the following period of notice:

Reason for termination	Less than four years' continuous service	More than four years' continuous service
Retirement on age grounds Efficiency grounds Disciplinary proceedings	Five weeks	One week plus one week for every year of continuous service (maximum 13 weeks)
Retirement on medical grounds	Nine weeks	Nine weeks, or as above
Compulsory on other grounds, not constituting grounds for summary dismissal	Six months	Six months

If a contract is terminated without the notice period stated above, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

With effect from 1 October 2006, the standard retirement age was increased from 60 to 65 for all staff and this has been implemented. However, members of the Principal Civil Service Pension Scheme have a reserved right to draw on their pensions from age 60. This can be done while remaining in employment. A departure before age 65 would be classed as a resignation because staff are not legally able to retire until age 65.

## Executive members' remuneration and pension entitlements

The salary and benefits in kind of members for 2014-15 and 2013-14 are shown on the following pages (full year equivalents, where applicable, are provided in brackets). Separate tables are provided for Board members as at 31 March 2014 and for Board members who have departed and those employed on an interim basis.

	2014-15				
	Salary £000	Bonus £000	Benefits in kind £000 (to the nearest £100) <sup>23</sup>	Pensions benefits £000	Total £000
<b>Members at 31 March 2015</b>					
Mick Martin (Managing Director)	130-135	-	13,300	49	195-200
Sally Sykes (Executive Director External Affairs & Strategy)	110-115	-	15,000	43	170-175
Mike Procter (Executive Director of Finance)	100-105	-	-	38	135-140
 Band of highest paid director's total remuneration	 145-150				
Median total <sup>24</sup>	36.5				
Ratio <sup>25</sup>	4.0				

<sup>23</sup> The monetary value of benefits in kind covers any benefits provided by the employer and the associated tax liability, as notified to HM Revenue and Customs in the P11Ds for 2014-15.

<sup>24</sup> Median total is calculated by taking the median total of all employees' salaries excluding the Ombudsman, where median is the mean of the two middle values in the range of employee salaries.

<sup>25</sup> Following guidance on Civil Service and Public Body remuneration disclosure in resource accounts issued in EPN430 Annex C, the Ratio is the relationship between the remuneration (excluding pension) of the highest paid director and that of the median remuneration (excluding pension) of the workforce. In 2013/14 the ratio was 3.6 and has increased because the median salary is £0.5k lower than in 2013-14 levels, and additionally the highest paid director had no benefits in kind in 2013-14, but in 2014-15 had £13.3k of benefits in kind taking the highest paid director from remuneration (excluding pension) of £132.5k in 2013-14 to £147.6k in 2014-15.

## 2013-14

Members at 31 March 2014	Salary £000	Bonus £000	Benefits in kind £000 (to the nearest £100) <sup>26</sup>	Pensions benefits £000	Total £000
Mick Martin (Managing Director)	40-45 (115-120)	-	-	14	50-55
Sally Sykes (Executive Director External Affairs & Strategy)	55-60 (125-130)	-	-	16	70-75
Mike Procter (Executive Director of Finance)	85-90 (100-105)	-	300	34	120-125
<b>Interim members and members not in post at 31 March 2014</b>					
Helen Hughes (Chief Operating Officer) <sup>27</sup>	130-135	-	-	53	185-190
Gavin McBurnie (Interim Director of Operations – Business Development)	40-45 (80-85)	-	2000	34	75-80
Gwen Harrison (Interim Director of Operations)	40-45 (85-90)	-	-	27	65-70

<sup>26</sup> The monetary value of benefits in kind covers any benefits provided by the employer and the associated tax liability, as notified to HM Revenue and Customs in the PTIDs for 2013-14.

<sup>27</sup> Helen Hughes was Chief Operating Officer until 27 February 2014.



Interim members and members not in post at 31 March 2014	2013-14				
	Salary £000	Bonus £000	Benefits in kind £000 (to the nearest £100) <sup>26</sup>	Pensions benefits £000	Total £000
Claire Forbes (Director of Communications)	15-20 (95-100)	-	-	24	40-45
Mike Bird (Interim Executive Director of Operations and Investigations)	50-55 (100-105)	-	-	20	70-75
Angela Paradise (Interim Divisional Corporate Resources Director) <sup>28</sup>	15-20 (245-250)	-	-	-	15-20
Sacha Deshmukh (Interim Executive Director External Affairs and Strategy)	40-45 (100-105)	-	-	15	55-60
Sally Sykes (Interim Executive Director External Affairs and Strategy)	30-35 (255-260) <sup>29</sup>	-	-	-	30-35
Band of highest paid director's total remuneration	130-135				
Median total <sup>30</sup>	37.0				
Ratio	3.6				

<sup>28</sup> Salary costs annualised. Acting as the Interim Divisional Corporate Resources Director ending May 2013, and member of PHSO Board as a paid contractor, receiving no bonuses or benefits in kind. There are no pension liabilities arising from this arrangement.

<sup>29</sup> Salary costs annualised. Acting as the Executive Director External Affairs & Strategy for the period 23 September to 31 October 2013, and member of PHSO Board as a paid contractor, receiving no bonuses or benefits in kind. There are no pension liabilities arising from this arrangement.

<sup>30</sup> Excluding Angela Paradise's and Sally Sykes' annualised contract fee.

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The total remuneration of the highest paid Director is shown in comparison to the median remuneration across all PHSO staff, excluding the highest paid Director, and non-employees as at the 31 March of the respective financial year. This shows a ratio of 4.0 times for 2014-15.

PHSO did not operate bonus related director remuneration in 2013-14 or 2014-15.

The pension entitlement of executive members in 2014-15 was:

	Accrued pension at age at 31/03/15 £000	Accrued lump sum at pension age at 31/03/15 £000	Real increase in pension at pension age £000	Real increase/(decrease) in lump sum at pension age £000	CETV at 31/03/15 £000	CETV at 31/03/14 £000	Real increase/(decrease) in CETV as funded by employer £000
Mick Martin	0-5	N/A	2.5-5	N/A	42	9	21
Sally Sykes	0-5	N/A	2.5-5	N/A	46	12	23
Mike Procter	0-5	N/A	0-2.5	N/A	57	26	21

## PHSO Board non-executive members

During 2014-15 the non-executive members and their contract commencement dates and end dates (where applicable), were:

	Commencement date	End date
Sir Jon Shortridge, KCB	1 May 2012	30 September 2018
Peter Freedman	1 September 2012	31 August 2017
Helen Walley	1 September 2012	31 August 2017
Sharmila Nebhrajani OBE	1 January 2013	31 July 2014
Dr Jane Martin	1 February 2014	01 January 2017

The salary and benefits in kind of non-executive members were (full year equivalents, where applicable, are provided in brackets):

	2014-15		2013-14 (Restated) <sup>31</sup>	
	Salary £000	Benefits in kind (to the nearest £100) <sup>32</sup>	Salary £000	Benefits in kind (to the nearest £100) <sup>31</sup>
Sir Jon Shortridge, KCB	10-15	3,400	10-15	3,600
Tony Wright	-	-	0-5 (15-20)	200
Peter Freedman	5-10	-	5-10	-
Helen Walley	5-10	-	5-10	-
Sharmila Nebhrajani OBE	0-5 (5-10)	500	5-10	1,000

Non-executive Board members remuneration is decided by the Ombudsman. No members receive a pension entitlement.

