



Resource Accounts
2008–09



Parliamentary
and Health Service
Ombudsman

Resource Accounts 2008–09

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Annual Report to the accounts for the year ended 31 March 2009

Introduction

The Parliamentary Commissioner for Administration (PCA), otherwise known as the Parliamentary Ombudsman, is an independent office-holder appointed by the Crown under the *Parliamentary Commissioner Act 1967* to investigate complaints about government departments, their agencies and some other public bodies in the UK. The Parliamentary Ombudsman is wholly independent of Government.

The Parliamentary Ombudsman is also currently appointed as the Health Service Commissioner for England (HSCE), an independent office-holder appointed by the Crown under the *Health Service Commissioners Act 1993*. The HSCE, otherwise known as the Health Service Ombudsman, is responsible for investigating complaints about NHS services provided by hospitals, health authorities, trusts, general practitioners, dentists, pharmacists, opticians and other healthcare practitioners. The Health Service Ombudsman can also investigate complaints about private healthcare providers if treatment was funded by the NHS.

The Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England, now known generally as the Office of the Parliamentary and Health Service Ombudsman (PHSO), exists to support the work of the Ombudsman. These accounts cover the resources and activities of PHSO.

Role, aims and objectives

PHSO exists to:

Provide a service to the public by undertaking independent investigations into complaints that government departments, a range of other public bodies in the UK, and the NHS in England have not acted properly or fairly or have provided a poor service.

Our aim and vision is:

To provide an independent, high quality complaint handling service that rights individual wrongs, drives improvements in public services and informs public policy.

Our strategic objectives

The work of PHSO has a dual aspect: individual benefit through our core business to complainants and others who have suffered as a result of the same maladministration or poor service and the provision of a wider 'public benefit'.

This wider 'public benefit' stems from the effective use of our evidence base and our expertise in providing a high quality complaint handling service, together with an acknowledged reputation for independence and impartiality. This enables us to provide expertise in good administration and complaint handling, drive improvements in public service delivery and inform public policy.

This approach recognises that the purpose of PHSO is not just to provide a retrospective remedy for injustice resulting from maladministration, but also to act with a view to securing improvements in the wider public interest.

During the financial year PHSO had two strategic objectives, each with measurable outcomes:

- strategic objective 1: to provide an independent, high quality and accessible complaint handling service that rights individual wrongs; and
- strategic objective 2: to drive improvements in public services and inform public policy.

PHSO recognises that good management of the business and of our people is at the heart of enabling successful delivery of PHSO's strategic objectives, and has summarised this as our 'enabling objective':

- enabling objective: to equip our people with the skills, knowledge, systems and resources to deliver our strategic objectives.

Principal activities

The principal activities of PHSO covered by these accounts were:

- investigation of complaints from members of the public, referred to the Parliamentary Ombudsman by Members of the House of Commons about maladministration in government departments, their agencies and some other public bodies in the UK; and
- investigation of complaints about NHS services provided by hospitals, health authorities, trusts, general practitioners, dentists, pharmacists, opticians and other healthcare professionals.

Management commentary

Summary of the year

2008–09 was a year with two significant reports to Parliament: *Equitable Life: a decade of regulatory failure*, about our investigation of the prudential regulation of Equitable Life published in July 2008; and *Six lives: the provision of public services to people with learning disabilities*, which reviewed investigations into the healthcare provided to six people with learning disabilities and which was published in March 2009. Both reports reflect the application by the Ombudsman of her Principles.¹

Throughout 2008–09 PHSO undertook a major programme of work to deliver a smooth transition to the new NHS complaints system following the abolition of the Healthcare Commission on 31 March 2009 under the *Health and Social Care Act 2008*. This involved securing and fitting out new accommodation in Manchester as well as ensuring that we recruited the necessary staff for the future.

At the same time we managed the volume of our casework, providing a robust complaint handling service to the public whilst creating the headroom for 2009–10 when we know that we will receive many more complaints under the new NHS complaints system. During the year we dealt with 16,317 enquiries and concluded 713 investigations, meeting five of our six operational targets.

The achievements of the past year are set out in our combined statutory annual report for 2008–09, which will be laid before Parliament on 15 July 2009. The report will be available from The Stationery Office or by downloading from PHSO's website (www.ombudsman.org.uk).

Our workload and performance: facts and figures

Being accountable for our performance against the plans and targets we have set ourselves is important to us. We continued to make big strides against our priorities, delivering a significant programme of change in readiness for the new NHS complaints system whilst at the same time managing our workload to meet five out of six of the operational targets set out in our 2008–09 Corporate Business Plan.

Our Corporate Business Plan identified a number of key corporate priorities and activities for the year. These were grouped into five areas as follows:

- deliver an independent, high quality and accessible complaint handling service;
- capture and share the evidence from our casework and on our performance, and use our expertise to drive improvements in public services and to inform public policy;
- plan, deliver and manage change to achieve continuous improvement;
- attract, positively engage and develop our people so that they drive the achievement of our objectives; and
- use our systems and resources to effectively support and manage the service that we provide to the public.

Our performance in each area is assessed below.

Deliver an independent, high quality and accessible complaint handling service

Achieve our operational targets

Enquiries

During the year we received 16,317 enquiries against a planning assumption of 14,000.

Enquiries to PHSO can be initiated by telephone, email or in writing and our response time is

¹ For further information on the Principles see page 8. The Principles are available at <http://www.ombudsman.org.uk/principles/>

monitored as part of our performance reporting framework. Both our service standards for acknowledging email and written enquiries (100% in one and two days respectively) were met.

Of the enquiries received, 7,608 related to parliamentary bodies, 6,229 were about health bodies and 2,480 were about bodies outside our jurisdiction.

Enquiry cases are closed following decisions on whether we can accept the complaint for investigation (that is, if it is within our jurisdiction); and, if we can, whether we should, through assessment of:

- whether the body complained about has had a proper opportunity to resolve the complaint;
- whether there is evidence of maladministration leading to an unremedied injustice; and
- whether there is a reasonable prospect of a worthwhile outcome to an investigation.

If possible, we seek to resolve cases through intervention, short of an investigation, and this is a growing area of our work. During the year, we closed 108 enquiries in this way (47 in 2007–08).

During the year we:

- achieved our operational target of closing 80% of enquiries within 40 days (76% in 2007–08);
- closed 15,639 enquiries against a planning assumption of at or around 14,000 (11,698 in 2007–08), of which 108 were resolved through intervention short of an investigation (47 in 2007–08);
- closed 12,026 of these after an initial assessment of whether the complaint could be accepted for investigation against a planning assumption of at or around 10,700 (8,147 in 2007–08);
- closed 3,613 of these after further detailed assessment of whether the complaint should be accepted for investigation against a planning assumption of at or around 3,300 (3,551 in 2007–08); and
- ended the year with 2,175 enquiries in hand against a forecast aim of at or around 1,350 (1,497 at 31 March 2008).²

As part of the transition arrangements for the new NHS complaints system, 1,042 enquiries were forwarded to us directly by the Healthcare

Commission during the last quarter of the year, and 961 of these were in hand at the year end. If these 961 transited cases are excluded from the total of 2,175 enquiries in hand at the year end, this leaves a total of 1,214 enquiries in hand, i.e. below the forecast of 1,350 in our 2008–09 Corporate Business Plan.

Overall, 79% of enquiries were either not properly made (that is, cases that had not been put to PHSO in writing or, in parliamentary cases, had not been referred by an MP), or were premature, or about a body or matter that was outside our jurisdiction. This remains a cause of continuing concern for us as we aim to ensure that people know whether PHSO is the right place for them to bring their complaints, and, if it is, when is the right time to do so.

