

The Housing Ombudsman Annual Report and Financial Statements 2013-14

The Housing Ombudsman

Annual Report and Financial Statements 2013-14

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(Audit of Non-profit-making Companies) Order 2009.

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The Housing Ombudsman (2014)

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Annual Report

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Annual Report

Ombudsman's Report

The Ombudsman presents her report together with audited financial statements for the year ended 31 March 2014.

Principal Activities

The Housing Ombudsman (THO) administers the Housing Ombudsman Scheme. The purpose of the Scheme is to enable tenants and other individuals to have complaints about members investigated by a Housing Ombudsman. The Scheme states that the role of the Ombudsman is to resolve disputes involving members of the Scheme, including making awards of compensation or other remedies when appropriate, as well as to support effective landlord-tenant dispute resolution by others.

The Housing Act 1996 provides (Sch. 2, para.10) that a Scheme approved by the Secretary of State may be administered either by a "body corporate" or by a "corporation sole". Until 31 March 2013, the Scheme was administered by the former; the Independent Housing Ombudsman Limited (IHOLimited). With effect from 1 April 2013, the Scheme has been administered by the latter; The Housing Ombudsman (THO). This change was effected by Statutory Instrument 2013 No.722 (C.33) by order of the Secretary of State for Communities and Local Government. Accordingly, on 1 April 2013, the transfer and assumption of assets and liabilities of the IHOLimited was made to THO.

Corporation's sole are distinct, separate, corporate entities having full legal personality and capacity. Typically, they are managed and administered by an individual nominated as the corporation sole but not by a Board of Directors. As IHOLimited, the body corporate referred to above, was replaced by a corporation sole there ceased to be a function for a Board. Accordingly, members of the Board of IHOLimited resigned on 31 March 2013 and the Company has been struck off the Companies Register at Companies House.

THO operates in accordance with the Scheme which was approved by the Secretary of State (currently the Department for Communities and Local Government (DCLG)) under the terms of the Housing Act 1996. The latest Scheme takes into account changes to the Ombudsman's jurisdiction made by the Localism Act 2011. The Scheme applies to social landlords registered, regulated or operating in England (including all local housing authorities) as well as to other landlords and managing agents who join voluntarily.

THO has an on-going working relationship with DCLG to set appropriate levels of additional reporting and governance structures which are consistent with its obligations in terms of appropriate accountability to DCLG under the current Framework Document and the importance of protecting the independence of the Ombudsman and the Corporation Sole. As Accounting Officer, the Ombudsman reports to DCLG in accordance with the Framework Document. As the quasi-judicial statutory appointee, the Ombudsman reports to DCLG in accordance with the statute, the Scheme, and her Terms of Appointment.

THO received its funding from annual, per-unit subscriptions from registered social landlords who are required to join the Scheme and from private sector landlords and managing agents who joined the Scheme on a voluntary basis. Also, for 2013-14, only, THO received grant-in-aid of £630,000 to contribute to the additional costs as a result of its responsibility for dealing with complaints and disputes from residents of Local Housing Authorities. In 2014-15 funding will be provided solely by subscriptions, payable by all members of the Scheme

We will take forward our primary objectives and delivery of our business plan to aid local and early dispute resolution within the housing sector. The organisation's Leadership Team currently consists of the Head of Corporate Services, the Lead on Organisation and Sector Development and the Interim Ombudsman.

No remuneration was paid to the auditors in regard to non-audit work. There were no incidents in year relating to personal data. During the year employee sickness levels were recorded as 1% in respect of short-term sickness and 1% in respect of long-term absence.

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Strategic Review

At 31 March 2014, 2,473 landlords (2,123 in 2013) were in membership, representing 4,560,577 (2,900,900 in 2013) housing units, an increase of 57% which is mainly due to the extended remit in regard to Local Housing Authorities. 2,044 members were Housing Associations representing 2,814,780 housing units. There are 1,703,205 units relating to 343 Local Housing Authorities (including leaseholds). A further 86 were private, for-profit landlords or managing agents representing 42,592 housing units, who had joined voluntarily. THO actively encourages membership of the Scheme to landlords and managing agents in the private, for-profit, rented sector who are not under a statutory obligation to join.

On 1 April 2013 we launched a new core dispute resolution process with significantly changed terms of reference in the new Housing Ombudsman Scheme. The process was supported by a newly-developed casework management process called *Workpro*. When the new Scheme went live we had active cases in investigation under the terms of the old Scheme which had to be completed under our old process. From 1 April all new cases referred to us were subject to the terms of the new Scheme and had to be progressed under the new process. The two processes ran in parallel for several months.

Workpro has been in operation since mid-March 2013. Management reports were developed throughout the year as our data developed. The process was complicated as we had to develop basic performance reports to monitor performance in both the old and the new processes. Contemporaneous reports were not available for all areas of performance through the year. Reports to measure times taken to resolve cases have only recently been developed. Comprehensive data are not available on timescales for performance in 2013/14.

In past years, as IHOLimited, we published annual statistics based on composite reports. To ensure consistency across all our external annual reporting we are this year reporting statistics based on end of year data run directly from *Workpro*. Where 2013/14 data are compared with statistics for 2012/13, we have adjusted the figures for the earlier year so that they are calculated in the same way as figures for 2013/14. This means that figures quoted here for 2012/13 do not directly match those previously published.

During the year the Service responded to 6,674 enquiries and 6,108 complaints, the total of which is 12,782 (total complaints and enquiries for 2013: 9,790). We issued 267 final determinations following intervention under the old Scheme. We also reached local resolution in 208 cases and formally resolved 45 cases following intervention under the new Scheme. The total number of cases resolved or determined was 520 (2013: 534).

The surplus for the year after taxation and restatement of IAS 19 Employee Benefits was £774,348 (2013: surplus of £566,087). After including the net pension deficit, the accumulated assets carried forward a total of £2,116,675 (2013: £712,327). Changes in pension fund liabilities are liable to fluctuation year-on-year, dependent on economic circumstances and investment performance.

In accordance with para. 13 of the Scheme approved by the Secretary of State, the previous Ombudsman set the level of subscriptions by reference to budgeted cash requirements, including a prudent provision for relevant contingencies. This includes the need to meet higher pension contribution rates in the future and to support increased expenditure in accordance with the business plan, due to my extended remit. At 31 March 2014, the net current assets of THO amounted to £2,859,092 (2013: £2,332,512). This takes account of cash and investments and debtors less amounts falling due for payment within one year.

In the financial year THO increased its dedicated reserve in regard to its pension's liabilities. It was required to make an additional deficit contribution to Westminster LGPS of £116,000. It also transferred £150,000 from its general fund as part of its review of the pension deficit funding strategy. In the event that the sponsor department (DCLG) introduced legislation which effectively caused THO to be wound up, or if the Scheme's approval were to be withdrawn and another body approved under the Housing Act 1996, the sponsor department would be obliged to put in place arrangements to ensure THO's orderly winding up. In particular, it would ensure that the assets and liabilities of THO were formally transferred to any successor organisation and accounted for in accordance with Managing Public Money requirements. In the event of there being no successor organisation, the assets and liabilities would be transferred to the sponsor Department, as detailed in the Framework Document agreed by DCLG and the Ombudsman. The triennial actuarial pension valuation was last undertaken as at 31 March 2013 and the results of that formal review, which represents the position of the fund at 31 March 2013, are reflected in these financial statements.

THO has an environmental working group made up of employees across the organisation. Its purpose is to find ways to be more environmentally efficient and provide value for money, taking into account guidance provided by DCLG and best practice. Reports are produced in regard to energy consumption, recycling and paper usage. In accordance with its Business Plan, Mission, and Vision, THO supports working with stakeholders not only to shape and improve the Service but also to share learning with the sector to contribute to improved provider service delivery and good practice.

THO is exempt from sustainability reporting requirements as it does not meet the *de minimis* thresholds regarding size and employee numbers.

No charitable or political donations were made in the financial year.

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Website

The maintenance and integrity of THO's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

THO had four employees classified as senior managers during 2013-14, as detailed in the Remuneration Report. THO had a total of 44 employees as at 31 March 2014, of which 28 were female and 16 male.

Auditor

The C&AG is responsible for the Corporation Sole's annual audit commencing in the financial year 2013-14.

As far as the Accounting Officer is aware:

- there is no relevant audit information of which THO's auditor is unaware; and
- The Accounting Officer has taken all steps that she ought to make herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Since the end of the reporting period:

- The previous Ombudsman (Dr Mike Biles) has resigned with his employment terminating on 3 November 2014;

As detailed in note 1(a) of the Financial Statements I am of the opinion that THO should adopt a going concern status as at 31 March 2014.

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Remuneration Report

THO does not have a remuneration committee. However the Audit and Risk Assurance Committee (ARAC) assumes such a role within its responsibilities where matters relate to the Ombudsman. Remuneration is linked to the salary scales of THO and to contractual entitlement and is reviewed independently as appropriate. There are no performance conditions related to remuneration. Senior Managers are employees of THO and have an annual appraisal and any pay progression is based on merit.

All senior managers are permanent employees with three-month notice periods. The Ombudsman's notice period is also three months. The previous Ombudsman gave such notice to the Secretary of State by a letter dated 4 August 2014 which had the effect of terminating his appointment on 3 November 2014. No significant awards were made to any senior manager or committee member. In particular, no allowances, bonuses, or compensation were paid to senior management in year. No element of remuneration is non-cash. Information in regard to salary and fees paid to each senior manager and committee member is detailed in tabular form on page 5.