Sir Jon Shortridge was appointed to the Audit Committee chair by the previous Ombudsman after open competition. The present Ombudsman invited him to join the new unitary board in 2012-13, in addition to continuing to chair the Audit Committee. Peter Freedman, Helen Walley and Sharmila Nebhrajani were all appointed in 2012-13 following open competition. Brief biographies of serving non-executive members are available on PHSO's website ([www.ombudsman.org.uk](http://www.ombudsman.org.uk)).

<sup>31</sup> 2013-14 Restatement: in 2013-14 one non-executive member's remuneration was £15k and the other non-executive members' Remuneration was £10k. In 2013-14 salary banding was shown as £15-20k and £10-15k respectively, when it should have been £10k-15k and £5k-£10k.

<sup>32</sup> The monetary value of benefits in kind covers any benefits provided by the employer and the associated tax liability, as notified to HM Revenue and Customs in the P11Ds.

## The Audit Committee: non-executive members

Audit Committee members are now appointed for three years after which they can apply for reappointment. Current appointments reflect the process for introducing a planned turnover in the Committee. During 2014-15 the Audit Committee members, and their contract commencement dates and end dates (where applicable), were:

	Commencement date	End date
Sir Jon Shortridge, KCB (Chair)	1 April 2010	30 September 2018
Peter Freedman	1 September 2012	31 August 2017
Helen Walley	1 September 2012	31 August 2017
Sharmila Nebhrajani OBE	1 January 2013	31 July 2014

Sir Jon Shortridge, Peter Freedman, Helen Walley and Sharmila Nebhrajani are also non-executive Board members and receive a combined remuneration for both roles, which is shown in the remuneration for the Board.

Audit Committee member remuneration is decided by the Ombudsman. No Audit Committee members receive a pension entitlement.

The salary and benefits in kind of other members of the Audit Committee were (full year equivalents, where applicable, are provided in brackets):

	2014-15		2013-14	
	Salary £000	Benefits in kind (to the nearest £100)	Salary £000	Benefits in kind (to the nearest £100)
Mei Sim Lai	-	-	0-5 (5-10)	-

Mei Sim Lai left the Audit Committee on 9 August 2013.

Appointments to the Audit Committee follow fair and open competition.

Brief biographies of serving Audit Committee members are available on PHSO's website ([www.ombudsman.org.uk](http://www.ombudsman.org.uk)).

## Explanation of terms used in the Remuneration report

### Salary

'Salary' includes: gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by PHSO and thus recorded in these accounts.

### Benefits in kind

The monetary value of benefits in kind covers any benefit provided by PHSO and treated by HM Revenue & Customs as a taxable emolument.

### Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007 scheme members may be in one of four defined benefit schemes: either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits being met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for **classic** and between 3.5% and 8.85% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial 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. **Classic plus** is essentially a hybrid with the benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a 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 up-rated in line with pensions increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the *Finance Act 2004*.

The **partnership** pension account is a stakeholder pension arrangement. The employers make 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 from a panel of three providers. 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 accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).



New Career Average pension arrangements will be introduced from 1st April 2015 and the majority of **classic**, **premium**, **classic plus** and **nuvos** members will join the new scheme. Further details of this new scheme are available at <http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/>.

### Cash equivalent transfer values (CETVs)

A 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 that 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 buying additional pension benefits at their own cost. CETVs are worked out in accordance with *The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008* and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax that may be due when pension benefits are taken.

### Real increase in cash equivalent transfer values

This reflects the increase in CETVs that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

### Audit of the Remuneration report

In accordance with the requirements of Schedule 7A of the *Companies Act 1985* (as amended), only certain sections of the Remuneration report have been subject to full external audit. These comprise the tables on salary and pension entitlements.

**Dame Julie Mellor, DBE**  
**Chair, Ombudsman and Accounting Officer**

27 October 2015

## Statement of Accounting Officer's responsibilities

We prepare resource accounts for each financial year in compliance with the Government Financial Reporting Manual (as developed and maintained by HM Treasury) and detail the resources acquired, held or disposed of and used by us during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of our affairs, the net resource outturn, net operating cost, changes in taxpayers' equity, and cash flows for the financial year.

The appointment as the Parliamentary Commissioner for Administration and Health Service Commissioner for England carries with it the duties of Accounting Officer, with responsibility for preparing our accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer has complied with the Government Financial Reporting Manual and in particular:

- observes the relevant accounting and disclosure requirements, and applies suitable accounting policies on a consistent basis
- makes judgments and estimates on a reasonable basis
- states whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and discloses and explains any material departures in the accounts
- prepares the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding our assets, are set out in Managing Public Money published by the HM Treasury.

## The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Parliamentary and Health Service Ombudsman for the year ended 31 March 2015. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply 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 Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parliamentary and Health Service Ombudsman's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Basis for qualified opinion on regularity

Parliament authorised a Net Cash Requirement limit for the Parliamentary and Health Service Ombudsman of £31,716,000. Against this limit, the Parliamentary and Health Service Ombudsman achieved an outturn of £31,991,000 therefore breaching the authorised limit by £275,000 as shown in the Statement of Parliamentary Supply.

In addition, Parliament authorised an Annually Managed Resource Expenditure limit for the Parliamentary and Health Service Ombudsman of minus £25,000. Against this limit, the Parliamentary and Health Service Ombudsman achieved an outturn of £4,638,000 therefore breaching the authorised limit by £4,663,000 as shown in the Statement of Parliamentary Supply.

## Qualified opinion on regularity

In my opinion, except for the breaches described in the basis for qualified opinion paragraph, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

More details of the reasons for my qualified audit opinion are set out in my report on pages 93 to 94.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Parliamentary and Health Service Ombudsman's affairs as at 31 March 2015 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury.
- the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

**Sir Amyas C E Morse**

Comptroller and Auditor General

28 October 2015

National Audit Office

157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

## Report of the Comptroller and Auditor General to the House of Commons

### Introduction

The Parliamentary and Health Service Ombudsman (PHSO) combines the two statutory roles of Parliamentary Commissioner for Administration (the Parliamentary Ombudsman) and Health Service Commissioner for England (Health Service Ombudsman), whose powers are set out in the *Parliamentary Commissioner Act 1967* and the *Health Service Commissioners Act 1993* respectively.

The PHSO's role is to investigate complaints that individuals have been treated unfairly or have received poor service from government departments and other public organisations and the NHS in England.