Investigations

During the year we:

- concluded 72% of our investigations within 12 months against our operational target of 80% (87% achieved in 2007–08);
- accepted 401 cases for investigation against a planning assumption of at or around 750 (951 in 2007–08);
- concluded 713 investigations against a planning assumption of at or around 750 (959 in 2007–08);
- ended the year with 308 investigations in hand at 31 March 2009 against a forecast aim of at or around 620 (620 at 31 March 2008 – this is a restatement from 618 due to the re-opening in the year of 2 cases following complaints about our decision); and
- had 50 cases over 12 months old at 31 March 2009 against a target of no more than 60 (73 at 31 March 2008).

The outturn for our investigation work differed from our planning assumptions, in respect of both the number of cases accepted for investigation and the number of investigations concluded; and also from our target for the percentage of investigations we hoped to conclude within 12 months.

The reduction in the number of cases accepted for investigation reflects a more rigorous approach to our assessment of cases when they first come to us, together with an increase in the number of interventions short of an investigation that we are now undertaking (see above).

² This figure has been adjusted from 1,316 following a policy change. PHSO's published work in hand figures now include cases referred back to complainants for them to make properly. There has also been a net adjustment of 10 cases due to a small number of data errors.

We concluded 713 investigations against a planning assumption of at or around 750. This lower figure reflects the change in the nature of health investigations in the second half of the year, when we extended the scope of a number of investigations about poor complaint handling by the Healthcare Commission to include the underlying initial complaint about the NHS body concerned, rather than refer the case back to the Commission for further work, as we would have done previously. As well as reducing the number of investigations we were able to conclude in the year, this also increased the length of time that these investigations needed to take.

Whilst the failure to achieve our 80% throughput target for investigations was primarily a result of the changes to the system for handling NHS complaints, we remain concerned about the length of time that many of our investigations take to conclude. We plan to review our investigation processes in 2009–10 with the aim of reducing investigation throughput times in future years.

Outcomes of our investigations

During the year we:

- fully upheld 37% of complaints investigated (37% in 2007–08);
- partly upheld 15% (18% in 2007–08); and
- did not uphold the remaining 48% (45% in 2007–08).

We upheld the complaint in full or in part in:

- 60% of parliamentary investigations (68% in 2007–08); and
- 48% of health investigations (49% in 2007–08).

Compliance with recommendations

Over 99% of the recommendations we made during the year have been accepted or are currently being considered by the body or practitioner complained about (99% in 2007–08).

The majority of recommendations in our parliamentary investigations were for financial compensation for inconvenience or distress, underlining an apology. Others included financial compensation for loss, or some action to remedy the failure identified.

The majority of recommendations in our health investigations focused on an apology or reconsideration of the decision, usually by the

Healthcare Commission. Others included action to remedy the failure identified, or some action to prevent a recurrence (for example, a review of or changes to procedures, or staff training). Financial remedies have also featured, for example as compensation for direct financial loss or in recognition of the distress and inconvenience caused by poor complaint handling.

Complaints about us

As a measure of the performance of our own service, over the year we:

- received 910 complaints about us (773 in 2007–08);
- resolved 768 (964 in 2007–08); and
- ended the year with 238 in hand (96 at 31 March 2008, restated from 99 due to a small number of data errors).

We provided a substantive response on 91% of these within 16 weeks, exceeding our customer service standard and operational target of 90% (58% in 2007–08).

Of the complaints we received about us:

- 732 were about our handling of enquiries (431 in 2007–08);
- 122 were about health investigations (137 in 2007–08);
- 38 were about parliamentary investigations (190 in 2007–08); and
- 18 were about requests for information under the *Freedom of Information Act 2000/Data Protection Act 1998* (15 in 2007–08).

Of the total number of complaints about us, 103 (13%) were fully or partly upheld:

- 74 were complaints about our service;
- 18 were about enquiry decisions;
- 5 were about health investigation decisions;
- 3 were about parliamentary investigation decisions; and
- 3 were about decisions relating to requests for information under the *Freedom of Information Act 2000/Data Protection Act 1998*.

Judicial reviews of our decisions and actions

There were seven applications for judicial review of our decisions (ten in 2007–08) and no county court claims (two in 2007–08). Of the judicial review applications, six were refused permission to proceed. The other application is still pending the court's decision.

Build on the 2007–08 work toward establishing a Quality Framework

Our Casework Quality Framework was agreed and fully implemented from 1 April 2009, along with our Casework Policy and Guidance Framework.

Develop and deliver high quality external liaison and outreach services

The *Principles of Good Complaint Handling*, the third publication in the Ombudsman's trilogy of Principles, was published in November 2008. During the year we prepared for the change to the NHS complaints system by building relationships with key organisations, speaking at relevant conferences, and publicising the *Ombudsman's Principles* to bodies in our jurisdiction.

Apply the Ombudsman's Principles and human rights principles in practice in our casework and our service to customers

During the year we published three collections of case summaries, all of which promoted the use of the Principles.

Internally, our Casework Policy and Guidance Framework for caseworkers is structured around the Principles. Our annual Casework Conference in February also focused on the practical application of the Principles, along with human rights issues.

Consolidate and embed the arrangements for working with the Local Government Ombudsmen for England on joint investigations and reports

During the year a shared approach to conducting joint investigations was agreed with the Local Government Ombudsmen and we reported on five joint working investigations in 2008–09 including three of the cases that were included in our report *Six lives: the provision of public services to people with learning disabilities*.

Capture and share the evidence from our casework and on our performance, and use our expertise to drive improvements in public services and to inform public policy

Consult on and publish PHSO's Principles of Good Complaint Handling and promote these appropriately

We received 145 responses to the public consultation on the *Principles of Good Complaint Handling*, and they were published in November 2008. In February 2009 the consolidated version of the *Ombudsman's Principles* was launched by the Ombudsman at the Department of Health's Making Experiences Count National Conference.

Demonstrate the application of the Ombudsman's Principles³ and human rights considerations externally

HM Treasury has now included reference to the *Ombudsman's Principles* in *Managing Public Money*, their main body of guidance for central government accounting officers. The NHS has also referenced the *Principles for Remedy* in the *NHS Finance Manual*. The Public Administration Select Committee referred to them in the issues and questions document as part of their inquiry on better government. The Department for Work and Pensions has continued to provide a test bed for the *Ombudsman's Principles* in a pilot scheme run by the Pensions, Disability and Carers Service.

The Ombudsman contributed to the development of the *NHS Constitution*, and the accompanying handbook endorses the *Ombudsman's Principles* in the context of NHS complaints and redress.

Develop and deliver high quality external communications

Following a wide-ranging review of our communications capability, we have appointed an interim Director of Communications who has been tasked with developing our external relations and communications strategy and capability.

The focus this year has been on communicating with the NHS in preparation for the changes to the NHS complaints system.

³ *The Principles of Good Administration, Principles of Good Complaint Handling and Principles for Remedy*.

Publish a number of special, statutory and other reports to share our learning with other organisations and demonstrate our accountability

The following reports to Parliament were published in 2008–09:

- *Remedy in the NHS* (June 2008);
- *Equitable Life: a decade of regulatory failure* (July 2008);
- *Improving public service: a matter of principle* (December 2008);
- *Six lives: the provision of public services to people with learning disabilities* (March 2009); and
- *Putting things right: complaints and learning from DWP* (March 2009).

Equitable Life and *Six lives* (a joint report with the Local Government Ombudsman) are reports of major investigations; the remaining reports are collections of case summaries which we use to share the learning from our casework.

The Ombudsman's investigation into the prudential regulation of the Equitable Life Assurance Society was announced in July 2004. The total cost of the investigation was £3.743 million.

Plan, deliver and manage change to achieve continuous improvement

Deliver the Making Our Expertise Count programme on revised complaint handling arrangements for health and social care

The Making Our Expertise Count (MOEC) programme was established early in 2008–09 to address the transitional and ongoing changes that would affect PHSO following the abolition of the Healthcare Commission on 31 March 2009 and the move to the new, two-stage system which PHSO has supported. This requirement was confirmed following the enacting of the *Health and Social Care Act 2008*. The change will result in significant increases in PHSO's workload, at least in the short term. The programme had to deliver effective solutions to both ensuring the smooth transition of complaints received by the Healthcare Commission prior to its abolition and meeting the increased volume of complaints coming to PHSO from 1 April 2009.