Pension benefits are also detailed in the table on page 5. There were no contributions to a money purchase scheme. No compensation was paid to any former senior manager, committee member or the Ombudsman.

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Table (subject to audit)

	Single total figure of remuneration				Pension entitlement details				
	Salary and fees	Pension benefits	Totals 2014	Totals 2013	Accrued benefits during the year & related lump sum	Accrued benefits at end of year & related lump sum	Cash Equivalent Transfer Value (CETV) at start of year	CETV at end of year	Real increase in CETV
	In bands of £5,000	In bands of £1,000	In bands of £5,000	In bands of £5,000	In bands of £2,500	In bands of £5,000	In bands of £1,000	In bands of £1,000	In bands of £1,000
Audit and Risk Assurance Committee									
Frank Chersky	0 – 4,999		0 – 4,999	0 – 4,999	-	-	-	-	-
Maxine Frerk	0 – 4,999		0 – 4,999	0 – 4,999	-	-	-	-	-
Andrew Greenhill	0 – 4,999		0 – 4,999	0 – 4,999	-	-	-	-	-
Senior Managers									
Dr Mike Biles (Ombudsman)	130,000 – 134,999	10,000 – 10,999	140,000 – 144,999	130,000 – 134,999	0 – 2,499	60,000 – 64,999	1,353,000- 1,353,999	1,389,000- 1,389,999	25,000 – 25,999
					(2,500- 4,999)	150,000 – 154,999			
Helen Megarry (Deputy Ombudsman)	85,000 – 89,999	25,000 – 25,999	110,000 – 114,999	95,000 – 99,999	0 – 2,499	15,000 – 19,999	244,000 – 244,999	276,000 – 276,999	19,000 – 19,999
					0 – 2,499	30,000 – 34,999			
Martin Colwell (Head of Corporate Services)	75,000 – 79,999	15,000 – 15,999	90,000 – 94,999	90,000 – 94,999	0 – 2,499	5,000 – 9,999	99,000 – 99,999	118,000 – 118,999	11,000 – 11,999
					(0-2,499)	0 – 4,999			
Paul Neville (Organisation and Sector Development Lead)	65,000 – 69,999	13,000 – 13,999	75,000 – 79,999	80,000 – 84,999	0 – 2,499	5,000 – 9,999	74,000 – 74,999	86,000 – 86,999	6,000 – 6,999
					(0-2,499)	5,000 – 9,999			
Band of highest paid individual's remuneration (£)			130,000 – 134,999						
Median remuneration of staff (£)			40,884						
Ratio between median remuneration and mid-point of banded remuneration of highest paid individual		2014		2013					
		3.2:1		4.7:1					

There were no payments to former directors.

There were no payments in respect of allowances, bonuses, compensation and non-cash benefits during the year.

Notes

- Dr Mike Biles resigned with effect from 3 November 2014 and Helen Megarry has been appointed as Accounting Officer and Interim Ombudsman.
- 2013 totals (column 4) relate to the Independent Housing Ombudsman Limited.

Helen Megarry

Accounting Officer and Interim Ombudsman
28 November 2014

The Accounting Officer's signature covers the Ombudsman's Report, Strategic Review, and Remuneration Report.

Governance Statement

This governance statement covers a period of time in the life of The Housing Ombudsman in which we were seeking to embed significant changes that we had introduced to deliver the Ombudsman's extended jurisdiction under the Localism Act 2011 and our aspirational outcomes-focussed strategy. We were applying the provisions in the new Housing Ombudsman Scheme that had been approved by the Secretary of State in February 2013 and familiarising ourselves with the Framework Document that had been concluded in December 2013. We introduced a new core dispute resolution process in April 2013 together with new ways of working to optimise local resolution by re-aligning resources to customer-facing delivery of our service and to capture and share learning from dispute resolution.

The Accounting Officer of THO is responsible for the management and control of the resources used in the organisation. By letter of 18 December Dr Mike Biles was appointed as Accounting Officer of THO with retrospective effect from 1 April 2013 by the Permanent Secretary of DCLG. Following Dr Biles retirement, I was appointed Ombudsman (Interim) and Accounting Officer with effect from 4 November 2014. To ensure that I meet my responsibilities I am supported by the Audit and Risk Assurance Committee (ARAC) and by colleagues within THO. We have developed and implemented an effective risk management framework that deals with the risks and opportunities the organisation faces. By developing an understanding of our appetite for risk we are able to respond to evolving, perceived risks. We review our risk registers regularly and up-date them when necessary. This Governance Statement is based upon challenges, events, and activity during the financial year. The issues that have arisen are set out under the heading 'significant internal control issues' below. It provides assurance in regard to performance and consideration of the organisation's risk profile, its responses to identified and emerging challenges and risks, and its success in dealing with them.

This Governance Statement relies on contributions from the Audit and Risk Assurance Committee and colleagues, which include:

- A review of our processes and performance informed by the views of the Audit and Risk Assurance Committee in regard to seeking assurance, particularly in the light of the actions taken to remedy the issues identified under the heading 'significant internal control issues' below;
- Insight into the organisation's performance from both internal and external audit, including an internal audit opinion from the Head of Internal Audit on the quality of the systems relating to governance, risk management, and internal control; and
- Input from colleagues and from key stakeholders about our outcomes-focussed performance, our use of resources, the value we add and provision of value for money, our responses to risks, our management of our budget, and how we meet our outcomes-focussed objectives.

The governance framework of the organisation

Structural change

Until 31 March 2013 the Service was administered by IHO Limited, a private company limited by guarantee and registered at Companies House. From 1 April 2013 the Service has been administered by THO, a corporation sole created by order of the Secretary of State under a statutory instrument. This was in accordance with the Housing Act of 1996 which provides that the governance structure for the Service may be constituted through the Ombudsman as a corporation sole or by means of a corporate body.

A Board was constituted for the company with constituency comprising landlords, tenants, and independents. The purpose of the company was to determine the annual budget of the Service, to decide and collect the subscription from member landlords, and to protect and maintain the independence of the Ombudsman.

In 2006, IHO Limited was designated as an NDPB. The Housing Ombudsman was designated its Accounting Officer (AO) with effect from April 2008. No significant amendments were made to governance arrangements.

Structural issues

In 2012 the Board made a proposal to the Secretary of State to change the administrator of the Service from the company to a corporation sole. It did so in recognition of the following structural issues:

- The Ombudsman had three, distinct roles each with different accountabilities and sometimes conflicting interests. He has a personal, statutory function to investigate complaints. There is an expectation that the Ombudsman is fully independent in that role. The Ombudsman was also *de facto* Chief Executive of IHO Limited and was the Accounting Officer of the NDPB.
- The Accounting Officer and the Board of IHO Limited had different accountability. So, for example, while the Accounting Officer is bound by Government restrictions on spend, the Board had a duty to resource the Ombudsman as statutory appointee and, as a limited company, expected autonomy in income and spend.

Governance Statement

- The Board of IHO Limited had potentially conflicting roles. The company had specific purposes under the terms of the Scheme. It had a role as a private limited Company with consequential duties to Companies House and under Company Law, and it had the additional aspect of NDPB status with an Accounting Officer and reporting duties to Government.
- The Localism Act 2011 which, provides that certain changes in the Scheme's total defrayable expenses from April 2013 must be approved by the Secretary of State. Previously, that had been the sole responsibility of IHO Limited.

Consequences of the structural issues

The Board considered that the consequences of those structural issues were that:

- The Ombudsman's independence was compromised.
- There was scope for lack of strategic alignment with consequential waste and conflict.
- Oversight was disproportionate to the size and function of the organisation.
- 'Double Governance' resulted in additional costs in terms of auditing and servicing two governance structures and was likely to give rise to further risk of conflict.

The Board was also mindful of reforms in the Localism Act 2011 including the fact the existing 'constituency' model would not fit with the extension of the Ombudsman's remit to include Local Housing Authorities.

Criteria for change

The criteria for change on which the Board based its decision were that the best governance structure for the Service from 2013 would:

- Support the Ombudsman's independence in the discharge of her statutory function.
- Be appropriate to the Ombudsman's extended remit.
- Maintain the confidence of key stakeholders.
- Provide effective and proportionate accountability and scrutiny given the size and function of the Ombudsman's office.
- Clarify roles and remove potential for conflicting responsibilities.
- Reduce the costs arising from 'double governance'.
- Reflect the Ombudsman's status as an office holder.
- Make clear provision for the appointment to, and terms of reference of, the Ombudsman's advisory panel and the audit committee.
- Support and reflect the status and authority of the Housing Ombudsman.

Ultimately, the Board decided that its proposal to the Secretary of State would be that the Scheme should be administered by a corporation sole. This proposal was accepted by the Secretary of State.

Legal status

IHO Limited was a corporation aggregate. THO is a corporation sole. Both forms of corporate body can make legally binding contracts, employ staff, and enter leases. A Corporation Sole is a distinct legal entity with legal capacity. It is typically created to allow the corporate entity to pass without interval in time from one office holder (in THO's case, the Ombudsman) to the next successor-in-office, giving the positions legal continuity with subsequent office-holders having identical powers to their predecessors.