In 2014-15 the PHSO was responsible for £37 million of UK public expenditure. Approval to incur expenditure is secured through the Parliamentary Supply process on an annual basis. The PHSO accounts to Parliament on its expenditure through the preparation and laying of financial statements prepared in accordance with the Government Financial Reporting Manual.

The PHSO prepares an Annual Estimate, and a Supplementary Estimate, where appropriate, of its net expenditure; authorisation to incur the expenditure is then provided by Acts of Parliament. These Acts set a series of annual limits on the net expenditure which the PHSO may not exceed and on the total cash that may be used. Where these limits are breached, I qualify my opinion on regularity, since this means that the PHSO has incurred expenditure that is not in line with Parliament's intentions. HM Treasury then prepares a statement of all such excesses in the year and requests that the House of Commons approves the expenditure, which is then given statutory authority as part of a *Supply and Appropriation (Anticipation and Adjustments) Act*. Further detail on the authorised limits can be found within the Supply Estimates for 2014-15.

Parliament authorised a Net Cash Requirement limit of £31,716,000 and an Annually Managed Resource Expenditure limit of minus £25,000 for the PHSO. The outturn against these limits was £31,991,000 and £4,638,000 respectively. This means that the authorised limits were breached by £275,000 for Net Cash Requirement and £4,663,000 for Annually Managed Resource Expenditure and so I have qualified my opinion on the Parliamentary and Health Service Ombudsman's 2014-15 financial statements in these respects. HM Treasury proposes to ask Parliament to authorise a further £275,000 of Net Cash Requirement and £4,663,000 of Annually Managed Resource Expenditure.

### Explanation for qualified audit opinion on regularity in respect of Net Cash Requirement

Parliament granted the PHSO a Net Cash Requirement limit of £32,391,000. PHSO's forecasting and monitoring of its cash in 2014-15 was inadequate. This resulted in an overdraft position at 31 March 2015 and a breach of the limit authorised by Parliament.

### Explanation for qualified audit opinion on regularity in respect of Annually Managed Resource Expenditure

During 2014-15 some accommodation leases held by PHSO became onerous; that is, the income to be received from sub-tenants over the remaining life of the leases was substantially less than the amounts PHSO was committed to pay. Under International Accounting Standard 37, the total remaining commitments on these leases, being £6,894,000, is recognised as an expense in 2014-15. It is counted as Annually Managed Resource Expenditure in the Statement of Parliamentary Supply. PHSO failed to consider both the financial reporting implications of the onerous lease and consequently the impact on the actual Annually Managed Resource Expenditure for the year. It therefore did not seek Parliamentary approval for the additional expenditure, and incurred a breach of the authorised limit.

## Actions taken by PHSO

The two qualifications identified in my audit highlight the need to ensure a step change in financial management within PHSO. Following my identification of these financial control issues PHSO has taken active steps to review and address weaknesses in its financial management. It is important these encompass improvements in the quality and skills of the finance staff, improve financial reporting to enable the Board to have sufficient oversight of financial performance and that greater attention is paid to the review process to ensure the presentation of accurate financial data and adequate resource bids. The planned actions being taken by PHSO include these areas, and are referenced in the Governance Statement.

I will review the PHSO's progress in addressing these weaknesses in financial reporting and financial management in my future audits.

**Sir Amyas C E Morse**

Comptroller and Auditor General

28 October 2015

National Audit Office

157-197 Buckingham Palace Road

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London

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## Statement of Parliamentary Supply

## Summary of Resource and Capital Outturn 2014-15

2014-15								2013-14	
Estimate				Outturn				Voted outturn compared to Estimate: saving/ (excess) £000	Outturn £000
Note	Voted £000	Non- Voted £000	Total £000	Voted £000	Non- Voted £000	Total £000			
<b>Departmental Expenditure Limit</b>									
- Resource	SoPS2	32,588	187	32,775	31,993	178	32,171	595	33,119
- Capital		728	-	728	652	-	652	76	393
<b>Annually Managed Expenditure</b>									
- Resource		(25)	-	(25)	4,638	-	4,638	(4,663)	1,674
- Capital		-	-	-	-	-	-	-	-
<b>Total Budget</b>		<b>33,291</b>	187	33,478	<b>37,283</b>	178	37,461	<b>(3,992)</b>	<b>35,186</b>
Total Resources		32,563	187	32,750	36,631	178	36,809	(4,068)	34,793
Total Capital		728	-	728	652	-	652	76	393
<b>Total</b>		<b>33,291</b>	<b>187</b>	<b>33,478</b>	<b>37,283</b>	<b>178</b>	<b>37,461</b>	<b>(3,992)</b>	<b>35,186</b>

Figures in the areas outlined in bold are voted totals subject to parliamentary control.

The overspend in relation to Resource AME is due to the creation of the onerous lease provision as explained in the strategic report.

## Net Cash Requirement 2014-15

2014-15				2013-14	
	Note	Estimate £000	Outturn £000	Outturn compared to Estimate: saving/ (excess) £000	Outturn £000
Net Cash Requirement	SoPS4	31,716	31,991	(275)	31,197

For Estimates purposes, all our income and expenditure is classified as programme. The Statement of Parliamentary Supply does not therefore report against an administration cost limit.

Explanations for variances between Estimate and outturn are given in Note SoPS2.1 and in the Strategic Report.

PHSO has incurred an Excess of £275k as a result of breaching its Net Cash Requirement (NCR).

PHSO will seek parliamentary approval for both Excesses (Resource AME and NCR) in the next Supply and Appropriation Act vote.

## Notes to the Statement of Parliamentary Supply (SoPS)

### SoPS1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the Government Financial Reporting Manual 2014-15 issued by the Treasury. The Statement of Parliamentary Supply accounting policies contained in the Government Financial Reporting Manual 2014-15 are consistent with the requirements set out in the 2014-15 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

#### SoPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system, and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to International Financial Reporting Standards-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant parliamentary authority, in support of the government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

#### SoPS1.2 Comparison with International Financial Reporting Standards-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences as detailed below. A reconciliation of the department's outturn as recorded in the SoPS compared to the International Financial Reporting Standards-based SoCNE is provided in SoPS note 3.