As a result of the effective management of the programme, by 31 March 2009 we had secured a second site in Manchester, the Exchange, and had fitted it out and equipped it for opening from January 2009. In addition, we had recruited almost all the staff required and prepared and implemented casework guidance, induction and training, and secured parliamentary funding for 2008–09 and 2009–10.

By 31 March 2009 the MOEC programme had reached a successful conclusion having achieved the project objectives of being on time, well within budget, having an operational office and, following a smooth transition, resulted in the Healthcare Commission having no complaints in hand when they closed for business on 31 March 2009.

This smooth transition was overseen by the NHS Complaints Transition Board which was chaired by the Ombudsman and comprised representatives of PHSO, the Department of Health and the Healthcare Commission and which also helped ensure coherent, consistent and co-ordinated messages to customers and stakeholders including the NHS.

Implement PHSO's new Knowledge and Information Management programme

Getting the most from the extensive knowledge and information held both by the organisation and our staff is essential to improving the effectiveness of PHSO. To facilitate this we have put in place a major development and change programme, the Knowledge and Information Management (KIM) programme. This programme, which will take a number of years to implement fully, has three main projects, all of which are progressing to plan:

- Records Management, through which we are improving our policy and practice and ensuring our arrangements meet best practice requirements;
- Internet, Extranet and Intranet, through which we are redesigning our websites, to improve their functionality, content management and the user experience; and
- Integrated Information Systems, through which we have been reviewing our future requirements for document and records content management leading to the replacement of our current case management system and the implementation of improved information systems.

Programme outputs this year were a corporate file plan, which is now ready for testing across the organisation, and an email management policy, which is currently being implemented. Other work included the revision and update of our Publication Scheme and revision of our casework taxonomy.

Complete the initial phase of the delivery of a replacement system for our casework management system, Visualfiles

The replacement of our casework management system has now been incorporated into the Integrated Information Systems project of our KIM programme.

Continue to embed Organising for the Future and review the outcome

Organising for the Future was a fundamental restructuring of our organisation conducted in 2007–08 with the aim of strengthening our capacity to deliver on our strategic objectives. The formal post-implementation review of this change programme made recommendations around communicating the successful outcomes of the programme, developing a change policy and principles, improving internal communications and improving the link between senior and middle management. These recommendations have been taken forward in the development of our People Strategy and in our major change programme to prepare for the change in the NHS complaints system.

Attract, positively engage and develop our people so that they drive the achievement of our objectives

Strengthen our casework resource

We ended 2007–08 with a significant number of vacancies in our Operations Division. Following planned recruitment this situation has been addressed with only a few residual vacancies arising from normal turnover at the year end. This recruitment was part of a major exercise to put in place the staffing resources required for the increase in workload arising from the new NHS complaints system. At the year end, with most of the recruitment completed, 119 new members of staff had joined or were set to join PHSO to address this requirement.

Develop and demonstrate effective people management practices for all staff, which includes producing a People Strategy and further development of our approach to performance management

We have developed a People Strategy through a participative method which included significant input from staff. The Strategy will be implemented during 2009–10. Our approach to performance management continues to improve as a result of investment in our mandatory Management Development Programme which focuses on providing core skills and knowledge to all managers in the organisation.

Embed equality and diversity principles across PHSO

We have continued to implement our Equality and Diversity Strategy on several fronts. We have developed guidance and run workshops on making reasonable adjustments in our casework and on how we identify and treat equality and diversity issues in the content of our casework. We have also reviewed our information leaflets to make them more accessible and our *Six lives* report was available in an 'easy read' version.

We set ourselves a target for the proportion of black and minority ethnic staff in post to be 20% by March 2010 in our Workforce Strategy. Despite a large recruitment exercise we have not made the progress we wanted to see. Progress towards the target is being reviewed with a report to senior management expected early in 2009–10.

Invest in our people

PHSO successfully achieved Investors in People re-accreditation in 2007–08 and is preparing for a mid-term assessment in October 2009. This year we invested nearly £0.300 million in the learning and development of our staff, supported by a dedicated team. There was continued emphasis on management training through our Management Development and Aspiring to Management programmes.

Use our systems and resources to effectively support and manage the service that PHSO provides to the public

Manage our resources effectively

Our detailed financial results are included in these Resource Accounts.

The *Health and Social Care Act 2008*, which was passed into law on 21 July 2008, had a significant impact on PHSO's financial management in the year. Following enactment, the Ombudsman wrote to HM Treasury ministers in July 2008 requesting provisional sanction for additional funding for costs arising as a consequence of the provisions of the Act. This included funding to cover the costs of providing for a smooth transition from a three-stage system for handling NHS complaints to a two-stage system from 1 April 2009, following the abolition of the Healthcare Commission. At that time a number of costs were unclear or unknown and it was proposed that provisional sanction would provide room for planning and commencement of work pending more robust cost estimates that would be established in the latter months of 2008 and which could be used to support a taut and realistic Supplementary Estimate.

Provisional sanction was not received. Instead, on 30 September 2008, HM Treasury ministers formally sanctioned additional, ring-fenced funding of £4.110 million resource and £0.520 million capital for 2008–09. This additional, sanctioned funding was formally approved by Parliament in the 2008–09 Winter Supplementary Estimate round and is reflected in the provision shown in these accounts.

Detailed analysis of costs, undertaken in the autumn with more information on accommodation and recruitment requirements, revealed that forecast spending would result in a significant surplus of resources and a deficit in capital. A request to vire £0.500 million from resource to capital and to surrender £1.150 million in surplus resource was formally notified to HM Treasury ministers on 6 January 2009. However, the Estimate process does not allow for a reduction in funding provision other than for Machinery of Government changes so no Spring Supplementary Estimate was possible. As a result, PHSO had a significant surplus of resource at 31 March 2009.

In summary, our performance against the financial targets in our 2008–09 Corporate Business Plan compared to the reduced budget allocations was as follows:

- our net resource underspend of £2.219 million was outside our target limit for underspending of less than £0.500 million, which includes £2.237 million related to surplus ring-fenced resources for the costs of the transition to the new NHS complaints system;
- our capital underspend of £0.762 million was outside our target limit for underspending of £0.100 million due to a decision to defer significant capital spending other than on the costs of fitting out the new accommodation in Manchester;
- we recovered 100% of income due in the year, with excess income recovered within the £0.040 million target we set ourselves;
- we remained within the Net Cash Requirement sanctioned by Parliament;
- we paid 99% (2007–08: 99%) of supplier invoices within our target of 30 days;
- excluding additional funding, our resource budgets were managed to within 2.3% of tolerances set, slightly exceeding our target of limiting variance to no more than 2%; but capital budgets were outside the 5% tolerance at 65% due to the deferment of significant capital spending mentioned above; and
- our depreciation charges for the year of £1.365 million were within our target of being no more than £0.200 million more than our capital investment of £1.358 million (actual variance £0.007 million) which evidences the maintenance of our capital base.

Over the year our staffing numbers increased by 123.9 full-time equivalents (fte) from 266.9 to 390.8, mainly as a result of recruitment arising from the transition to the new NHS complaints system. Full year turnover was significant at 16% but lower than the 25% rate in 2007–08. A substantial amount of resource was invested in 59 recruitment exercises, 15 of which were internal. Of the 252 positions advertised, 228 were filled.

Average sick absence in 2008–09 for PHSO employees was 5.6 days per fte, which was well within our target of no more than 6.0 days per fte. This was also significantly lower than the public sector average (9.8 days per fte⁴) and also below the private sector average (7.2 days per fte⁴).

⁴ Source: CIPD Survey 2008 (latest available figures).