Like other typical aggregate corporations, IHO Limited was composed of two or more members at the same time. The members of the company were the members of its board of directors; corporations aggregate are typically administered by a board of directors. Corporations sole do not have a board of directors; that role and function and all property, rights, assets, and liabilities are vested in the person who is the corporation sole who, in the case of THO, is the Ombudsman as statutory office- holder.

Governance Statement

Governance challenges

Confirmation of appointments; Framework Document

Some governance arrangements were not formally in place at the beginning of the financial year 2013-14. Final details were being concluded concerning the previous Ombudsman's Terms of Appointment, the appointment of an Accounting Officer, and agreement on the Framework Document. Nevertheless, as in previous years, we put in place arrangements to set the strategic direction, develop and deliver a business plan, and to set budgets and subscription rates. Duties such as ensuring compliance with Managing Public Money, monitoring performance and expenditure, reporting to DCLG as appropriate, and ensuring risk management policies and procedures were in place were also discharged in this period, except as noted under 'Significant internal control issues' below. The previous Ombudsman continued to act as Accounting Officer as under the previous governance arrangements. THO's Internal Auditors reviewed these arrangements and concluded as follows:

"It is the view of the [previous] Ombudsman, that he was appointed by the Secretary of State as the statutory Ombudsman w.e.f. 1 April 2013 by virtue of terms of appointment signed by [him] on 4 August 2013. This was disputed by the Department, as it was not viewed by them as a formal appointment letter, which was not signed until December. There was, however, no formally appointed Accounting Officer for the full period 2 April 2013 to 18 December 2013 by the Department (DCLG). As *de facto* Ombudsman and Chief Executive, the Housing Ombudsman continued to set the strategic direction, develop and deliver a business plan, set budgets, and subscription rates. Nevertheless, Accounting Officer duties, for example ensuring compliance with Managing Public Money, monitoring performance and expenditure, reporting to DCLG as appropriate, ensuring risk management policies and procedures are in place, were discharged by the Housing Ombudsman in this period who assumed the *de facto* responsibilities of Accounting Officer.

The Framework Document, which outlines the responsibilities of the Ombudsman, the Department (DCLG), and the Secretary of State including the role of the Audit and Risk Assurance Committee, remained unsigned and un-agreed until 18 December 2013 when negotiations between the Ombudsman and the DCLG regarding the Framework Document were concluded."

The Company's Audit and Risk Assurance Committee (ARAC) agreed to continue as the ARAC for the Corporation Sole until new arrangements became possible once there was final agreement in respect of the Framework Document. The absence of authorised terms of reference meant that it was not possible to submit these appointments to the Secretary of State for approval.

As an interim measure, THO appointed an Audit and Risk Assurance Committee in June 2013, membership being those who had held the positions in the limited company (IHOL).

As soon as the Framework Document was agreed we put in place arrangements to draw up a process for recruitment of members to ARAC. This included taking advice from THO's internal auditors. In accordance with the Framework Document the process for recruitment and the appointment of new members of the Committee have both been formally approved by the Secretary of State.

Interpretations of the Scheme and the Framework Document

The new Housing Ombudsman Scheme was approved by the Secretary of State in February 2013. The Framework Document was finalised in December 2013. As the two documents came to be applied the possibility of different interpretations became apparent. How this was resolved is set out more fully under 'significant internal control issues' below.

Significant internal control issues

With the aid of our auditors we have identified the following areas for improvement or comment.

Irregular expenditure

Following the 2010 general election, the Government introduced a number of spending controls over all central government bodies. These include a requirement for sponsored bodies to seek departmental approval for relevant temporary contractor appointments and for any redundancy payments. During 2011-12, THO received approval from DCLG to appoint an interim, fixed-term employee for 18 months. In error, managers made the appointment for an initial contractual term of 19 months expiring at the end of March 2013. THO subsequently took the decision to extend the original contract for a further six months. THO did not seek further approval from the Department for an exemption from spending controls at that point as we should have done. Subsequently, THO decided to make the post redundant. As the employee had more than two years' service at his employment termination date, he was entitled to an enhanced redundancy payment under THO terms and conditions.

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THO was not aware of the impact of the contract extension until after the decision to make the post redundant was made. We did discuss the redundancy payment with DCLG in August and September 2013 before payment was due on 30 September 2013 and were advised to seek approval for a redundancy payment. THO did not submit an application for exemption at that point as it should have done, but made the payment to the employee when it fell due. This action was motivated by a wish to take immediate executive action to mitigate the loss. THO did not seek retrospective approval from the Department until March 2014 when the omission was raised by the auditors. The Department declined to give retrospective approval for this expenditure on the grounds that, had permission been sought in a timely way they would not have approved the contract extension and, any consequent expenditure would have been avoided. Consequently, both the contractor's salary beyond the original term of the 18 month contract and the redundancy payment are irregular expenditure – this totals £45 220. This situation arose because of THO's lack of familiarity with its framework of authorities and THO acknowledges that this payment represents poor value for money.

The C&AG has considered this irregular expenditure but has not qualified his audit opinion in this regard as he does not consider it as material in the context of the accounts overall.

To prevent a recurrence, the following actions have been taken:

- We have drafted written guidance to managers on the precautions that need to be taken when recruiting fixed term staff - with particular reference to the Cabinet Office spending controls and it will be issued in Q3 2014-15. All managers have seen the draft and the Ombudsman has also sent them an email reinforcing the importance of their obligations particularly in relation to delegated headcount and spend controls.
- We have sought legal advice concerning the waiver of employment rights in the event of any future, exemption-authorized, fixed-term appointments. In future, all extensions of fixed-term contracts will be made subject to the essential pre-condition that the employee will be required to sign a waiver of rights to THO's contractual redundancy pay entitlement. The waiver does not affect statutory entitlements. In line with this new practice a revised fixed-term contract extension template letter has been written.
- We have commissioned an internal audit of spending controls carried out by the Cross Department Internal Audit Service.
- We have put in place a 'brought-forward' reminder control in the personnel files of fixed term, non-permanent, and temporary staff. This signals to managers the need to review forthcoming fixed-term contract expiry in a timely manner and with the necessary lead-time should any exemption approvals be required.
- We have developed an internal recruitment *pro forma* for Leadership Team approval and AO sign-off before any recruitment is confirmed.
- An independent review was initiated by the previous Ombudsman as Accounting Officer to give assurance as to protection in that role in terms of the spending controls.
- An internal review of the circumstances which led to the irregularity was carried out. It concluded that there was not enough evidence to justify the use of THO's Disciplinary Policy and Procedures.

One of our strategic risks is expressed as "Government controls (directives and restrictions) and assurance requirements prevent delivery of service". This covers, in the main, instances of lack of clarity in terms of interpretation and process relating to the spend controls. The irregular redundancy expenditure did not arise from any such lack of clarity but, rather, from managers' oversight. Nevertheless, the mitigation and improvement plan for this strategic risk have been assisted by the closer working relationship between THO and the Department; we now refer to them far more routinely when we are unsure about the interpretation of the spending controls.

Advertising, marketing and communications spend

In the course of the internal audit of spending controls referred to above, auditors identified potentially irregular spend relating to the advertising, marketing and communications. This prompted external auditors to investigate spend relating to; recruitment advertising for 3 administrative posts, and for printing and design costs.

Recruitment advertising:

In May 2013 we incurred costs of £1864.12 advertising for recruitment to 3 administrative posts for which we did not have the appropriate authority. We initially advertised the vacancies via the Civil Service website which failed to attract any candidates. We subsequently advertised the roles on recruitment websites Total Jobs and jobsgopublic.com. We applied to the Department for a retrospective exemption to the spending controls relating to this recruitment advertising

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in October 2014. The Department refused the exemption on the grounds that guidance on spend controls states that “as a guide £500 or less per advert (for one post of a group of similar posts) in one online channel is reasonable’. These are low level jobs and we can see no reason for the additional channels used and this greatly increased level of expenditure.”

As a consequence, THOs failure to apply for an exemption in advance of incurring the spend on advertising for these posts resulted in irregular spend of £1864.12.

Printing, publications and design:

Our auditors identified spend on printing, publishing and design during 2013/14 of £20 261.51. This spend was identified as subject to spending controls and therefore THO should have applied for exemption from spending controls before incurring the expenditure. We made an application to the Department for retrospective approval in October 2014.

Spend of £4,500 was incurred in the category of design and branding. This related to development and launch of new branding and logo for the launch of the new Service in April 2013. In relation to this spend the Department declined to give a retrospective exemption for spend, clarifying their position as, ‘the Department does not give exemptions for spend on branding as our Ministers will not permit this type of expenditure. Our own re-branding was achieved at zero cost through the Cabinet Office in-house design team and this route was available at the time THO commissioned their work.’

As a consequence of THOs failure to apply for an exemption in advance of incurring the spend on design and branding we incurred further irregular spend of £4,500.

We also applied for a retrospective exemption from spend controls in relation to £14,285 of costs incurred in printing materials directly relating to the delivery of our service to customers, including letter headed paper and complaint forms. The Department confirmed that ‘print material for an audience with lower than average access to the internet (social housing tenants) would have been given exemption...’ and on that basis gave a retrospective exemption. As a consequence this spend is not considered to be irregular.

The work to establish the level of irregular spend in 2013/14 also identified £13,027 of design and branding incurred during 2012/13. A request for retrospective approval for this expenditure was incorporated within the submission to the Department and this was declined for the reasons outlined above.