## SoPS2. Net outturn

### SoPS2.1 Analysis of net resource outturn by section

	2014-15					2013-14
	Outturn			Estimate	Outturn compared with Estimate	Prior year outturn
	Gross resource expenditure £000	Income £000	Net total £000	Net total £000	Net total £000	
<b>Spending in Departmental Expenditure Limits (DEL)</b>						
<b>Voted expenditure</b>	<b>32,861</b>	<b>(868)</b>	<b>31,993</b>	<b>32,588</b>	<b>595</b>	<b>32,948</b>
<i>Of which</i>						
A Programme	32,861	(868)	31,993	32,588	595	32,948
<b>Non Voted expenditure</b>	<b>178</b>	<b>-</b>	<b>178</b>	<b>187</b>	<b>9</b>	<b>171</b>
<i>Of which</i>						
B Ombudsman's salary & social security	178	-	178	187	9	171
<b>Total</b>	<b>33,039</b>	<b>(868)</b>	<b>32,171</b>	<b>32,775</b>	<b>604</b>	<b>33,119</b>
<b>Spending in Annually Managed Expenditure (AME)</b>						
<b>Voted expenditure</b>	<b>4,638</b>	<b>-</b>	<b>4,638</b>	<b>(25)</b>	<b>(4,663)</b>	<b>1,674</b>
<i>Of which</i>						
C Use of Provision	4,638	-	4,638	(25)	(4,663)	1,674
<b>Total for Estimate</b>	<b>37,677</b>	<b>(868)</b>	<b>36,809</b>	<b>32,750</b>	<b>(4,059)</b>	<b>34,793</b>

Net resource outturn totals £36,809k, which is £4,059k more than the Estimate provision of £32,750k as a result of the creation of onerous lease provision in accordance with IAS 37.

## SoPS2.2 Analysis of net capital outturn by section

	2014-15			2013-14		
	Outturn		Estimate	Outturn compared with Estimate		Prior year outturn £000
	Gross resource expenditure £000	Income £000	Net total £000	Net total £000	Net total £000	
<b>Spending in Departmental Expenditure Limit (CDEL)</b>						
<b>Voted expenditure</b>	<b>652</b>	<b>0</b>	<b>652</b>	<b>728</b>	<b>76</b>	<b>393</b>
<i>Of which</i>						
Annual Capital Costs	652	0	652	728	76	393
<b>Total for Estimate</b>	<b>652</b>	<b>0</b>	<b>652</b>	<b>728</b>	<b>76</b>	<b>393</b>

Actual capital spend of £652k is 10% lower than the Estimate provision due to slippage on the CMS project.

## SoPS3. Reconciliation of resource outturn to net operating cost

			2014-15	2013-14
		Note	Outturn £000	Outturn £000
Total Resource outturn in	Voted	SoPS	36,631	34,622
Statement of Parliamentary Supply	Non-Voted	SoPS2	178	171
Net operating cost			36,809	34,793

**SoPS4. Reconciliation of Net Resource Outturn to Net Cash Requirement**

	Note	Estimates £000	Outturn £000	Net total outturn compared with Estimate: savings/ (excess) £000
<b>Resource Outturn</b>	SoPS2.1	32,750	36,809	(4,059)
<b>Capital Outturn</b>	SoPS2.2	728	652	76
<b>Accruals to cash adjustments:</b>				
<i>Adjustment to remove non-cash items:</i>				
Depreciation	6 & 7	(1,600)	(1,094)	(506)
New provisions and adjustments to previous provisions	12	-	(6,108)	6,108
Supported capital expenditure (revenue)			-	-
Other non-cash items	4 & SoPS2.2	-	(42)	42
<i>Adjustments to reflect movements in working balances</i>				
Increase/(decrease) in debtors	9	-	(92)	92
(Increase)/decrease in creditors	11	-	574	(574)
Movements in payables/receivables relating to items not passing through Statement of Comprehensive Net Expenditure	11		-	-
Use of provisions	12	25	1,470	(1,445)
		<b>31,903</b>	<b>32,169</b>	<b>(266)</b>
Consolidated Fund	SoPS	(187)	(178)	(9)
<b>Net Cash Requirement</b>		<b>31,716</b>	<b>31,991</b>	<b>(275)</b>



## Statement of Comprehensive Net Expenditure for the year ended 31 March 2015

		2014-15	2013-14
	Note	£000	£000
<b>Operating expenditure</b>			
Staff costs	3	21,254	21,150
Other costs	4	16,423	14,339
<b>Gross costs</b>		<b>37,677</b>	<b>35,489</b>
Operating income	5	(868)	(696)
<b>Net costs</b>		<b>36,809</b>	<b>34,793</b>
<b>Net operating cost</b>		<b>36,809</b>	<b>34,793</b>
<b>Other comprehensive expenditure</b>			
Net gain/(loss) on revaluation of property, plant and equipment		-	-
<b>Other comprehensive expenditure</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive expenditure for the year ended 31 March</b>		<b>36,809</b>	<b>34,793</b>

All operations are continuing.

## Statement of Financial Position as at 31 March 2015

		31 March 2015	31 March 2014
	Note	£000	£000
<b>Non-current assets</b>			
Property, plant and equipment	6	1,990	2,328
Intangible assets	7	303	407
<b>Total non-current assets</b>		<b>2,293</b>	<b>2,735</b>
<b>Current assets</b>			
Trade and other receivables	9	1,418	1,510
Cash and cash equivalents	10	1	150
<b>Total current assets</b>		<b>1,419</b>	<b>1,660</b>
<b>Total assets</b>		<b>3,712</b>	<b>4,395</b>
<b>Current liabilities</b>			
Trade and other payables	11	(2,680)	(3,183)
Other liabilities	11	(347)	(221)
<b>Total current liabilities</b>		<b>(3,027)</b>	<b>(3,404)</b>
<b>Non-current assets less net current liabilities</b>		<b>685</b>	<b>991</b>
<b>Non-current liabilities</b>			
Provisions	12	(7,043)	(2,405)
Other liabilities	11	(193)	(264)
<b>Total non-current liabilities</b>		<b>(7,236)</b>	<b>(2,669)</b>
<b>Assets less liabilities</b>		<b>(6,551)</b>	<b>(1,678)</b>
<b>Taxpayers' equity</b>			
General Fund		(6,551)	(2,004)
Revaluation Reserve		-	326
<b>Total taxpayers' equity</b>		<b>(6,551)</b>	<b>(1,678)</b>

Dame Julie Mellor, DBE  
Chair, Ombudsman and Accounting Officer

27 October 2015

## Statement of Cash Flows for the year ended 31 March 2015

		2014-15	2013-14
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Net operating cost	3,4,5	(36,809)	(34,793)
Adjustments for non-cash transactions	4	7,244	3,378
(Increase)/decrease in trade and other receivables	9	92	148
Increase/(decrease) in trade payables	11	(448)	728
Movements in payables/receivables relating to items not passing through the Statement of Comprehensive Net Expenditure	11	(126)	(79)
Use of provisions	12	(1,470)	(145)
<b>Net cash outflow from operating activities</b>		<b>(31,517)</b>	<b>(30,763)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	6	(548)	(468)
Purchase of intangible assets	7	(104)	(137)
<b>Net cash outflow from investing activities</b>		<b>(652)</b>	<b>(605)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply): current year		31,566	31,278
From the Consolidated Fund (Non-Supply)	3	178	171
<b>Net financing</b>		<b>31,744</b>	<b>31,449</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>(425)</b>	<b>81</b>
Payments of amounts due to the Consolidated Fund		-	(2)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(425)</b>	<b>79</b>
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b>150</b>	<b>71</b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b>(275)</b>	<b>150</b>

The difference between the negative cash balance at the end of the year and the cash asset of £1k on the Statement of Financial Position is the overdraft balance of £276k which is included in other liabilities of £347k.