Effectively review, assess and manage risks

Overall our strategic risks have been managed and remain within the control of the organisation. PHSO has developed a new strategic risk model which will be implemented in 2009–10. It identifies key risk areas and is designed to work dynamically in recognising and addressing risks changing or emerging through the year. Key strategic areas are:

- overarching risks to PHSO's reputation and credibility in providing an effective Ombudsman service which delivers its objectives;
- risks to effective governance and leadership required to manage PHSO's business effectively; and
- risks at operational infrastructure and project levels critical to the delivery of our business.

Continue to improve the performance of PHSO on Freedom of Information Act 2000 and Data Protection Act 1998 issues

During the year we received 217 requests for information under the *Freedom of Information Act 2000* and *Data Protection Act 1998* (207 in 2007–08) and we closed 214 (262 in 2007–08). Of requests closed, 84% were resolved within the relevant time limit (52% in 2007–08).

The future

PHSO's strategy and plans for 2009–12 are set out in its rolling *Three Year Strategic Plan*, which is available from PHSO's website (www.ombudsman.org.uk).

PHSO reviews and refreshes its *Three Year Strategic Plan* every year. Our objectives and priorities for the period 2009–12 are based on previous achievements, but they have been refined both in the light of our commitment to continuous improvement of our service and also to reflect significant changes in the environment in which we work.

Aims and objectives

PHSO's aim and vision is to provide an independent, high quality complaint handling service that rights individual wrongs, drives improvements in public services and informs public policy.

PHSO's two strategic objectives for the period 2009–12 are:

- to provide an independent, high quality and accessible complaint handling service that rights individual wrongs; and
- to drive improvements in public services and inform public policy.

Changes to the approach to NHS complaint handling

The Ombudsman has argued for improvements in the NHS complaints system for many years and is pleased to see the changes that have been introduced from April 2009.

Under the previous three-stage system, the second stage was provided by the review function of the Healthcare Commission, with a possible third stage when a case was referred to the Ombudsman. The new system has only two stages: a complainant who remains dissatisfied after a case has been considered locally will be able to refer the complaint straight to the Ombudsman. These reforms should reduce delays for both the complainant and the NHS service provider, and deliver more timely, responsive and effective outcomes.

A further objective of the new system is to achieve greater alignment between the NHS and social care complaints systems. We are working closely with the Local Government Ombudsmen to make sure that there is a fully integrated approach to complaints that cross boundaries between health and social care.

Other factors affecting future development, performance and position

PHSO's funding arises from a three-year settlement sanctioned by HM Treasury, with annual Estimates based on this settlement being approved by Parliament. On 12 April 2007 HM Treasury ministers sanctioned PHSO's three-year funding settlement for the period 2008–09 to 2010–11. PHSO's Estimate for each year of the current cycle provides for a gross resource requirement of £24.446 million, income of £0.420 million (a net resource requirement of £24.026 million) and capital of £1.600 million.

PHSO received a 'flat-cash' settlement for the period 2008–09 to 2010–11, which means that salary increases and other inflationary pressures must be met through savings, rather than being funded through taxation.

Additional funding was sought and sanctioned for 2009–10, to address the changes in the complaints landscape arising as a result of the *Health and Social Care Act 2008*. This additional funding provides for a gross resource requirement of £10.700 million and capital of £0.500 million. Total gross resource funding for 2009–10 will therefore be £35.146 million and total capital funding will be £2.100 million. Discussions with HM Treasury about additional funding for 2010–11 are continuing.

Key factors and plans affecting PHSO's future development, performance and position include:

- achievement of our operational targets;
- improving our casework quality and efficiency;
- publishing a number of special reports to share our learning with other organisations;
- promoting awareness of and access to our service;
- improving the equality of access to our service and the diversity of our workforce;
- developing and delivering our communications capability to improve our profile and to increase the impact of the lessons from our casework;
- developing our capability in respect of:
 - building effective strategic relationships and alliances, and
 - capturing, analysing and reporting externally information on the complaint handling performance of bodies in the Ombudsman's jurisdiction.
- continuing our Knowledge and Information Management (KIM) Programme;
- testing and implementing our new Business Continuity Management approach and continuing improvements to mitigate key risks;
- developing and implementing new security policies for the protection of our information and other assets;
- implementing our People Strategy and investing in our people; and
- developing and delivering our internal communications to support organisational learning and performance.

PHSO continues to be innovative in a number of areas and is consequently prepared to accept higher levels of risk. However, by continually reviewing and monitoring the status of its risks, PHSO proactively manages them.

Relationships with other organisations

PHSO provides clinical advice to the Scottish Public Services Ombudsman, the Public Services Ombudsman for Wales and the Northern Ireland Ombudsman. PHSO recharges for these services, and the funds recovered are included as Appropriations in Aid in these accounts.

PHSO is co-located in Millbank Tower with the London office of the Local Government Ombudsman for England. As a part of these co-location arrangements, some cross-charging for shared services takes place. The related income is disclosed as Appropriations in Aid in these accounts.

The Office of the Information Commissioner leases space in Millbank Tower from PHSO.

Personal data related incidents

The Cabinet Office's *Interim Progress Report on Data Handling Procedures* introduced a requirement to report significant personal data related incidents within the Management Commentary, in categories designated by the Cabinet Office. PHSO has had no such incidents in 2008–09.

Governance and accountability arrangements

The Ombudsman appears annually before the Public Administration Select Committee, which Parliament has chosen (through its standing orders) to be its principal liaison mechanism with the Ombudsman, to give evidence on the work of PHSO.

PHSO has produced a Governance Statement which sets out for our staff and stakeholders the basis on which PHSO has been established; the way in which it is governed and managed; and how it is accountable for what it does. This statement, which was reviewed in December 2008, is available from PHSO's website (www.ombudsman.org.uk).

Advisory Board

During 2008–09 the Ombudsman was supported by an Advisory Board, of which she was Chair, and the other members of which were:

Cecilia Wells OBE	External Member
Paula Carter	External Member
Linda Charlton	External Member
Tony Redmond	External Member – Chair of the Commission for Local Administration in England

Cecilia Wells, Paula Carter and Linda Charlton were appointed through fair and open competition, and their remuneration is decided by the Ombudsman. Tony Redmond was appointed to the Board by the Ombudsman, and is not remunerated. Further details about remuneration are disclosed in the Remuneration Report.

The role of the Advisory Board is to act as a 'critical friend' and provide support and advice to the Ombudsman in providing leadership and good governance of PHSO and to bring an external perspective to assist in the development of policy and practice.

The Advisory Board provides specific advice and support on:

- purpose, vision and values;
- strategic direction and planning;
- accountability to stakeholders, including stewardship of public funds; and
- internal control and risk management arrangements.

The Advisory Board has no role in PHSO's casework processes or decisions.

The Advisory Board has two formal sub-committees, which have key roles in supporting the effective governance of PHSO: an Audit Committee (see below) and a Pay Committee (details of which can be found in the Remuneration Report).

To reflect its advisory nature, executive officials are not members of the Advisory Board but will be in attendance at meetings to provide such corporate input as necessary.

Executive Board

During 2008–09 management of PHSO's functions and activities was exercised by an Executive Board, chaired by the Ombudsman, and comprising the Deputy Ombudsman, Deputy Chief Executive and the Director of Communications and Policy.

The Executive Board is responsible for the delivery of PHSO's strategic vision, policies and services to the public and other stakeholders.

The Executive Board meets regularly and is responsible for co-ordinating activity across PHSO. It is the primary forum for making executive decisions about operational, resource, communications and other administrative matters in order to deliver the Strategic and Corporate Plans, and for monitoring performance. The role of the Executive Board in decision making carries a recognition that, on occasion, there will be some issues for which the decision maker is the Ombudsman alone.

Executive Board members also meet formally with other senior managers to steer and lead on strategically important areas of work.

Audit Committee

The Audit Committee is chaired by a non-executive, Andrew Puddephatt OBE, and comprises two other non-executive members (Tony Redmond and Jeremy Kean, Finance and IT Director of the Financial Ombudsman Service) and the Ombudsman.