The irregular expenditure in these areas was incurred by THO due to a lack of familiarity with Cabinet Office spending controls. To prevent a recurrence of these errors the following action has been taken:

- The Department have offered a training session for all relevant managers on application of the Cabinet Office and DCLG spending controls. The session will be arranged to take place in early 2015.
- We are in the process of reviewing all spend incurred in 2014/15 to date that may potentially fall within this spending control and will seek guidance from the Department before, if necessary submitting further application for retrospective exemption. This will be completed by the end of December.
- We are in the process of assessing all programmes of activity planned for the remainder of 2014/15 and for 2015/16 for any spend that might fall within this spend control. We will seek advice from the Department and where necessary submit exemption requests before incurring any spend.
- We will amend our financial regulations to explicitly say that a copy of exemption to any relevant spend control must be appended to any associated purchase order before it is sent for authorisation.

Grant-in-aid

The 2013-14 financial years was the first, and only, year that Grant-in aid was needed to support THO’s expenditure. *Managing Public Money* and the Framework Document with DCLG state that grant-in-aid should not be claimed in advance of need. Payment arrangements for this grant-in-aid were that they were scheduled to be made quarterly on 23rd day of the relevant month. The claim for payment for the fourth period became due on 13 February 2014 and the actual payment was due on 23 February 2014. Our understanding was that if we did not make a claim by the due date we would lose the entitlement to do so, however, these process considerations should not have overridden the fundamental principle of not claiming in advance of need. At the time of making the claim we were not sure whether funding would be necessary in respect of our new LHA jurisdiction. We were concerned about the potential risk of the housing association sector, in effect, subsidising the LHA sector if it should turn out that we needed the funding but did not claim it. The claim was made on 10 February 2014 but our subsequent analysis of our under-spend revealed that this funding was not then needed. We consequently withdrew the claim. Our claim in advance of need was contrary to the terms of both *Managing Public Money* and the Framework Document.

Governance Statement

Business plan, budget, and subscriptions

At the very end of the financial year 2013-14 it became clear that DCLG and THO had different interpretations of provisions in the Scheme and the Framework Document relating to approval of the business plan, budget and members' subscription rate.

The decision regarding setting the subscription was taken in good faith by the previous Ombudsman. Once it emerged that this did not comply with the Framework Document, we worked with the new sponsor team (created in January 2014 and based in DCLG Finance) to draft a business plan and budget that met the Departments requirements. During our discussions with DCLG about the 2014-15 budget we were requested to reduce certain items of budgeted spend. This led to the Secretary of State approving the business plan, the budget, and a subscription rate of £1.02. The difference between the original £1.05 and revised £1.02 will be treated as subscriptions received in advance for the financial year 2015-16.

This control issue was not caught exactly by the strategic risk expressed as "Government controls (directives and restrictions) and assurance requirements prevent delivery of service" because it did not arise from instances of lack of clarity in terms of interpretation and process relating to the spending controls. Rather, it arose from different understandings of provisions in the Scheme and the Framework Document. Once again, however, there has been learning and a positive outcome from the Department and THO working closely together to reach a shared understanding of the meaning of the relevant provisions and, again, that has supported the mitigation and improvement plan for this strategic risk. We did liaise with the Departments sponsor team to find an effective solution and this has improved our working relationship.

We have learnt from these incidents and the improvement actions arising from them. The mitigating actions arising from the irregular redundancy, and advertising, marketing and communications, expenditure will improve corporate awareness of and adherence to spending controls. Our working relationship with the Department has improved as we have worked closely together on agreed outcomes for budget, business plan, and subscription setting. We have agreed a timetable for approval of these matters in future that synchronises the procedures of the Department and THO. As the Scheme will, in future, be funded solely by subscriptions from members there is no longer any need to claim grant-in-aid.

Strategic realignment

Strategic realignment has ensured that the resources of THO are directed at early dispute resolution and local solutions. Internal structures have been re-shaped and resources re-allocated. Job roles and key result area profiles have been re-evaluated, re-designed, and market-tested to enable effective delivery. In consequence, some posts have been made redundant in year and resources were released to enable the new job roles to aid delivery.

Designated persons

The Housing Ombudsman Scheme sets out the Ombudsman's jurisdiction, powers, and duties. It is drafted to ensure support for the spirit and intention of the Localism Act and it recognises, particularly, the new role under the Act for designated persons (MPs, councillors, and designated tenant panels).

In accordance with the requirement in the Localism Act we have set up a register of designated tenant panels. The Act requires providers (member Landlords) to inform the Ombudsman when they recognise such panels for the purpose of the Act. At the time of writing, 79 such panels have been registered.

Audit and Risk Assurance Committee

THO has an Audit and Risk Assurance Committee (ARAC). It met three times in the year. Matters relevant to the terms of reference of ARAC can also be dealt with out of committee *via* email or by telephone. During the year THO, supported by ARAC, has been involved in taking forward the business plan of the organisation and its work streams that will continue to enable early and local dispute resolution between landlord and tenant. The business plan is designed to effectively deliver the Ombudsman's extended remit over the whole of social housing with effect from 1 April 2013 onwards. This has resulted in significant changes to governance, operation, and resources. These extensive work streams are very time-consuming and have required significant planning and resource re-alignment to achieve successful completion so that we delivered what the Secretary of State and the Localism Act require of the single Housing Ombudsman. THO has worked closely with our sponsoring Department, DCLG, to take this forward in an efficient, professional, and pro-active manner.

Governance Statement

Panel of Advisors

THO has yet to establish this Panel but the Housing Ombudsman Scheme provides that the Ombudsman may from time to time decide, following consultation with such persons as he considers necessary, to appoint a Panel of Advisors. The Panel will assist the Ombudsman in such matters as he considers relevant and as set out in its terms of reference in the Framework Document for the Housing Ombudsman including the requirement that ministers approve nominations. As the internal auditors noted in their report on governance, the Panel is not a formal part of governance. The rationale and intention behind it is to give the Ombudsman the discretion to appoint advisors situationally according to presenting need and priorities. At present those needs include ombudsman reform, public sector reform, the private-for-profit rented sector, and the EU directive on Alternative Dispute Resolution.

Corporate governance

THO has adopted the practices set out in the Corporate Governance Code wherever it is practical, proportionate, and relevant to our business needs. Corporate leadership is undertaken by the Ombudsman as Chief Executive and Accounting Officer together with the Leadership Team. This input provides a collective strategic and operational leadership.

THO has in place appropriate policies and procedures for financial regulation, procurement, and data-handling. Any exceptions to this are reported under 'significant internal control issues'. The internal audit function has been undertaken by XDIAS on our behalf. The Head of Internal Audit has made no recommendation regarding significant audit issues to be included in this statement and has provided substantial assurance with regard to internal controls and risk management. XDIAS has undertaken reviews of the internal controls we have in place. The Audit and Risk Assurance Committee seeks assurance not only from the Leadership Team but also from the auditors on a regular basis. It also provides assurance to the Ombudsman as Accounting Officer. The Head of Internal Audit's summarised opinion in his report to THO's ARAC on 28 May 2014 was as follows:

"Based on the work we have completed this year, overall I am able to give substantial assurance (Amber/Green) that THO's risk management, control and governance arrangements are established and found to be working effectively with some minor weaknesses. This opinion is derived from the findings and conclusions from the programme of XDIAS audits.

The Committee will be aware of the particular issues around the formal governance arrangements until December 2013. We believe that the lack of a formally appointed Accounting Officer, Housing Ombudsman and signing of the Framework Agreement until December 2013 should be reflected in the governance statement recognising the organisation acted within the requirements of Accounting Officer responsibilities where possible. From our Governance audit we observed a range of other management controls that were present and operating, which to a large degree mitigated these risks."

Since 28 May 2014, XDIAS has carried out an internal review following irregular redundancy expenditure. Its recommendations are reflected in the management actions set out above.

THO operates in accordance with the Corporate Governance Code's recognised precepts of good practice:

- Leadership – by articulating a clear vision for the organisation with clarity about how activity contributes to achieving our vision, including setting our risk appetite and in managing risk effectively;
- Effectiveness – by bringing a wide range of relevant experience and knowledge to bear, including through offering rigorous challenge and scrutinising performance;
- Accountability – promoting transparency through clear and fair reporting and;
- Sustainability – taking a long-term view about taking forward the organisation to meet our purpose and remit and what we need to do to get there.

Internal Audit (Government Internal Audit Agency opinion)

THO has adopted the practices set out on the Corporate Governance Code wherever it is practical, proportionate, and relevant to our business needs. Corporate leadership is undertaken by the Ombudsman as Chief Executive and accounting Officer together with the Leadership Team. This input provides a collective strategic and operational leadership.

THO has in place appropriate policies and procedures for financial regulation, procurement, and data handling. The internal audit function has been undertaken by the Government Internal Audit Agency (GIAA) on our behalf. As at the date of the ARAC meeting on 28 May 2014, the Head of Internal Audit provided substantial assurance with regard to internal controls and risk management. GIAA undertakes reviews of the internal controls we have in place. The Audit and Risk Assurance Committee seeks assurance not only from the Leadership Team but also from the auditors on a regular basis. It also provides assurance to the Ombudsman as Accounting Officer. The Head of Internal Audit's summarised opinion in his report to THO's ARAC on 28 May 2014 was as follows:

Governance Statement

Since 28 May 2014, GIAA has carried out an internal audit review of THO compliance with Cabinet Office spending controls during 2013-14, following irregular redundancy expenditure, and provided a limited assurance. Its recommendations are reflected in the management actions set out above. As a result, The Head of Internal Audit is of the view that had the irregular expenditure been apparent at the time of the HIA report to the ARAC meeting on 28 May 2014, his assurance level over THO's control environment would have been moderate (Amber).