## Statement of Changes in Taxpayers' Equity for the Year ended 31 March 2015

		General Fund	Revaluation Fund	Total Reserves
	Note	£000	£000	£000
<b>Balance at 31 March 2013</b>		<b>1,245</b>	<b>460</b>	<b>1,705</b>
Net Parliamentary Funding – drawn down		31,278	-	31,278
Net Parliamentary Funding – deemed		69	-	69
Consolidated Fund Standing Services		171	-	171
Supply payable adjustment		(150)	-	(150)
CFERs payable to the Consolidated Fund		-	-	-
Comprehensive net expenditure for the year		(34,793)	-	(34,793)
Non-cash charges – auditor's remuneration		42	-	42
Net gain/(loss) on revaluation of property, plant and equipment	6	-	-	-
Net gain/(loss) on revaluation of intangible assets	7	-	-	-
Transfers between reserves		134	(134)	-
<b>Balance at 31 March 2014</b>		<b>(2,004)</b>	<b>326</b>	<b>(1,678)</b>
Net Parliamentary Funding – drawn down		31,566	-	31,566
Net Parliamentary Funding – deemed		150	-	150
Consolidated Fund Standing Services	3	178	-	178
Supply payable adjustment	11	-	-	-
CFERs payable to the Consolidated Fund	11	-	-	-
Comprehensive net expenditure for the year	3,4,5	(36,809)	-	(36,809)
Non-cash charges – auditor's remuneration	4	42	-	42
Net gain on revaluation of property, plant and equipment	6	-	-	-
Transfers between reserves		326	(326)	-
<b>Balance at 31 March 2015</b>		<b>(6,551)</b>	<b>-</b>	<b>(6,551)</b>

The General Fund serves as the operating fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

The Revaluation Reserve recorded the unrealised gain or loss on revaluation of assets. As from 2012-13, assets are held at cost as a basis for Fair Value.

As permitted by the Financial Reporting Manual, the revaluation reserve balance has been written off to the General Fund.

## Notes to the Resource Accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted and interpreted by the Government Financial Reporting Manual 2014-15 issued by HM Treasury. The accounting policies contained in the Government Financial Reporting Manual 2014-15 comply with International Financial Reporting Standards as adapted or interpreted for the public sector context.

Where the Government Financial Reporting Manual 2014-15 permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to our particular circumstances for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention as a proxy for fair value for property, plant and equipment. In line with Audit Committee agreement, property, plant and equipment (1.8) and intangible assets (1.9) are no longer revalued.

#### 1.2 Financing

We are primarily resourced by funds approved by the House of Commons through the annual *Supply & Appropriation Act*. Resources are drawn down each month to meet expenditure requirements and are credited to the General Fund.

#### 1.3 Operating income

Operating income relates directly to the operating activities and management of Estate by us. We have parliamentary approval to retain the following income:

- income for services provided to the Scottish Public Services Ombudsman, the Public Services Ombudsman for Wales, and the Northern Ireland Ombudsman
- income from sharing accommodation with and providing corporate services to the Local Government Ombudsman for England and other public sector bodies
- recoveries in respect of outward secondments
- sub-letting accommodation on our estate
- monies received from sale of goods or services and recovery of costs or miscellaneous income.

The level of income that we may use in support of our activities is set out in our Estimate. Income earned in excess of the approved level, or income of a type for which we do not have parliamentary approval, cannot be used in support of our activities and is required to be paid over to the Consolidated Fund as excess income in accordance with Consolidated Budget Guidance.

## 1.4 Administration and programme expenditure

Most organisations whose funds are approved by the House of Commons are required to provide an analysis, in their Statement of Comprehensive Net Expenditure, between 'administration' and 'programme' expenditure. However, all our funding is classified as 'programme' and therefore no such analysis is provided.

## 1.5 Pensions

Our past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme. These defined benefit schemes are unfunded and are non-contributory except in respect of dependents' benefits. We recognise the expected cost of these elements on a systematic and rational basis over the period during which we benefit from employees' services by payment to the Principal Civil Service Pension Scheme of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the Principal Civil Service Pension Scheme. In respect of the defined contribution element of the schemes, we recognise the contributions payable for the year.

## 1.6 Early departure costs

We are required to meet the additional cost of benefits beyond the normal Principal Civil Service Pension Scheme's benefits in respect of employees who retire early. We recognise in full for the cost when the early retirement programme has been announced and is binding on us.

## 1.7 Operating leases

The total cost of operating leases is expensed in equal instalments over the life of the lease.

In accordance with Standards Interpretations Committee Interpretation 14: Operating Leases - Incentives, lease incentives (such as rent-free periods) are considered an integral part of the net cost of the lease and are recognised over the full lease term.

## 1.8 Property, plant and equipment

Expenditure on property, plant and equipment of £1,000 or more is capitalised. Assets costing less than £1,000 may be capitalised, providing they are capital in nature and there are enough assets to be worth more than £1,000 in total.

On initial recognition, assets are measured at cost including any costs, such as installation costs, directly attributable to bringing them into working condition. All property, plant and equipment is reviewed annually for impairment and is carried at cost for a proxy for fair value.

## 1.9 Intangible assets

Expenditure on intangible assets, which are software licences and the associated costs of implementation, is capitalised when the cost is £1,000 or more. Intangible assets costing less than £1,000 may be capitalised, providing they are capital in nature and there are enough assets and associated costs to be worth more than £1,000 in total. Licences for one year or less are expensed not capitalised regardless of cost.

Intangible assets are reviewed annually for impairment and are valued on the basis of amortised replacement cost as an approximation of fair value.



## 1.10 Depreciation

Property, plant and equipment are depreciated at rates calculated to write assets down to their estimated residual value on a straight-line basis over their estimated useful lives. Software licences are amortised over the shorter of the term of the licence and the useful economic life. Asset lives are normally in the following ranges:

- Furniture and fittings – 10 years
- IT software and equipment – three to five years
- Office machinery – five years
- Refurbishment – the lesser of 10 years or the lease term.

## 1.11 Financial instruments

We do not hold any complex financial instruments. The only financial instruments included in the accounts are receivables, payables, cash and cash equivalents (Notes 9 to 11). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that we will be unable to collect an amount due in accordance with the agreed terms.

## 1.12 Provisions

We provide for legal or constructive obligations that are of uncertain timing or amount at the Statement of Financial Position date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury discount rate.

## 1.13 Value added tax

We are not registered for value added tax (VAT) and these accounts are prepared on a VAT-inclusive basis.