The Committee is responsible for providing advice and assurance to the Ombudsman (as Accounting Officer) and the Executive Board on the adequacy and effectiveness of internal control and risk management. It also oversees internal and external audit arrangements which cover all areas of PHSO's work, including both financial and non-financial systems.

Accounting Officer

The Ombudsman is not subject to the *Government Resources and Accounts Act 2000*. As a result, HM Treasury has no statutory authority to appoint the Ombudsman as Accounting Officer; nor is it able to issue directions to the Ombudsman on the production or laying of the accounts, or on any other matters covered by the Act.

However, in order to recognise the Ombudsman's responsibility properly to account for the resources allocated to her, HM Treasury and the Ombudsman have agreed administratively that the appointment as Ombudsman brings with it the duties of Accounting Officer as laid down in *Managing Public Money*. Her responsibilities as Accounting Officer and for PHSO's system of internal control are set out on pages 21 to 25.

Accounts produced by PHSO are laid before Parliament using the Ombudsman's powers to lay reports under the *Parliamentary Commissioner Act 1967* and the *Health Service Commissioners Act 1993*.

Auditors

The Comptroller and Auditor General is the auditor of PHSO's accounts. As disclosed in note 8 to the accounts, a notional cost of £61,600 was incurred on audit services provided by the Comptroller and Auditor General. No non-audit work was undertaken by the auditors.

Internal audit services during 2008–09 were provided by KPMG LLP (UK).

As far as the Ombudsman, as Accounting Officer, is aware, there is no relevant audit information of which PHSO's auditors are unaware. The Ombudsman has taken all necessary steps required to make herself aware of any relevant audit information and to establish that PHSO's auditors are aware of that information.

Directors' interests

None of the Advisory or Executive Board members held any company directorships or had any other interests during the year that may have conflicted with their responsibilities.

The Ombudsman is an ex-officio member of the Commission for Local Administration in England, also known as the Local Government Ombudsman for England (LGO). PHSO and LGO undertake joint working and collaboration across a wide range of areas and initiatives.

Treatment of pension liabilities

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a multi-employer defined benefit scheme; the defined benefit elements of the scheme are unfunded and are non-contributory except in respect of dependants' benefits. PHSO is unable to identify its share of underlying assets and liabilities.

Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the scheme, PHSO recognises the contributions payable for the year.

A full actuarial valuation of the PCSPS was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Payment of suppliers

PHSO is committed to compliance with the *Late Payment of Commercial Debt Regulations 2002*. The payment policy is to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of goods or services or the presentation of a valid invoice, whichever is the later. During 2008–09 99% of invoices were paid in accordance with this policy (99% in 2007–08).

Employment policy and communications with staff

PHSO recruits on the principle of selection on merit through fair and open competition. PHSO is committed to the principle of equality of opportunity and values the diversity of its staff. PHSO is committed to complying with all relevant statutory requirements, including the provisions of the *Disability Discrimination Act 1995*.

PHSO regularly communicates and consults through Quarterly and Annual Whitley meetings with the Office Trade Union Side (OTUS), which represents members of the Public and Commercial Services and FDA unions. Staff involvement is also actively encouraged as part of the day-to-day process of line management, and information about current and prospective developments is widely disseminated. Further communication takes place through the regular in-house newsletter, *InPHOmatation*.

The average number of people employed by PHSO in 2008–09 was 293 fte, of whom 19 fte were disabled.

Remuneration report

The Parliamentary and Health Service Ombudsman

During the year the posts of Parliamentary Ombudsman and Health Service Ombudsman were held by one person, Ann Abraham, who was appointed as Ombudsman on 4 November 2002. One salary is paid for both posts direct from the Consolidated Fund at the same salary as if she were employed in the Civil Service as a Permanent Secretary. In practice this is currently a salary directly equivalent to that of a Group 4 High Court Judge, and is reviewed accordingly on 1 April each year.

The Ombudsman's remuneration and associated employer's National Insurance contributions are met directly from the Consolidated Fund, rather than Supply. These costs are disclosed as Consolidated Fund Standing Services in notes 3 and 7.

Appointment to the office of Ombudsman is permanent. The appointee may be relieved of office by Her Majesty at her own request, or may be removed from office by Her Majesty in consequence of addresses from both Houses of Parliament, and shall in any case vacate office on completing the year of service in which she reaches 65 years of age.

Legislation was implemented during 2006–07 which removes the specific retirement age for the Ombudsman, and amends the appointment provision so that future appointments to the office will be made for a single non-renewable term of not more than seven years. The legislation incorporates a saving provision exempting the current Ombudsman.

The salary and benefits in kind of the Ombudsman were as follows:

	2008–09		2007–08	
	Salary £000	Benefits in kind (to the nearest £100) £	Salary £000	Benefits in kind (to the nearest £100) £
Ann Abraham	170–175	12,200 ⁵	165–170	12,000 ⁵

The pension entitlement of the Ombudsman was as follows (prior year comparatives provided in brackets):

	Accrued pension at age 60 at 31/03/09 £000	Accrued lump sum at age 60 at 31/03/09 £	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31/03/08 ⁶ £000	CETV at 31/03/09 ⁷ £000	Real increase in CETV as funded by employer £000
Ann Abraham	55–60 (50–55)	170–175 (160–165)	0–2.5 (0–2.5)	0–2.5 (2.5–5)	1,131 (1,040)	1,246 (1,219)	14 (32)

⁵ Hotel accommodation near PHSO when working in the evening or attending evening functions in her role as Parliamentary and Health Service Ombudsman.

⁶ The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008.

⁷ The CETV figures and other pension disclosures are provided by Paymaster, PHSO's Authorised Pensions Administration Centre, which has assured PHSO that the figures for the year ended 31 March 2009 have been correctly calculated following guidance provided by the Government Actuary's Department.

Executive Board

During 2008–09 the Executive Board members, and their service contract commencement dates and end dates (where applicable), were as follows:

Trish Longdon	Deputy Ombudsman (4 August 2003 to 30 June 2008)
Kathryn Hudson	Deputy Ombudsman (4 August 2008)
Bill Richardson	Deputy Chief Executive (21 July 2003)
Philip Aylett	Director of Policy, Information and Communications (6 June 2005 to 17 December 2008)
James Odling-Smee	Director of Communications and Policy (10 December 2008)

Trish Longdon and Bill Richardson were permanently appointed under fair and open competition.

Kathryn Hudson was seconded from the Department of Health from 4 August 2008. Under the terms of secondment the Department of Health have funded her salary and associated costs during 2008–09. From 1 April 2009 PHSO will reimburse the Department of Health in accordance with the rate for the Deputy Ombudsman post at that time; any additional costs associated with Kathryn Hudson's contractual terms will be funded by the Department of Health.

Philip Aylett was seconded from the Cabinet Office from 6 June 2005, as Director of Communications, and appointed as Director of Strategy and Communications from 1 April 2006. From 1 April 2007 he became Director of Policy, Information and Communications and, on 1 June 2007, transferred permanently from the Cabinet Office to PHSO. From 18 December 2008 he returned on secondment to the Cabinet Office and he then retired on 30 April 2009.

James Odling-Smee was appointed as Interim Director of Communications and Policy on 10 December 2008. He is contracted with PHSO through an agent. The salary disclosed below reflects payments received by James Odling-Smee from his agent, not the cost to PHSO of the contract. The cost to PHSO in 2008–09 was £56,000. PHSO does not make pension contributions in respect of the contract and therefore pension entitlement details are not provided for James Odling-Smee in the table below.

The remuneration for permanent and seconded members of the Executive Board is performance-based and is determined by a Pay Committee comprising the Ombudsman and two external members of the Advisory Board.

The Pay Committee determines senior staff pay in accordance with PHSO's Pay Policy, the aims of which include taking into account comparability with the Civil Service, public sector pay policy, and appropriate pay market data on external comparison. No members of the Executive Board received a bonus in 2008–09.