In accordance with its terms of reference set out in the Framework Document, the Audit and Risk Assurance Committee advises the Ombudsman, as Accounting Officer on:

- the policies and procedures for risk, control and governance and the wording of the Governance Statement;
- the accounting policies and the annual report and accounts of THO, including the process for review of the accounts prior to submission for audit, levels of error identified, and the Accounting Officer's letter of representation to the external auditors;
- the planned activity and findings of both internal and external audit;
- the adequacy of management response to issues identified by audit activity, including external audit's management letter;
- assurances relating to the corporate governance requirements for the organisation;
- proposals for tendering for Internal Audit services or for purchase of non-audit services from contractors who provide audit services; and
- counter-fraud policies, whistle-blowing processes, and arrangements for special investigations; and all matters relating to Human Resource policies and practices which may have, or which may be perceived to have, an impact on the Ombudsman's own terms of employment. Any changes to such policies and/or to the Ombudsman's own employment contract should be discussed with DCLG and should only be implemented by the Ombudsman with the prior written agreement of DCLG and the approval of the Audit and Risk Assurance Committee.

Members of the Committee are well aware of and upheld the seven principles of public life (the "Nolan principles") and acknowledged the Corporate Governance Code as providing a framework designed to facilitate good decision-making.

So that the Committee is effective in discharging its responsibilities it:

- allowed sufficient time for it to discharge its collective responsibilities effectively;
- ensured timely provision of information in a form and of a quality that enabled the Committee to discharge its duties effectively;
- benefited from a dedicated support function with appropriate skills and experience.

The attendance record of individual members for the year ended 31 March 2014 is detailed below and covers the 3 meetings of the Audit and Risk Assurance Committee.

Audit and Risk Assurance Committee meetings attended (3 in total)

Name of Member

Frank Chersky	3
Maxine Frerk (Chair)	3
Andrew Greenhill	3

The Committee also met once in May 2014 (all members present) after which date, their appointments expired on 30 September 2014. New appointments were made with effect from 1 October 2014.

The Audit and Risk Assurance Committee supports me as Accounting Officer in the discharge of my obligations that are set out in Managing Public Money for the proper conduct of business and maintenance of ethical standards and is fully effective in its performance and in adding value.

Risk Assessment

The Accounting Officer relies on the Leadership Team, the Audit and Risk Assurance Committee, and THO's auditors to advise on the key risks and effective risk management. The organisation has a detailed business plan and consequent work-streams that continue to deliver the significant challenges of the Ombudsman's extended remit. The Ombudsman liaised closely with the Committee, our sponsoring Department, and with other stakeholders within the sector to ensure delivery was effective and timely. The Committee in place at the time and the previous Ombudsman assessed the relevant strategic risks of the organisation and were content with the risk management and internal control systems in place and that they were effective. The newly constituted Audit and Risk Assurance Committee will take the opportunity to review THOs strategic risks in due course.

The key strategic risks in year were as follows. Action taken to mitigate those risks is also detailed below:

- Government controls (directives and restrictions) prevent delivery of the Service;
- Stakeholders' misunderstanding of and lack of engagement with the Ombudsman's role especially in its newly-extended form and the purpose and function of that role; and
- Uncertainty and suitability of future funding models

Mitigations

- Liaising with DCLG and other ALB's to find effective solutions; revised system and processes for exemption requests;
- Sector development strategic planning; communications planning; stakeholder consultation and partnering; and
- Working with DCLG and HMT on having a subscription model in place; developing and agreeing a reserves strategy.

I have reviewed the evidence provided to me by external and internal audit, and other reviews. With the exception of the significant control issues that have been identified in this statement, I am satisfied that THO has maintained a sound system of internal control and governance relative to its size.

Helen Megarry
Accounting Officer and Interim Ombudsman

28 November 2014

Statement of Accounting Officer's Responsibilities

The Secretary of State for the Department for Communities and Local Government (DCLG) has directed the Accounting Officer to prepare for each financial year a statement of accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of THO and of its surplus or deficit, financial position, changes in taxpayers' equity and cash flows for the financial year.

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

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

DCLG's Principal Accounting Officer has appointed Helen Megarry, the Interim Ombudsman, as Accounting Officer for THO. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding THO's assets, are set out in the Accounting Officer's memorandum issued by the Treasury and published in Managing Public Money.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of The Housing Ombudsman for the year ended 31 March 2014 under the Housing Ombudsman Service Scheme as approved by the Secretary of State under Schedule 2 to the Housing Act 1996. The financial statements comprise the Statements of: Comprehensive Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Ombudsman and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Ombudsman 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 in accordance with the Housing Ombudsman Service Scheme as approved by the Secretary of State under Schedule 2 to the Housing Act 1996. 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 Housing Ombudsman's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by The Housing Ombudsman; 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 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.

Opinion on regularity

In my opinion, in all material respects 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.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of The Housing Ombudsman's affairs as at 31 March 2014 and of the net deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with Framework Agreement between the Department for Communities and Local Government and The Housing Ombudsman, and the Government Financial Reporting Manual.

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; and
- the information given in the Ombudsman's Report and Strategic Review 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.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

03 December 2014

Statement of Comprehensive Income for the year ended 31 March 2014

	Notes	THO 2014 £	IHOL Restated 2013 £
Revenue			
Subscriptions	1b	4,195,690	4,227,452
Other operating income	3a	8,647	1,221
		4,204,337	4,228,673
Expenditure			
Administrative expenses	3c	(1,457,437)	(1,334,887)
Staff costs	3b	(2,779,462)	(2,932,357)
		(32,562)	(38,571)
Interest payable	4	(73,863)	(27,677)
Deficit before taxation		(106,425)	(66,248)
Taxation	6	(3,227)	(18,665)
Deficit after taxation		(109,652)	(84,913)
Other comprehensive income			
Net actuarial gain on pension fund	12	884,000	651,000
Total comprehensive income		774,348	566,087

All operations are classified as continuing. Items of other comprehensive income are not potentially reclassifiable to profit or loss.

The notes on pages 22 to 35 form part of these financial statements.

Details of the restatement can be found in note 1k.

For 2012-13 comparatives the figures from the IHOL accounts have been used. See note 1j for more information.

Statement of Financial Position as at 31 March 2014

	Notes	THO 2014 £	IHOL 2013 £
Non-current assets			
Property, plant and equipment	8	285,881	294,714
Intangible assets	7	207,396	241,101
Trade receivables	9b	140,446	-
		<u>633,723</u>	<u>535,815</u>
Current assets			
Trade receivables and other current assets	9a	4,945,194	2,802,997
Cash and cash equivalents	10	1,056,965	4,167,661
Investments	10	2,000,000	-
Total current assets		<u>8,002,159</u>	<u>6,970,658</u>
Trade payables and other current liabilities	11a	5,139,837	4,619,478
Current tax liabilities		3,230	18,668
Total current liabilities		<u>5,143,067</u>	<u>4,638,146</u>
Total assets less current liabilities		<u>3,492,815</u>	<u>2,868,327</u>
Non-current liabilities			
Net pension liability	12	1,234,000	2,156,000
Trade payables	11b	142,140	-
Total non-current liabilities		<u>1,376,140</u>	<u>2,156,000</u>
Assets less liabilities		<u>2,116,675</u>	<u>712,327</u>
Reserves			
General fund reserve		1,579,901	210,082
Pension fund reserve		536,774	502,245
Accumulated reserves		<u>2,116,675</u>	<u>712,327</u>

For 2012-13 comparatives the figures from the IHOL accounts have been used. See note 1j for more information.

The notes on pages 22 to 35 form part of these financial statements.

Helen Megarry
Accounting Officer and Interim Ombudsman

28 November 2014

Statement of Cash Flows for the year ended 31 March 2014

	Notes	THO 2014 £	IHOL 2013 £
Cash flows from operating activities			
Deficit from operations		(32,562)	(33,571)
Depreciation and amortisation charges	7,8	184,718	114,270
Loss on sale property, plant and equipment		-	74,989
Pension scheme service and admin costs		344,000	521,000
Pension scheme contributions	12	(472,000)	(640,000)
(Increase)/Decrease in receivables	9	(2,282,643)	79,839
Increase/(Decrease) in payables	11	662,499	93,832
Cash generated from operations		(1,595,988)	210,359
Corporation tax paid		(18,665)	(8,777)
Net cash inflow/(outflow) from operating activities		(1,614,653)	201,582
Cash flows from investing activities			
Purchase of property, plant and equipment	7,8	(142,180)	(407,151)
Bank and other interest receivable	4	16,137	93,323
Investments	10	(2,000,000)	1,393,000
Net cash inflow/(outflow) from investing activities		(2,126,043)	1,079,172
Cash flows from financing activities			
Grant in aid received from DCLG		630,000	-
Net cash inflow/(outflow) from investing activities		630,000	-
Net increase/(decrease) in cash and cash equivalents in the period		(3,110,696)	1,280,754
Cash at end of period	10	1,056,956	4,167,661

Reconciliation of net cash flow to movement in net funds For the year ended 31 March 2014

	2014 £	2013 £
Net increase/(decrease) in cash and cash equivalents in the period	(3,110,696)	1,280,753
Cash and cash equivalents at the beginning of the period	4,167,661	2,886,908
Cash and cash equivalents at the end of the period	10 1,056,965	4,167,661

For 2012-13 comparatives the figures from the IHOL accounts have been used. See note 1j for more information.