## 1.14 Accounting estimates

Dilapidations have been reviewed and provision put through based on best estimate of costs. We have made no other significant accounting estimates or judgments in preparing these accounts.

## 1.15 Going concern

The Parliamentary Commissioner for Administration, otherwise known as the Parliamentary Ombudsman, is an independent Office-holder appointed by the Crown under the *Parliamentary Commissioner Act 1967*. The Parliamentary Ombudsman is also currently appointed as the Health Service Commissioner for England, an independent Office-holder appointed by the Crown under the *Health Service Commissioners Act 1993*. We exist to support the work of the Ombudsman and, in her opinion, as long as the provisions of the *Parliamentary Commissioner Act 1967* and the *Health Service Commissioners Act 1993* apply, it is appropriate for us to continue to support her work and for our accounts to be prepared on a going concern basis.

## 1.16 Impending application of newly issued Accounting Standards not yet effective

There were no new Accounting Standards issues for 2014-15 that would materially affect these accounts.

## 2. Statement of Operating Costs by Operating Segment

For internal reporting purposes, our resource costs are broken down on a 'divisional' basis, and further classified by expenditure type.

The four main groups of activities at PHSO are set out below:

- Operations and Investigations: responsible for the delivery of casework, customer service and ICT
- External Affairs & Strategy: responsible for media, communications, public affairs and external affairs
- Finance and Governance: responsible for delivering financial, governance, risk and centrally managed costs such as losses and special payments
- Support and Services: The Legal Adviser, Executive Office, Human Resources, Procurement, Facilities & Estates.

Only the Operations and Investigations Group is classified as a 'segment' as per the criteria of IFRS8; the other Group results are disclosed in order to allow reconciliation back to our full cost of PHSO for 2014-15. However, due to a change in the structure of PHSO, the 2013-14 tables have been restated to reflect this new structure.

Staff costs (including on-costs such as pensions and National Insurance), general budgets (including travel and subsistence expenses), the direct costs of our casework, and related income are allocated for internal management reporting purposes as follows:

	Operations and Investigations £000	External Affairs and Strategy £000	Finance and Governance £000	Support Services £000	Total £000
<b>2014-15</b>					
Staff costs	15,317	1,825	692	3,420	21,254
General budgets	299	36	16	101	452
Professional advice – casework	359	-	-	131	490
Professional advice – non casework	2	-	-	133	135
Associate caseworkers	429	-	-	-	429
Income	(348)	-	-	(520)	(868)
<b>Total</b>	<b>16,058</b>	<b>1,861</b>	<b>708</b>	<b>3,265</b>	<b>21,892</b>
Our overhead costs					<b>14,917</b>
<b>Total</b>					<b>36,809</b>

## 2. Statement of Operating Costs by Operating Segment (continued)

	Operations and Investigations £000	External Affairs and Strategy £000	Finance and Governance £000	Support Services £000	Total £000
2013-14 (Restated)					
Staff costs	14,962	1,468	1,412	3,308	21,150
General budgets	178	12	7	83	280
Professional advice – casework	363	-	-	160	523
Professional advice – non casework	18	32	-	292	342
Associate caseworkers	95	-	-	-	95
Income	(278)	-	-	(418)	(696)
<b>Total</b>	<b>15,338</b>	<b>1,512</b>	<b>1,419</b>	<b>3,425</b>	<b>21,694</b>
Our overhead costs					<b>13,099</b>
<b>Total</b>					<b>34,793</b>

The majority of our overhead costs, such as accommodation costs, telephones and staff learning and development, are managed centrally. PHSO does not reallocate these costs to the other divisions on a headcount or other basis.

PHSO operates across two sites – approximately two-thirds of our staff are based in London, and one-third in Manchester. However, PHSO operates as one office: staff in London and Manchester do the same work and receive the same corporate services. PHSO does not, therefore, report internally, or allocate overheads, on the basis of location.

## 2.1 Reconciliation between Operating Segments and Statement of Parliamentary Supply

	Operations and Investigations £000	External Affairs and Strategy £000	Finance and Governance £000	Support Services £000	PHSO Overhead £000	Total £000
<b>2014-15</b>						
Total net expenditure per Statement of Comprehensive Net Expenditure by operating segment	16,058	1,861	708	3,265	14,917	36,809
<b>Reconciling items:</b>						
Non-supply income	-	-	-	-	-	-
Expenditure – Ombudsman	-	-	-	(178)	-	(178)
<b>Total</b>	<b>16,058</b>	<b>1,861</b>	<b>708</b>	<b>3,087</b>	<b>14,917</b>	<b>36,631</b>
<b>2013-14 (Restated)</b>						
Total net expenditure per Statement of Comprehensive Net Expenditure by operating segment	15,338	1,512	1,419	3,425	13,099	34,793
<b>Reconciling items:</b>						
Non-supply income	-	-	-	-	-	-
Expenditure – Ombudsman	-	-	-	(171)	-	(171)
<b>Total</b>	<b>15,338</b>	<b>1,512</b>	<b>1,419</b>	<b>3,254</b>	<b>13,099</b>	<b>34,622</b>

### 3. Staff numbers and related costs

#### A) Staff costs comprise:

	2014-15		2013-14	
	Permanently employed staff £000	Others £000	Total £000	Total £000
Wages and salaries	15,994	1,022	17,016	16,797
Social security costs	1,260	-	1,260	1,265
Other pension costs	2,800	-	2,800	2,917
<b>Sub total</b>	<b>20,054</b>	<b>1,022</b>	<b>21,076</b>	<b>20,979</b>
Ombudsman's salary:				
Consolidated Fund Standing Services	178	-	178	171
<b>Total gross costs</b>	<b>20,232</b>	<b>1,022</b>	<b>21,254</b>	<b>21,150</b>
Less recoveries in respect of outward secondments	(88)	-	(88)	(30)
<b>Total net costs</b>	<b>20,144</b>	<b>1,022</b>	<b>21,166</b>	<b>21,120</b>

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme, but PHSO is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2014-15 employers' contributions of £2,770k were payable to the Principal Civil Service Pension Scheme (2013-14: £2,872k) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £19.7k were paid to one or more of a panel of three appointed stakeholder pension providers (2013-14: £20.9k). Employers' contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employers' contributions of £1.4k, 0.8% of pensionable pay (2013-14: £1.6k, 0.8%), were payable to the PCSPS to cover the cost of the future provision of lump-sum benefits on death-in-service and ill-health retirement of these employees.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £2k. Contributions prepaid at that date were nil.

## B) Average number of persons employed

The average number of full-time equivalent persons employed, excluding the Ombudsman, during the year was:

	2014-15				2013-14
	Senior management	Other permanent staff	Others	Total	Total
Full-time equivalent	4	395	24	423	433

The number of full-time equivalent persons employed as at 31 March 2015 was 423.