The salary and benefits in kind of members of the Executive Board were as follows (full year equivalents, where applicable, are provided in brackets):

	2008–09		2007–08	
	Salary £000	Benefits in kind (to the nearest £100) £	Salary £000	Benefits in kind (to the nearest £100) £
Trish Longdon (Deputy Ombudsman)	25–30 (110–115)	–	105–110	–
Kathryn Hudson (Deputy Ombudsman)	85–90 (125–130)	–	n/a	n/a
Bill Richardson (Deputy Chief Executive)	115–120	700 ⁸	105–110	500 ⁸
Philip Aylett (Director of Policy, Information and Communications)	60–65 (85–90)	–	80–85	–
James Odling-Smee (Director of Communications and Policy)	40–45 (140–145)	–	n/a	n/a

The pension entitlement of members of the Executive Board was as follows (prior year comparatives provided in brackets):

	Accrued pension at age 60 at 31/03/09 £000	Accrued lump sum at age 60 at 31/03/09 £	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31/03/08 ⁹ £000	CETV at 31/03/09 ¹⁰ £000	Real increase in CETV as funded by employer £000
Trish Longdon	60–65 (55–60)	n/a (n/a)	0–2.5 (2.5–5)	n/a (n/a)	1,087 (984)	1,104 (1,189)	15 (67)
Kathryn Hudson	40–45 (n/a)	n/a (n/a)	0–2.5 (n/a)	n/a (n/a)	844 (n/a)	909 (n/a)	(2) (n/a)
Bill Richardson	50–55 (50–55)	160–165 (145–150)	0–2.5 (0–2.5)	2.5–5 (5–7.5)	1,056 (938)	1,183 (1,117)	30 (45)
Philip Aylett	35–40 (30–35)	105–110 (95–100)	0–2.5 (2.5–5)	5–7.5 (5–10)	698 (595)	792 (735)	37 (58)

⁸ Hotel accommodation near PHSO when working in the evening or attending evening functions in his role as Deputy Chief Executive.

⁹ The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008.

¹⁰ The CETV figures and other pension disclosures are provided by Paymaster, PHSO's Authorised Pensions Administration Centre, which has assured PHSO that the figures for the year ended 31 March 2009 have been correctly calculated following guidance provided by the Government Actuary's Department.

Executive Board Members' Service Contracts

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

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

Reason for termination	Less than 4 years' continuous service	More than 4 years' continuous service
Retirement on age grounds	5 weeks	1 week plus 1 week for every year of continuous service (maximum 13 weeks)
Efficiency grounds		
Disciplinary proceedings		
Retirement on medical grounds	9 weeks	9 weeks, or as above
Compulsory on other grounds, not constituting grounds for summary dismissal	6 months	6 months

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

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

The Advisory Board: Non-Executive Members

Cecilia Wells, Paula Carter and Linda Charlton each received a salary of £15,000 (2007–08: £15,000) with no benefits in kind and no pension entitlement. Tony Redmond received no remuneration.

The Audit Committee: Non-Executive Members

Andrew Puddephatt, the Chair of the Audit Committee, received a salary of £10,000 (2007–08: £10,000) with no benefits in kind and no pension entitlement. Tony Redmond and Jeremy Kean received no remuneration.

Salary

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

Benefits in kind

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

Civil Service pensions

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with the benefits in respect of service from October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for a lump sum, up to the limits set by the *Finance Act 2004*.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

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

Cash equivalent transfer values (CETVs)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with the *Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008* and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in cash equivalent transfer values

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

Audit of the Remuneration Report

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

Ann Abraham

Parliamentary and Health Service Ombudsman
25 June 2009

Statement of Accounting Officer's responsibilities

The Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England (PHSO) prepares resource accounts for each financial year. These are in compliance with the *Government Financial Reporting Manual* (as developed and maintained by HM Treasury), detailing the resources acquired, held or disposed of during the year and the use of resources by PHSO during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of PHSO, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

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

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

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

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

Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of PHSO's policies, aims and objectives, whilst safeguarding the public funds and PHSO assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of PHSO's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PHSO for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts and accords with HM Treasury guidance.

Capacity to handle risk

PHSO has a risk management framework in place to take into account:

- PHSO's role, vision, values, strategic plan and business priorities;
- our business approach that emphasises quality assurance and dialogue in decision making; and
- PHSO's governance arrangements, in particular links with stewardship reports, internal review arrangements, and associated roles and responsibilities.

I have personal statutory authority for investigations carried out by PHSO, and as its Accounting Officer have ultimate responsibility for managing risk and responsibility for approving major decisions, taking into account PHSO's risk profile or exposure.

Senior members of PHSO are personally responsible for the management of key risks. Individual responsibility for each strategic risk is assigned to a senior manager, as risk owner, who reports quarterly to the Executive Board and Audit Committee. To support the management of strategic risk, PHSO also manages local level risks alongside the management of activities in the business plans.

As is appropriate for a public body, there are areas where PHSO is not prepared to take risks, such as with the stewardship of resources and the robust management of our organisation. However, in the context of the core business, PHSO wishes to be innovative and is consequently prepared to accept higher levels of risk. By continually reviewing and monitoring the status of its risks, PHSO will proactively manage them.

The risk and control framework

To support me in ensuring the effective governance of PHSO, of which I am Chair and Chief Executive, I have appointed a non-statutory Advisory Board in line with my statutory accountability. The Advisory Board has two sub-committees: the Audit Committee comprising an external Chair, two further external members and myself; and the Pay Committee comprising myself and two of the Advisory Board members. The Pay Committee provides advice on pay arrangements and determines the pay of senior staff (except my own, which is covered by statutory arrangements).

In addition, I have an Executive Board, the members of which, during 2008–09, were myself as Chair and Chief Executive, the Deputy Ombudsman, the Deputy Chief Executive, and the Director of

Communications and Policy. The Executive Board meets regularly and has responsibility for the delivery of PHSO's strategic vision, plans and services to the public and other stakeholders. It also provides a forum for discussion on the development and co-ordination of major work programmes, and provides leadership to all staff working for PHSO.

The Executive Board also steers and provides leadership on strategically important areas of work for PHSO, for example acting as Programme Board for the Knowledge and Information Management Programme.

The risk management framework, which was approved by the Audit Committee and the Advisory Board in November 2005, sets out our risk policy, risk appetite and management approach. The framework is based around simple, non-bureaucratic processes reflecting best practice. The key aim is to encourage staff to manage risk at all levels in a positive way which supports effective delivery, innovation and improvement – within a systematic framework of analysis, evaluation and review. The framework is available to all staff on the PHSO intranet.

During 2008–09 a review was carried out on our approach to risk management, our Risk Management Framework and our risk model; this included a review of the strategic risks themselves to ensure that they remain the appropriate focus of risk management for PHSO going forward. As part of this review, and following on from the review of security carried out during 2007–08, 'safety and security' was added to the list of strategic risks.

During the year, the key strategic risks continued to be regularly monitored (and where appropriate recalibrated) by senior management with risk reports being included in the quarterly stewardship report. In this report, risk owners provide an assessment of the impact and likelihood of each risk and highlight any items that need to be drawn to the attention of senior management and the PHSO Boards. The strategic risk register has been closely aligned to the strategic plan, and business plan objectives are referenced in each risk.

In addition to progress at the strategic level, work has also been done to:

- audit the delegation scheme which was introduced during 2007–08 to ensure that the

authority, delegated by the Ombudsman for decisions made on her behalf on casework matters, was exercised correctly;

- embed risk at the level below the strategic risks with local risks being managed alongside the management of business plan activities within our status reporting application; and
- put in place procurement and contract frameworks with specific risk management requirements for PHSO contract management.

During 2008–09, PHSO implemented a programme of work to take into account fundamental changes to NHS complaint handling following the abolition of the Healthcare Commission. This was a considerable undertaking which saw the establishment of a second office in Manchester and the appointment of over one hundred additional staff members. The risks associated with this programme were managed in line with PHSO's Risk Management Framework, with the risk register being regularly reviewed at both project team and project board level.