The notes on pages 22 to 35 form part of these statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2014

	Notes	General fund £	Pension fund £	Total £
Balance as at 1 April 2012		(399,541)	545,781	146,240
Total comprehensive income		566,087	-	566,087
Transfer to pension fund reserve		43,536	(43,536)	-
Balance as at 31 March 2013 (IHOL)		210,082	502,245	712,327
Total comprehensive income		774,348	-	774,348
Grant in aid received from DCLG	2	630,000	-	630,000
Transfer to Pension Fund Reserve		(34,529)	34,529	-
Balance as at 31 March 2014		1,579,901	536,774	2,116,675

This equity has accumulated since the inception of the statutory ombudsman service in 1997 and derives from the subscription contributions of member landlords in 'housing association' sector.

In 2009 IHOLimited created a dedicated reserve in regard to its pension fund liabilities by transferring funds from its general fund in relation to its pension deficit funding strategy. The reserve was transferred to the Corporation Sole (THO) on 1 April 2013. The purpose of the Pension Reserve Fund is to enable the organisation to meet future increases in the employer's contributions to the City of Westminster Pension Fund.

All prior year balances are brought forward from IHOLimited and were transferred to THO on 1 April 2014.

The notes on pages 22 to 35 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2014

1. Accounting policies

a) Basis of accounting

The financial statements are prepared in accordance with the Government Financial Reporting Manual (FRM). The accounts have been prepared under the historical cost convention. The accounting policies are set out below and have been consistently applied.

Going concern

Although THO does have an accumulated pension liability at the year end the Ombudsman does not consider this to affect THO's going concern status going forward. As from 1 April 2013 the assets and liabilities of IHOL were transferred to THO, the Corporation Sole. A guarantee/side agreement has been reached between DCLG, Westminster LGPS and the Corporation Sole in regard to pension liabilities in the future. Changes in pension fund liabilities are liable to fluctuation year on year, dependent on economic circumstances and investment performance. In the event that the sponsor Department (DCLG) introduced legislation which effectively caused THO to be wound up, or if the Scheme's approval were to be withdrawn and another body approved under the Housing Act 1996, the sponsor Department shall put in place arrangements to ensure the orderly winding up of the Corporation Sole. In particular, it would ensure that the assets and liabilities of THO are formally transferred to any successor organisation and accounted for in accordance with Managing Public Money requirements. In the event there is no successor organisation, the assets and liabilities would be transferred to the sponsor department. As an admitted body to the City of Westminster Pension Fund, the Corporation Sole is liable for any liabilities other members incur. This agreement provides further assurance in regard to such liabilities and supports a going concern status. Therefore the Ombudsman is of the opinion the accounts should be prepared on a going concern basis.

b) Subscriptions

Subscriptions are the annual subscriptions payable by landlord members of the Ombudsman Scheme for the year ended 31 March 2014. Subscriptions are calculated by reference to the number of units owned or managed by member landlords. All subscriptions are payable on receipt of a THO invoice. Any subscriptions invoiced in advance of the year to which they relate are treated as deferred income and are included in Trade Payables and other Current Liabilities as subscriptions in advance and as Trade Receivables and other Current Assets as subscriptions.

As 2014-15 was the first year of issuing invoices to Local Housing Authorities (LHAs) based on their unit numbers, we used a number of data sources in order to forecast the subscriptions due in February / March 2014. Published data for the year in question indicated that there were 1.7 million LHA units (data sources: DCLG). We also collected our own data as part of our first annual invoicing exercise.

We sought to obtain further assurance by verifying unit numbers of Local Housing Authorities as this was the first year that such data had been required to be collected by us. We shall attempt to triangulate unit number data to provide the additional assurance required. In the mean time we have carried out an exercise which has involved researching LHA websites including those of LHAs that DCLG had informed us had nil units.

The figures in note 11 are based on the best information available to management at the time of certification of the accounts.

c) Property, Plant and Equipment

THO invests in enhancements to its rented property which are capitalised as building improvements and valued at depreciated historical cost. Management consider that, in the absence of a readily obtainable market for such items, due to the fact that these assets cannot be marketed separately from the building, this provides a suitable approximation for fair value.

Non property assets are considered to be of sufficiently low value and short useful life for the adoption of depreciated historical cost basis as a proxy for fair value.

Property, plant and equipment are disclosed at cost less accumulated depreciation. Depreciation is provided on all property, plant and equipment evenly on a monthly basis at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life as follows:

Leasehold improvements are being depreciated over 3.5 years, the period remaining on the lease at the time of the improvements (2012/13).

Leasehold improvements (fixtures and fittings)	- Period of lease
Computer equipment	- 5 years
Office equipment	- 10 years

Notes to the financial statements

For the year ended 31 March 2014

- d) **Intangible assets**
Intangible assets comprise computer software and website development and are stated at cost. Amortisation is charged on a straight line basis over the estimated useful economic life of the software (five years) and website (three years). The impairment of intangible assets is considered annually, or whenever events or changes occur. The valuation policy for intangible assets is to use amortised cost as a proxy for fair value as all assets are short life and low value.
- e) **Cash and cash equivalents**
Cash and cash equivalents comprise cash in hand, balances with banks, and short term deposits in money market instruments. These are liquid investments that are readily convertible to known amounts of cash.

THO also makes longer term investments, typically held for between 6 and 12 months, and these are reported separately.
- f) **Pension costs**
The Corporation Sole participates in a multi-employer funded defined benefit scheme. The Corporation Sole remains exposed to risk by being jointly liable for the liabilities of other bodies admitted to the pension scheme. The Corporation Sole is exposed to actuarial risks associated with their current and former employees' membership of the fund. The actuary has been able to perform a notional allocation of the Corporation Sole's share of the Fund and therefore has performed an actuarial valuation at 31 March 2014 using IAS19 principles.

The effect of this accounting policy is to recognise a pension liability in the Statement of Financial Position. Current service costs, past service costs, gains and losses on settlements and curtailments, interest and the expected return on pension scheme assets are charged to the Statement of Comprehensive Income. Actuarial gains and losses are charged to the Statement of Changes in Taxpayers' Equity. As detailed in note 12, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis and discounted at a rate equivalent to the current rate of return of a high quality corporate bond of equivalent currency and term of the scheme liabilities.
- g) **Operating leases**
Rentals payable under operating leases are charged in the Statement of Comprehensive Income on a straight-line basis over the lease term. Any rent free period is amortised evenly over the period of the lease.

Notes to the financial statements For the year ended 31 March 2014

h) **Changes in accounting policy**

THO has considered, in accordance with IAS 8, whether there have been any changes to accounting policies arising from IFRS and the FReM which have an impact on the current or prior period, or may have an effect on future periods. THO has also reviewed any new or amended standards issued by the IASB but not yet effective, to determine if it needs to make any disclosures in respect of those new IFRS's that are or will be applicable.

The following changes in accounting policy have been applied by THO for the first time in the current period:

Revised IAS 19 – Employee Benefits

This standard was revised and is mandatory for all financial years commencing on or after 1 January 2013. The amendments, affect the Statement of Comprehensive Income and not the Statement of Financial Position, and are set out in detail in note 1k.

THO does not believe that there are any changes to accounting policies that will have an impact in future periods.

i) **Provisions**

There were no provisions in 2013-14.

j) **Comparative figures for 2012-13**

Where 2012-13 comparative figures have been used, the figures shown are from the IHOL accounts. These figures have been used to provide comparative information because the functions and all assets and liabilities were transferred from IHOL to THO on 1 April 2013.

k) **Restatements**

Figures have been restated in these accounts, due to changes arising from the revision to IAS 19. These change the presentation of pension related costs in the Statement of Comprehensive Income but have no overall impact on the bottom line or Statement of Financial Position.

	2013 Restated £	2013 Original £
Staff costs	(2,932,357)	(2,927,357)
Interest costs	(27,667)	80,323
Actuarial gain/ (loss)	651,000	538,000

2 **Fees and Charges**

Activity	Income	Expenditure	Surplus/(deficit)
	2014 £	2014 £	2014 £
Local Authority activity	630,000	639,203	(9,203)
Non-Local Authority Activity	4,195,690	3,597,696	597,994
	4,825,690	4,236,899	588,791

Grant in aid funding was received from DCLG for the first time in 2013-14 to fund local authority activity as a result of THO's extended remit, therefore no comparatives are shown. This is the only year that THO will receive grant in aid funding, from 2014-15 onwards all members will be required to pay a subscription charge. Grant in aid is presented as income here to show the surplus on activity only. In the accounts this is treated as financing and taken straight to reserves.

The expenditure recorded against local authority activity is comprised of the additional costs THO incurred as a result of taking on this extended remit. Admin costs have been apportioned and include residual costs to close down IHOLimited.