## 3.1 Reporting of civil service and other compensation schemes – exit packages

	Number of exit packages 2014-15			2013-14
Exit package cost band	Compulsory redundancies	Other departures	Total	Total
<£10,000	-	2	2	2
£10,001 - £25,000	-	4	4	9
£25,001 - £50,000	-	-	-	10
£50,001 - £100,000	-	1	1	3
£100,001 - £150,000	-	-	-	1
£150,001 - £200,000	-	-	-	1
£200,001 - £250,000	-	-	-	1
<b>Total number of exit packages</b>	-	7	7	27
<b>Total resource cost (£000)</b>	-	156	156	1,210

Payments when made are in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the *Superannuation Act 1972*.

Exit costs are accounted for in full in the year of departure. Where PHSO has agreed early retirements, the additional costs are met by PHSO and not by the Principal Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

## 4. Other administration costs

		2014-15		2013-14
	Note	£000	£000	£000
<b>Cash items</b>				
External professional advice (casework-related)		536		560
Associate caseworkers		429		95
Professional services		655		529
Consultancy		18		310
Information and communications technology		1,625		1,543
Recruitment and training		799		774
Travel, subsistence and hospitality		415		242
Publicity		106		123
Stationery and postage		209		225
Accommodation costs		1,932		2,089
Accommodation operating leases		1,783		2,840
Other operating leases		42		42
Early departures		156		1,210
Other		474		379
			9,179	10,961
<b>Non-cash items</b>				
Depreciation and amortisation of fixed assets:				
Property, plant and equipment	6	886		1,132
Intangible assets	7	208		173
Loss on disposal of fixed assets		-		212
Auditor's remuneration		42		42
Other		-		-
Provisions:				
Provided in year	12	6,894		1,861
Provisions not required written back	12	(786)		(42)
			7,244	3,378
<b>Total</b>			<b>16,423</b>	<b>14,339</b>

Auditors have received no remuneration for non-audit work.



## 5. Income

	2014-15	2013-14
Note	£000	£000
Recovery of direct and overhead costs from the:		
Local Government Ombudsman for England	-	3
Public Services Ombudsman for Wales	119	116
Scottish Public Services Ombudsman	115	87
Northern Ireland Ombudsman	29	25
Office of the Ombudsman Ireland	(3)	13
Rental income	499	418
Recoveries in respect of outward secondments	88	30
Other miscellaneous operating receipts	21	4
<b>Total</b>	<b>868</b>	<b>696</b>

## 6. Property, plant and equipment

	Furniture and fittings £000	Information technology £000	Office machinery £000	Refurbish- ment £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2014	1,749	2,434	528	3,954	-	8,665
Additions	31	149	-	88	280	548
Disposals	(3)	-	-	-	-	(3)
Reclassifications	-	-	-	-	-	-
<b>At 31 March 2015</b>	<b>1,777</b>	<b>2,583</b>	<b>528</b>	<b>4,042</b>	<b>280</b>	<b>9,210</b>
<b>Depreciation</b>						
At 1 April 2014	1,240	1,710	477	2,910	-	6,337
Charged in year	157	285	20	424	-	886
Disposals	(3)	-	-	-	-	(3)
<b>At 31 March 2015</b>	<b>1,394</b>	<b>1,995</b>	<b>497</b>	<b>3,334</b>	<b>-</b>	<b>7,220</b>
<b>Carrying amount as at 31 March 2015</b>	<b>383</b>	<b>588</b>	<b>31</b>	<b>708</b>	<b>280</b>	<b>1,990</b>
Carrying amount as at 31 March 2014	509	724	51	1,044	-	2,328

All property, plant and equipment held at 31 March 2015 is owned rather than leased or held as non-current assets through Private Finance Initiative contracts. PHSO hold no third-party assets.

	Furniture and fittings £000	Information technology £000	Office machinery £000	Refurbish- ment £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2013	1,820	2,093	529	5,296	29	9,767
Additions	21	378	20	49	-	468
Disposals	(92)	(66)	(21)	(1,391)	-	(1,570)
Reclassifications	-	29	-	-	(29)	-
<b>At 31 March 2014</b>	<b>1,749</b>	<b>2,434</b>	<b>528</b>	<b>3,954</b>	<b>-</b>	<b>8,665</b>
<b>Depreciation</b>						
At 1 April 2013	1,148	1,439	482	3,495	-	6,564
Charged in year	163	333	17	618	-	1,131
Disposals	(71)	(62)	(22)	(1,203)	-	(1,358)
<b>At 31 March 2014</b>	<b>1,240</b>	<b>1,710</b>	<b>477</b>	<b>2,910</b>	<b>-</b>	<b>6,337</b>
<b>Carrying amount as at 31 March 2014</b>	<b>509</b>	<b>724</b>	<b>51</b>	<b>1,044</b>	<b>-</b>	<b>2,328</b>
Carrying amount as at 31 March 2013	672	654	47	1,801	29	3,203

All property, plant and equipment held at 31 March 2014 is owned rather than leased or held as non-current assets through PFI contracts. PHSO hold no third-party assets.

## 7. Intangible assets

Intangible assets are purchased software licences and the associated implementation costs.

	<u>£000</u>
<b>Cost or valuation</b>	
At 1 April 2014	1,788
Additions	104
Disposals	-
Reclassifications	-
<b>At 31 March 2015</b>	<b><u>1,892</u></b>
<b>Amortisation</b>	
At 1 April 2014	1,381
Charged in year	208
Disposals	-
<b>At 31 March 2015</b>	<b><u>1,589</u></b>
Net book value:	<u>-</u>
<b>Carrying amount as at 31 March 2015</b>	<b><u>303</u></b>
Carrying amount as at 31 March 2014	<u>407</u>

All intangible assets held at 31 March 2015 are owned rather than leased or held as non-current assets through PFI contracts. PHSO holds no third party assets.

	<u>£000</u>
<b>Cost or valuation</b>	
At 1 April 2013	1,651
Additions	137
Disposals	-
Revaluation	-
Reclassifications	-
<b>At 31 March 2014</b>	<b><u>1,788</u></b>
<b>Amortisation</b>	
At 1 April 2013	1,208
Charged in year	173
Disposals	-
Revaluation	-
<b>At 31 March 2014</b>	<b><u>1,381</u></b>
Net book value:	-
<b>Carrying amount as at 31 March 2014</b>	<b><u>407</u></b>
Carrying amount as at 31 March 2013	<u>443</u>

All intangible assets held at 31 March 2015 are owned rather than leased or held as non-current assets through PFI contracts. We hold no third-party assets.

## 8. Financial instruments

As the cash requirements of PHSO are met through the Estimates process, financial instruments play a very limited role. Financial instruments relate to receivables, payables, cash and cash equivalents and PHSO is exposed marginal credit liquidity and market risks.