Throughout PHSO, risk owners have a responsibility for:

- sponsoring good risk management practices within their directorates/areas of responsibility;
- keeping the controls, actions and deadlines to manage risks allocated to them up to date;
- reporting on these to the Risk and Assurance Manager in advance of Executive Board and Audit Committee meetings;
- exception reporting to the Executive Board when risks arise requiring immediate attention; and
- submitting quarterly stewardship and year-end reports to confirm that, to the best of their knowledge, risks for which they are the owner have been appropriately managed during the year or, where a key risk has crystallised, detail how the risk was managed or what other actions were taken.

At an operational level investigators assess the risk category of each case, and follow corresponding governance arrangements for the selected category. A risk management strategy is developed for all cases that are assessed as either medium or high risk. All risk assessments and mitigating actions are documented on the case management system (Visualfiles) and are reviewed during the five key stages of a case. Directors have a responsibility for monitoring the management of casework risk in

their directorates, and risks are also monitored by the Operations Directors' Meeting, chaired by the Deputy Ombudsman. Cases assessed as having a high risk impact are reviewed on a monthly basis by the Ombudsman, Deputy Ombudsman, Ombudsman's Casework Team and relevant members of staff.

PHSO seeks to be fully compliant with the *Data Protection Act 1998* and treats the management of its information assets as part of its portfolio of strategic risks. Information security management forms a core theme of our KIM programme and PHSO has resources in place to handle routine issues arising from individual data requests under the *Data Protection Act 1998*.

Current strategic risks are in the areas of:

- customer and user satisfaction – we must ensure that we are delivering a good service to complainants and all other external stakeholders;
- governance and leadership – we must ensure that we have clear strategic planning, adequate internal controls in place and that senior managers are empowered;
- positioning and communication with stakeholders – we need to ensure that stakeholders (both internal and external) are clear about our role and purpose to enable us to be effective in influencing;
- workforce – we must ensure we have a workforce that is skilled, adaptable, diverse and motivated;
- stewardship of resources – we need to ensure value for money in all that we do;
- knowledge and information management – we need to ensure that we are sharing knowledge and using it effectively;
- infrastructure – we must ensure we have the appropriate infrastructure in place;
- security and safety – we must ensure that we have a safe and secure working environment for all staff and that PHSO assets are managed appropriately; and
- business continuity management – we need to have contingency arrangements in place to allow PHSO to continue to deliver its services in all circumstances.

During the year the Risk and Assurance Manager has continued to co-ordinate all internal audit activity, as well as PHSO's risk management and business continuity arrangements. KPMG LLP provided internal audit services under a three-year contract,

of which this was year three. It has been agreed with the Audit Committee that PHSO will seek to exercise the option of extending KPMG's contract for one further year.

A Finance Code was issued during 2005–06 and this continues to support good corporate governance and control through promoting sound financial management and efficient use of resources. Comprehensive budget delegation arrangements are in place.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within PHSO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Advisory Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Audit Committee is responsible for providing advice and assurance on the adequacy and effectiveness of internal control and risk management. It also oversees internal and external audit arrangements, which cover all areas of PHSO's work, both financial and non-financial systems.

During 2008–09 KPMG LLP completed a wide programme of internal audit work giving a 'substantial' level of assurance to our financial and accounting systems, including payroll. A significant amount of work has been carried out internally to address the weaknesses and recommendations raised in individual audits and to confirm that PHSO has not been exposed to unacceptable risk in these areas. We continue to consider the need for other external reviews and audits where specialist skills are required and this year engaged a specialist to review our communication systems and also our health and safety arrangements.

KPMG's report on PHSO's corporate governance and risk management arrangements, completed in March 2009, gave a 'substantial' level of assurance on the adequacy and effectiveness of the systems of internal control.

Building on their review of business planning in the previous financial year, KPMG reviewed our strategic and business planning and gave the organisation 'substantial' assurance in respect of the process and practice we operate. This included endorsement of work we have put in train to develop and embed a balanced scorecard, tailored to the needs of PHSO, to measure our corporate performance.

During 2007–08 a weakness in internal controls resulted in early departure payments being made incorrectly to three ex-employees. We have recovered a substantial proportion of these payments and continue to pursue full recovery. We have also strengthened the controls in question following an internal audit review.

During 2008–09 a suspected fraud was discovered. We conducted an internal investigation and the issue is now subject to a police investigation with a view to possible prosecution and the recovery of any loss through the courts. A special review of relevant guidance and controls was undertaken by KPMG at PHSO's request. This review provided 'substantial' assurance that the systems and controls were fit for purpose. Recommendations made by KPMG to further strengthen those controls and mitigate the risk of further instances of fraud will be implemented.

Ann Abraham

Parliamentary and Health Service Ombudsman

25 June 2009

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

I certify that I have audited the financial statements of the Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England (Office of the Parliamentary and Health Service Ombudsman) for the year ended 31 March 2009. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury guidance. I report to you whether, in my opinion, the information which comprises the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Introduction, the Statement on Governance and Accountability Arrangements, the unaudited part of the Remuneration Report and the Statement of Accounting Officer's Responsibilities. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with *International Standards on Auditing (UK and Ireland)* issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by

the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Office of the Parliamentary and Health Service Ombudsman's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion:

- the financial statements give a true and fair view of the state of the Office of the Parliamentary and Health Service Ombudsman's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury guidance; and
- information which comprises the Management Commentary, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

30 June 2009

Statement of Parliamentary Supply

Summary of Resource Outturn 2008–09

	Note	2008–09						Net total outturn compared to Estimate: saving/ (excess) £000	2007–08 Outturn £000
		Estimate			Outturn				
		Gross expenditure £000	A in A £000	Net total £000	Gross expenditure £000	A in A £000	Net total £000		
Request for Resources*	2	28,556	420	28,136	26,337	420	25,917	2,219	24,252
Total Resources		28,556	420	28,136	26,337	420	25,917	2,219	24,252
Non-operating cost A in A		–	–	–	–	–	–	–	–

*To undertake the work of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England.

Net Cash Requirement 2008–09

	Note	2008–09			2007–08 Outturn £000
		Estimate £000	Outturn £000	Net total outturn compared to Estimate: saving/ (excess) £000	
Net Cash Requirement	4	28,756	25,248	3,508	23,956

Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income related to PHSO and is payable to the Consolidated Fund:

	Note	Forecast 2008–09		Outturn 2008–09	
		Income £000	Receipts £000	Income £000	Receipts £000
Total	5	–	–	12	2

Explanations of variances between Estimate and outturn are given in Note 2 and in the Management Commentary.

The notes on pages 33 to 46 form part of these financial statements.

Operating Cost Statement for the year ended 31 March 2009

		2008–09	2007–08
	Note	£000	£000
Administration costs			
Staff costs	7	14,741	12,777
Other costs	8	11,786	12,008
Gross administration costs		26,527	24,785
Operating income	9	(432)	(440)
Net administration costs		26,095	24,345
Net operating cost		26,095	24,345
Net resource outturn		25,917	24,252

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses for the year ended 31 March 2009

	2008–09	2007–08
	£000	£000
Net gain/(loss) on revaluation of fixed assets	50	78
Net gain/(loss) on revaluation of early departure provision	–	–
Recognised gains and losses for the financial year	50	78

Balance Sheet as at 31 March 2009

	Note	31 March 2009		31 March 2008	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10	6,595		6,443	
Intangible assets	11	306		519	
			6,901		6,962
Current assets					
Debtors	12	1,281		1,300	
Cash at bank and in hand	13	144		122	
		1,425		1,422	
Creditors (amounts falling due within one year)					
	14	(1,791)		(1,445)	
Net current liabilities					
			(366)		(23)
Total assets less current liabilities					
			6,535		6,939
Creditors (amounts falling due after more than one year)					
	14	(617)		(688)	
Provisions for liabilities and charges					
	15	(1,195)		(1,145)	
			(1,812)		(1,833)
			4,723		5,106
Taxpayers' equity					
General Fund	16		4,245		4,660
Revaluation Reserve	17		478		446
			4,723		5,106

Ann Abraham

Parliamentary and Health Service Ombudsman

25 June 2009

Cash Flow Statement for the year ended 31 March 2009

		2008–09	2007–08
	Note	£000	£000
Net cash outflow from operating activities	18	(23,896)	(22,679)
Capital expenditure and financial investment	18	(1,449)	(1,461)
Payments of amounts due to the Consolidated Fund		(93)	(5)
Financing	18	25,460	23,876
Increase/(decrease) in cash		22	(269)

The notes on pages 33 to 46 form part of these financial statements.