Notes to the financial statements
For the year ended 31 March 2014

3a. **Other operating income**

	THO 2014 £	IHOL 2013 £
Sundry income	8,647	1,221
	8,647	1,221

3b. **Staff costs**

	Permanent staff £	Temporary staff £	THO 2014 Total £	Restated IHOL 2013 Total £
Wages and salaries	1,963,022	192,849	2,155,871	2,009,133
Social security costs	192,135	-	192,135	186,025
Pension service costs	240,222	-	240,222	332,442
Additional pension payment	116,000	-	116,000	200,000
Redundancy costs	75,233	-	75,233	204,757
	2,586,613	192,849	2,779,462	2,932,357

Redundancy costs comprised payments to 3 members of staff. Redundancies were made due to restructuring of the Corporation Sole, undertaken to meet the needs of the business plan and its associated work streams.

The additional pension payment was made to City of Westminster to reduce pension liability.

The average number of THO employees (excluding directors) but including part-time employees and secondees during the year was 49 (2013: 44), engaged in the following duties:

	THO 2014 No.	IHOL 2013 No.
Ombudsman	1	1
Caseworkers	34	28
Organisation and Sector Development	4	2
Support staff	5	11
Temporary staff	5	2
	49	44

Reporting of exit packages

Exit package cost bands (£)	Number of compulsory redundancies	Number of other departures agreed	THO 2014 Total	Number of compulsory redundancies	Number of other departures agreed	IHOL 2013 Total
0 – 9,999	-	-	-	-	-	-
10,000 – 24,999	2	-	2	1	-	1
25,000 – 49,999	1	-	1	-	-	-
50,000 – 99,999	-	-	-	1	-	1
100,000+	-	-	-	1	-	1
Total number of exit packages	3	-	3	3	-	3
Total Cost (£)	75,233	-	75,233	204,757	-	204,757

Notes to the financial statements
For the year ended 31 March 2014

3c. **Administrative expenses**

	THO 2014 £	IHOL 2013 £
Accommodation	423,939	428,403
Training and recruitment	257,354	196,447
Depreciation and amortisation	184,718	114,270
Office running costs	222,721	128,770
Consultancy	27,465	108,363
Information technology	133,906	98,207
Organisation & Sector Development	79,783	29,585
ARAC remuneration	17,645	34,019
Travel and subsistence	15,552	19,186
NAO audit fees	30,500	22,500
Other professional fees	25,211	40,191
DCLG internal audit fees	20,359	14,242
Professional subscriptions and welfare	7,975	4,846
External dispute resolution	673	11,311
Health scheme	9,636	9,557
Loss on disposal of assets	-	74,989
	<u>1,457,437</u>	<u>1,334,887</u>

No remuneration was paid to the external auditors for non-audit work in 2013-14 (2012-13: nil).

4 **Interest receivable/ (payable)**

	THO 2014 £	Restated IHOL 2013 £
Bank and other interest receivable	16,137	93,323
Interest cost on pension obligation	(394,000)	(368,000)
Interest on pension scheme assets	304,000	247,000
	<u>(73,863)</u>	<u>(27,677)</u>

5. **Statement of losses and special payments during the year**

There were no losses or special payments that require disclosure in the financial statements.

6. **Taxation**

The Ombudsman, with certain provisos, is only subject to tax on its interest received.

The tax assessed for the period is the standard rate of corporation tax in the United Kingdom 20% (2013:20%).

	THO 2014 £	IHOL 2013 £
Interest received before corporation tax	<u>16,137</u>	<u>93,323</u>
Tax on interest received	3,227	18,665

Notes to the financial statements
For the year ended 31 March 2014

7. **Intangible assets**

	Computer Software	Website	Total
	£	£	£
Cost			
As at 1 April 2013	301,006	88,200	389,206
Additions	12,528	43,800	56,328
Disposals	-	-	-
As at 31 March 2014	313,534	132,000	445,534
Amortisation			
As at 1 April 2013	145,654	2,450	148,104
Charge for the year	46,034	44,000	90,034
Disposals	-	-	-
As at 31 March 2014	191,688	46,450	238,138
Net book value:			
As at 31 March 2014	121,846	85,550	207,396

	Computer Software	Website	Total
	£	£	£
Cost			
As at 1 April 2012	232,510	-	232,510
Additions	111,456	88,200	199,656
Disposals	(42,960)	-	(42,960)
As at 31 March 2013	301,006	88,200	389,206
Amortisation			
As at 1 April 2012	146,773	-	146,773
Charge for the year	41,841	2,450	44,291
Disposals	(42,960)	-	(42,690)
As at 31 March 2013	145,654	2,450	148,104
Net book value:			
As at 31 March 2013	155,351	85,750	241,101

Notes to the financial statements
For the year ended 31 March 2014

8. **Property, Plant and Equipment**

	Leasehold Improvements Fixtures and Fittings £	Information Technology £	Office Equipment £	Total £
Cost				
As at 1 April 2013	256,712	158,627	61,619	476,958
Additions	-	82,884	2,968	85,852
Disposals	-	-	-	-
As at 31 March 2014	256,712	241,511	64,587	562,810
Depreciation				
As at 1 April 2013	92,906	69,597	19,741	182,244
Charge for the year	48,625	39,347	6,712	94,684
Disposals	-	-	-	-
As at 31 March 2014	141,531	108,944	26,453	276,928
Net book value: As at 31 March 2014	115,181	132,567	38,134	285,881

	Leasehold Improvements Fixtures and Fittings £	Information Technology £	Office Equipment £	Total £
Cost				
As at 1 April 2012	328,013	153,283	56,133	537,429
Additions	120,811	48,512	38,172	207,496
Disposals	(192,112)	(43,169)	(32,686)	(267,968)
As at 31 March 2013	256,712	158,627	61,619	476,957
Depreciation				
As at 1 April 2012	173,532	87,182	44,530	305,244
Charge for the year	40,304	25,584	4,090	69,978
Disposals	(120,931)	(43,169)	(28,878)	(192,978)
As at 31 March 2013	92,906	69,597	19,741	182,244
Net book value: As at 31 March 2013	163,806	89,030	41,878	294,714

Notes to the financial statements
For the year ended 31 March 2014

9a.	Trade receivables and other current assets		
		THO	IHOL
		2014	2013
		£	£
	Subscriptions	4,775,152	2,604,876
	Staff loans	20,865	19,991
	Prepayments	148,919	142,648
	Other receivables	258	35,482
		<u>4,945,194</u>	<u>2,802,997</u>
	Represented by		
	Central Government	-	-
	Local Authorities	1,836,628	-
	External Bodies	3,108,566	2,802,997
		<u>4,945,194</u>	<u>2,802,997</u>
9b.	Non-current receivables		
		THO	IHOL
		2014	2013
		£	£
	Subscriptions	140,446	-
		<u>140,446</u>	<u>-</u>
	Represented by		
	Central Government	-	-
	Local Authorities	53,356	-
	External Bodies	87,090	-
		<u>140,446</u>	<u>-</u>
10.	Cash and cash equivalents		
		THO	IHOL
		2014	2013
		£	£
	Cash on hand and balances with bank	1,056,965	2,317,661
	Short term deposits	-	1,850,000
		<u>1,056,965</u>	<u>4,167,661</u>
	Investments held with commercial banks	2,000,000	-
		<u>3,056,965</u>	<u>4,167,661</u>
11a.	Trade payables and other current liabilities		
		THO	IHOL
		2014	2013
		£	£
	Subscriptions in advance	4,832,760	4,264,323
	Trade payables	112,670	75,809
	Accruals	194,407	279,346
		<u>5,139,837</u>	<u>4,619,478</u>
	Represented by		
	Central Government	9,256	3,461
	Local authorities	1,836,000	-
	External Bodies	3,294,581	4,616,017
		<u>5,139,837</u>	<u>4,619,478</u>

Notes to the financial statements
For the year ended 31 March 2014

11b. **Non-current payables**

	THO 2014 £	IHOL 2013 £
Subscriptions in advance	142,140	-
	142,140	-
Represented by		
Central Government	-	-
Local authorities	54,000	-
External Bodies	88,140	-
	142,140	-

12. **Pension**

THO is an Admitted Body to the City of Westminster Pension Fund; a defined benefit scheme. The Pension Fund is operated under the Local Government Pension Regulations 1997 (as subsequently amended). THO pays different contribution rates compared to other employers participating in the Fund, reflecting differences in the Corporation Sole's demographic profile and experience and is exposed to actuarial risks associated with their current and former employees' membership of the Fund. The contributions are determined by an independent, qualified actuary at Barnett Waddingham. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments, contributions paid to the fund and benefit payments.

The actuarial valuation of the Fund at 31 March 2014 for IAS19 purposes calculated the accumulated net liability relating to THO to be £1,234,000 (2013 IHOL: £2,156,000). All further figures in this note are disclosed to the nearest thousand.

For Admitted Bodies the funding target is 6.25% for members in active service and 4.75% otherwise. The value placed on the Fund's assets as a whole was £670.4m representing 73.8% of the funding target required to cover the liability for benefits under the valuation method used.

Following the 2013 triennial review the actuary recommended that the Corporation Sole's contribution rate of pensionable salaries increases as follows:

Year Ended 31 March	Contribution Rate %
2015	25%
2016	25%
2017	25%

Under the scheme which came into effect on 1 April 2008 employee contribution rates changed from 6% of pensionable salaries to a rate ranging from 5.5% to 7.5% depending on salary. The Actuary has advised THO that its additional contributions in previous years have been taken into account when determining the THO's share of the assets at the valuation date.