## 9. Trade receivables and other current assets

	31 March 2015	31 March 2014
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade receivables within one year	236	132
Deposits and advances	106	113
Prepayments and accrued income	1,076	1,265
<b>Total</b>	<b>1,418</b>	<b>1,510</b>

## 10. Cash and cash equivalents

	2014-15	2013-14
	£000	£000
Balance at 1 April	150	71
Net change in cash and cash equivalent balances	(149)	79
<b>Cash balance at 31 March</b>	<b>1</b>	<b>150</b>
Bank overdraft	(276)	-
<b>Balance at 31 March</b>	<b>(275)</b>	<b>150</b>
The bank overdraft above is disclosed within Note 11.		
The following balances at 31 March were held:		
Government Banking Service	-	149
Cash in hand and cash equivalents	1	1
<b>Total Cash Balance at 31 March</b>	<b>1</b>	<b>150</b>

## 11. Trade payables and other current liabilities

	31 March 2015	31 March 2014
Amounts falling due within one year	£000	£000
Trade payables	293	264
Taxation and social security	431	427
Other payables	345	334
Accruals and deferred income	1,611	2,158
Rent-free period accrual	71	71
Bank overdraft	276	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	150
Consolidated Fund extra receipts due to be paid to the Consolidated Fund: Received	-	-
<b>Sub total</b>	<b>3,027</b>	<b>3,404</b>
<b>Amounts falling due after more than one year</b>		
Rent-free period accrual	193	264
<b>Total</b>	<b>3,220</b>	<b>3,668</b>

## 12. Provisions for liabilities and charges

	2014-15				2013-14	
	Early departure costs £000	Legal claims £000	Dilapidations £000	Onerous lease	Total £000	Total £000
Balance at 1 April	301	-	2,104	-	2,405	731
Provided in the year	-	-	-	6,894	6,894	1,861
Provisions not required written back	-	-	(786)	-	(786)	(42)
Provisions utilised in the year	(25)	-	-	(1,445)	(1,470)	(145)
<b>Balance at 31 March</b>	<b>276</b>	<b>-</b>	<b>1,318</b>	<b>5,449</b>	<b>7,043</b>	<b>2,405</b>



## Early departure costs

PHSO meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. PHSO provide for this in full when the early retirement programme becomes binding on PHSO by establishing a provision for the estimated payments with all payments bar one finalising in the financial year 2015-16.

## Legal claims

PHSO has a small number of employment disputes where it could be ordered to pay compensation. The maximum liability for these is estimated at £200,000. However, due to the inherent uncertainties surrounding the outcome, PHSO has not made a provision for these in the accounts but disclosed a contingent liability in accordance with proper accounting practice.

## Dilapidations

A review of accommodation at Millbank Tower has resulted in a reduced provision in accordance with our contractual obligations to restore the floors that PHSO occupy to their original condition at the end of the lease. A professional survey was commissioned in 2015 to assess the extent of the dilapidations payable and this has resulted in a provision required as stated in the table above.

It should be noted that a range of outcomes are possible for the final amount of dilapidations payable, expected to be between £450k and £1,013k. The provision reflects the high end of this estimate range, as the most prudent position.

A provision also exists for dilapidations at the Exchange Building, Manchester which remains unchanged; this obligation represents the contractual requirement and is finite.

## Onerous leases

In accordance with International Accounting Standard (IAS) 37, a new onerous lease provision was created in 2014-15 to provide for the rental costs and service charges payable for floor numbers 13, 14 and 23 at Millbank Tower, which have been vacated by PHSO. These floors have been sub-let; however, IAS 37 requires the creation of a provision where the costs of meeting the contractual obligations exceed the economic benefit received. In the calculation of the provision, income received from sub-letting cannot be used to offset the level of provision required.

## 13. Capital commitments

There were contractual capital commitments as at 31 March 2015 of £191k (nil 31 March 2014).

## 14. Commitments under leases

### Operating leases

Total future minimum lease payments under operating leases are given in the table below, analysed according to the period in which the lease expires.

	31 March 2015	31 March 2014
	£000	£000
<b>Buildings</b>		
Not later than one year	2,957	3,190
Later than one year and not later than five years	7,726	13,074
Later than five years	-	-
<b>Total</b>	<b>10,683</b>	<b>16,264</b>
<b>Other</b>		
Not later than one year	21	55
Later than one year and not later than five years	6	49
Later than five years	-	-
<b>Total</b>	<b>27</b>	<b>104</b>

Total future minimum lease income expected to be received by PHSO under non-cancellable sub-leases are given for each of the following periods:

Not later than one year	971	486
Later than one year and not later than five years	1,347	286
Later than five years	-	-
<b>Total</b>	<b>2,318</b>	<b>772</b>

## 15. Other financial commitments

PHSO has entered into non-cancellable contracts (which are not leases or PFI contracts) for the service and maintenance of information technology equipment and the service of its leased buildings. The total payments to which PHSO is committed are:

	31 March 2015	31 March 2014
	£000	£000
Not later than one year	1,339	2,768
Later than one year and not later than five years	2,906	3,107
Later than five years	1	-
<b>Total</b>	<b>4,246</b>	<b>5,875</b>

PHSO has not entered into any financial guarantees or indemnities, nor provided any letters of comfort.

## 16. Contingent liabilities disclosed under IAS 37

PHSO had a number of judicial reviews during the year in relation to our decisions on individual cases. Most were refused permission to proceed to a full hearing, and in those cases PHSO sought to recover its legal costs. Full hearings are listed for three of these cases in 2015-16, so any potential liability in relation to legal costs will fall in the subsequent year due to the uncertainty associated with litigation.

## 17. Losses and special payments

	2014-15		2013-14	
	No. of cases	£000	No. of cases	£000
Total	16	21	98	71

No individual cases in either 2014-15 or 2013-14 exceeded £250,000.

Losses and special payments include compromise agreements, special payments and minor accounting adjustments.

## 18. Related-party transactions

PHSO contracts with a number of external professional advisers, who are experts in their field and who provide specialist advice, including advice on clinical matters, to PHSO when required regarding complaints. The Public Services Ombudsman for Wales, the Scottish Public Services Ombudsman and the Northern Ireland Ombudsman contract with PHSO for the services of these external professional advisers in accordance with their respective service level agreements. The cost of these services to PHSO is recovered, and is disclosed as Income in these resource accounts.

PHSO and the Local Government Ombudsman for England undertake joint working and collaboration across a wide number of areas and initiatives. PHSO sub-let two floors of the Millbank building to The Green Investment Bank Plc and the Home Office in 2014-15.

In addition, PHSO has a small number of transactions with government departments and health service bodies.

Neither the Ombudsman nor any other members of the Executive Board, Unitary Board or key managerial staff have undertaken any material transactions with PHSO during the reporting period.

## 19. Events after the reporting period date

In accordance with IAS10, the Ombudsman is required to consider the impact of events since the closing date of the Statement of Financial Position and up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. In the Ombudsman's opinion there have been no events since 31 March 2015 that would affect the financial statements.









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