The main reason behind the decrease in THO's liability to the pension fund is due to a significant increase in the market value of fund investments and decreases in actuarial losses on the assessment by the actuaries of scheme liabilities. Results under the IAS19 reporting standard can change dramatically depending on market conditions. Liabilities are linked to yields on AA rated corporate bonds whereas the majority of the assets of the Fund are invested in equities. This will lead to volatility in the net pension liability on the Statement of Financial Position and the actuarial gains or losses in the Statement of Comprehensive Income.

The choice of assumptions is the responsibility of the Accounting Officer following advice from the actuary. The assumptions chosen are the best estimates from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

Notes to the financial statements For the year ended 31 March 2014

12. Pension (continued)

The principal assumptions used by the actuary were:

	At 31.03.14	At 31.03.13	At 31.03.12	At 31.03.11
	%	%	%	%
RPI Inflation	3.7%	3.4%	3.6	3.7
CPI Inflation	2.9%	2.6%	2.6	2.8
Rate of increase in salaries	4.7%	4.8%	5.1	5.2
Rate of increase of pensions in payment/deferred pensions	2.9%	2.6%	2.6	2.8
Discount rate	4.5%	4.7%	5.8	5.4
Post retirement mortality (future lifetime years, retirement age 65)				
- Males (PNMA00)	22.0 to 24.1	22.5 to 24.3	22.4 to 24.2	22.2 to 24.1
- Females (PNFA00)	25.1 to 27.4	24.6 to 26.6	24.5 to 26.5	24.4 to 26.4

The rate of increase in salaries is based on salaries rising at an average of RPI + 1.5% over the long term, notwithstanding the short term pay restrictions which apply to THO as an NDPB. The Accounting Officer considers this to be reasonable.

THO's notional share of the assets in the scheme and the expected rate of return together with the net funding position were:

	Value at 31.03.14 £'000	Value at 31.03.13 £'000
Equities	5,534	4,400
Property	291	248
Government Bonds	219	372
Corporate Bonds	801	930
Cash	437	248
Other	-	-
Total assets	7,282	6,198
Estimated liabilities	(8,516)	(8,354)
Net pension deficit	(1,234)	(2,156)

THO employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2014.

a) Analysis of amounts charged to the operating surplus

	THO 2014 £'000	IHOL 2013 £'000
Service cost	339	365
Total	339	365

This charge is included within Note 3b.

b) Net finance charge on pension scheme

	THO 2014 £'000	Restated IHOL 2013 £'000
Net interest on the defined liability (asset)	90	121
Net charge included in note 4.	90	121

Notes to the financial statements
For the year ended 31 March 2014

12. **Pension (continued)**

c) **Re-measurements in other comprehensive income**

	THO 2014 £'000	Restated IHOL 2013 £'000
Return on plan assets in excess of interest	174	495
Other actuarial gains/(losses) on assets	75	-
Change in financial assumptions	(374)	156
Change in demographic assumptions	215	-
Experience gain/(loss) on defined benefit obligation	794	-
Changes in effect of asset ceiling	-	-
Actuarial (loss) gain recognised	884	651

d) **Changes in the present value of liabilities during the period**

	THO 2014 £'000	Restated IHOL 2013 £'000
Opening present value of liabilities	(8,354)	(7,630)
Current service cost	(339)	(365)
Interest cost	(394)	(368)
Changes in financial assumptions	(374)	156
Changes in demographic assumptions	215	-
Experience loss/(gain) on defined benefit obligation	794	-
Estimated benefits paid net of transfers in	59	120
Past service costs, including curtailment	-	(156)
Contributions by Scheme participants	(123)	(111)
Closing present value of liabilities	(8,516)	(8,354)

e) **Changes in the fair value of scheme assets during the accounting period**

	THO 2014 £'000	Restated IHOL 2013 £'000
Opening fair value of scheme assets	6,198	4,830
Interest on assets	304	247
Return on assets less interest	174	495
Other actuarial gains/(losses)	75	-
Administration expenses	(5)	(5)
Contributions by employer	472	640
Contributions by Scheme participants	123	111
Benefits paid	(59)	(120)
Closing present value of scheme assets	7,282	6,198

Notes to the financial statements For the year ended 31 March 2014

12. Pension (continued)

f) Movements in deficit during the year

	THO 2014 £'000	Restated IHOL 2013 £'000
Deficit in scheme at beginning of the year	(2,156)	(2,800)
Movement in year:		
Current service cost	(339)	(365)
Net interest cost	(90)	(121)
Change in financial assumptions	(374)	156
Change in demographic assumptions	215	-
Experience gain/(loss) on defined benefit obligation	794	-
Return on assets	174	495
Settlements and Curtailments	-	(156)
Other actuarial gains/(losses)	75	-
Administration expenses	(5)	(5)
Contributions by employer	472	640
Closing present value of scheme liabilities	(1,234)	(2,156)

On best estimates the Accounting Officer expects to pay in employees and employers superannuation contributions to the City of Westminster pension fund, as an admitted body, for all staff who are members of the scheme, £400,000 in regard to the year ending 31 March 2015.

Reconciliation of funded status to Statement of Financial Position

	Value as at 31/03/14 £'000	Value as at 31/03/13 £'000	Value as at 31/03/12 £'000	Value as at 31/03/11 £'000	Value as at 31/03/10 £'000
Fair value of assets	7,282	6,198	4,830	4,370	4,050
Present value of funded defined benefit obligation	8,516	8,354	7,630	6,340	6,440
Unrecognised actuarial (gain)/loss	-	-	-	-	-
Unrecognised past service cost	-	-	-	-	-
Asset/(liability) recognised on the balance sheet	(1,234)	(2,156)	(2,800)	(1,970)	(2,390)

History of experience gains and losses

	2014 £'000	Restated 2013 £'000	2012 £'000	2011 £'000	2010 £'000
Difference between expected and actual return on assets	249	495	(230)	(270)	1,010
% of assets	2.4%	8.0%	(4.8%)	(6%)	25%
Experience gains and (losses) on scheme liabilities	794	-	(20)	(210)	30
% of present value of the liabilities	9.3%	-	(0.3%)	(3.3%)	0.5%
Changes in assumptions	(159)	156	(610)	180	(1,490)
% of present value of the liabilities	(1.9%)	1.9%	8%	2.8%	(23%)
Total amount recognised in Statement of Taxpayer's Equity	884	651	(860)	(300)	(450)
% of present value of liabilities	10.4%	6.4%	11.3%	(4.7%)	(7%)

Notes to the financial statements For the year ended 31 March 2014

Sensitivity Analysis	£'000	£'000	£'000
Adjustment to discount rate	0.1%	0.0%	-0.1%
Present Value of Total Obligation	8,346	8,516	8,690
Projected Service Cost	319	327	334
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present Value of Total Obligation	8,215	8,516	8,820
Projected Service Cost	315	327	338

13. Operating leases

At the Statement of Financial Position date, THO had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which are due for payment over the following years:

	THO 2014			IHOL 2013
	£			£
Total rentals payable on leases expiring				
	Buildings	Other	Total	Total
Within one year	259,661	10,051	269,712	268,120
Within two to five years	350,720	18,427	369,147	618,840
After five years	-	-	-	-
			638,859	886,960

14. Events after the reporting period

- The previous Ombudsman (Dr Mike Biles) has resigned with his employment terminating on 3 November 2014;

The financial statements were authorised for issue on the date they were certified by the Comptroller and Auditor General.

15. Financial Instruments

THO uses various financial instruments which include cash, trade and other receivables and trade and other payables that arise directly from its activities. The main purpose of these financial instruments is to raise finance for THO's activities and manage its working capital requirements.

The existence of these financial instruments exposes THO to a number of financial risks namely, credit risk, liquidity risk and market risk. The Audit and Risk Assurance Committee has reviewed and agreed policies for managing each of these risks to ensure that exposure is to an acceptable level. These policies have remained unchanged from previous years.

Credit Risk

THO exposure to credit risk is limited to the carrying amount of financial assets recognised at the Statement of Financial Position date. The risk on cash balances and deposits is managed in a risk averse manner, being held with UK clearing banks with high credit ratings assigned by international agencies.

The Accounting Officer considers that all of the financial assets that are not impaired for the reporting dates under review are of good credit quality. The trade credit risk is mainly attributable to subscription income. There is no concentration of risk in this area, as income is diversified over a large number of subscribing members.

Notes to the financial statements

For the year ended 31 March 2014

15. Financial Instruments (continued)

Liquidity risk

THO's business model, with subscription fees falling due annually in April results in working capital requirements being fully funded in advance. This results in a high proportion of the company's asset base being cash on deposit. These deposits are actively managed to ensure that working capital requirements are met at all times. Non-current liabilities, such as future property lease commitments and the future funding of the pension deficit are dependent on future subscription income as the company does not maintain substantial reserves.

Market risk

THO is exposed to market risk through its use of financial instruments and specifically to interest rate risk. UK interest rates may be liable to fluctuation. To maintain healthy investment revenue THO actively seeks advantageous rate of return on bank treasury deposits.

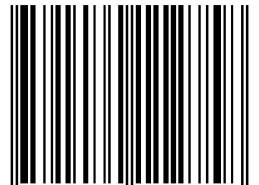
Income and expenditure relating to THO's activities are fully sterling dominated and hence exposure to exchange rate volatility is nil.

THO does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

16. Related Parties

In 2013/14 THO was part funded by receipt of £630,000 of grant in aid funding from DCLG, its Sponsoring Department to offset the partial costs of Local Authority related activity (see note 2). There were no transactions relating to members of the Leadership Team.

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