Statement of Operating Costs by PHSO's objectives for the year ended 31 March 2009

	2008-09			2007-08 (Restated)		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Strategic objective 1						
To provide an independent, high quality and accessible complaints handling service that rights individual wrongs	22,819	(372)	22,447	22,005	(391)	21,614
Strategic objective 2						
To drive improvements in public services and inform public policy	3,708	(60)	3,648	2,780	(49)	2,731
Net operating cost	26,527	(432)	26,095	24,785	(440)	24,345

Direct and indirect costs are allocated on a headcount basis using proportion of time spent supporting each objective as the cost driver.

In prior years PHSO's operating costs have been split between investigation of health service and parliamentary complaints. For 2008-09 the strategic objectives set out in our Strategic Plan 2008-11 have been used as the basis for disclosure. The 2007-08 figures have been restated on the same basis.

Notes to the Resource Accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2008–09 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires PHSO to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Costs by PHSO's Strategic Objectives and supporting notes analyse PHSO's income and expenditure by the objectives agreed with Parliament.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of PHSO for the purpose of giving a true and fair view has been selected. PHSO's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historic cost convention modified to account for the revaluation of fixed assets.

1.2 Tangible fixed assets

Tangible fixed assets have been stated at current cost using appropriate indices. Expenditure on tangible fixed assets of over £1,000 is capitalised. Assets costing less than £1,000 may be capitalised providing they are capital in nature and there are enough to be worth more than £1,000 in total.

On initial recognition fixed assets are measured at cost including any costs, such as installation costs, that are directly attributable to bringing them into working condition for their intended use. Balance sheet values are based on a review of values as at the balance sheet date.

1.3 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year.

1.4 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

Asset lives are normally in the following ranges:

- Furniture and fittings – 10 years;
- IT software and equipment – 3 to 5 years;
- Office machinery – 5 years; and
- Refurbishment – the lesser of 10 years or the lease term.

1.5 Operating income

Operating income is income which relates directly to the operating activities of PHSO. PHSO has parliamentary approval to treat the following income as Appropriations in Aid: income for services provided to Scottish Public Services Ombudsman, the Public Services Ombudsman for Wales, and the Northern Ireland Ombudsman; income from sharing accommodation and providing corporate services to the Local Government Ombudsman for England and the Information Commissioner; and recoveries in respect of outward secondments. All other income is recorded as Consolidated Fund Extra Receipts (CFERs) and paid to the Consolidated Fund in the following year in accordance with normal practice.

1.6 Administration expenditure

The Operating Cost Statement reflects only administration costs, as PHSO does not incur programme expenditure. Administration costs reflect the costs of running PHSO. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

1.7 Capital charge

A notional charge, reflecting the cost of capital utilised by PHSO, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for cash balances held with HM Paymaster General and amounts owed to the Consolidated Fund, where the charge is nil.

1.8 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme and is non-contributory except in respect of dependants' benefits. PHSO recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from the employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

1.9 Provisions

PHSO provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.2%.

1.10 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with Financial Reporting Standard (FRS) 12, PHSO discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money. Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.11 Value added tax

PHSO is not registered for value added tax (VAT), and prepares its accounts on a VAT-inclusive basis.

1.12 Early departure costs

PHSO is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. PHSO provides in full for the cost when the early retirement programme has been announced and is binding on PHSO. PHSO may, in certain circumstances, settle some or all of its liability in advance by making a payment to HM Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

1.13 Operating leases

Lease rentals paid under operating leases are charged to the Operating Cost Statement as the related benefit is incurred. In accordance with Urgent Issues Task Force Abstract 28 – Operating Lease Incentives, all incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net payment agreed for the use of the leased asset, irrespective of the incentive's nature or form or timing of payments. There were no finance leases.

2 Analysis of net resource outturn by section

	2008–09				2007–08		
	Outturn		Estimate		Net total outturn compared with Estimate	Prior year outturn	
	Admin £000	Gross resource expenditure £000	A in A £000	Net total £000			Net total £000
Request for Resources*	26,337	26,337	420	25,917	28,136	2,219	24,252
Resource outturn	26,337	26,337	420	25,917	28,136	2,219	24,252

Spending is 8% lower than Estimate provision. This underspend largely relates to additional funding drawn down through a Winter Supplementary Estimate to fund additional activity required as a result of the Health and Social Care Act 2008. Detailed explanations for the variances are given in the Management Commentary.

*To undertake the work of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England.

3 Reconciliation of outturn to net operating cost and against Administration Budget

A) Reconciliation of net resource outturn to net operating cost

	Note	2008–09		2007–08	
		Outturn £000	Estimate £000	Outturn compared with Estimate £000	Outturn £000
Net resource outturn	2	25,917	28,136	2,219	24,252
Non-supply income	5	(12)	–	12	(93)
Non-supply expenditure: Consolidated Fund Standing Services	16	190	187	(3)	186
Net operating cost		26,095	28,323	2,228	24,345

B) Outturn against final Administration Budget

	2008–09		2007–08
	Budget £000	Outturn £000	Outturn £000
Gross Administration Budget	27,406	26,337	24,599
Income allowable against the Administration Budget	(420)	(420)	(347)
Net outturn against final Administration Budget	26,986	25,917	24,252

Net resource funding of £4,110,000, in addition to PHSO's baseline of £24,026,000, was authorised by Parliament through a Winter Supplementary Estimate in late 2008. This funding was sought by PHSO to support transitional activity in preparation for the impact of the Health and Social Care Act 2008, which came into force on 1 April 2009.

In early January 2009, following detailed analysis of costs and activity, PHSO notified HM Treasury that £1,150,000 of the additional funding was not required. PHSO's budget was therefore reduced accordingly.

4 Reconciliation of resources to cash requirement

	Note	2008–09		
		Estimate £000	Outturn £000	Net total outturn compared to Estimate saving/ (excess) £000
Resource outturn	2	28,136	25,917	2,219
Capital:				
Acquisition of fixed assets	10&11	2,120	1,358	762
Investments		–	–	–
Non-operating A in A:				
Proceeds of fixed asset disposals		–	–	–
Accruals adjustments:				
Non-cash items	8	(1,900)	(2,020)	120
Changes in working capital other than cash	18	–	(343)	343
Changes in creditors falling due after more than one year	18	–	71	(71)
Use of provision (cash only)	15	400	265	135
Net Cash Requirement		28,756	25,248	3,508

Increases in provisions were £700,000 higher than shown in the Estimate, with a corresponding reduction in cash usage.

5 Analysis of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to PHSO and is payable to the Consolidated Fund:

(Cash receipts are shown in italics)

	Forecast 2008–09		Outturn 2008–09	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts: excess A in A	–	–	5	<i>97</i>
Other operating income and receipts not classified as A in A	–	–	7	<i>2</i>
Sub total	–	–	12	93
Non-operating income and receipts: excess A in A	–	–	–	–
Other non-operating income and receipts not classified as A in A	–	–	–	–
Total income payable to the Consolidated Fund	–	–	12	93

6 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2008–09	2007–08
		£000	£000
Operating income	9	432	440
Income authorised to be appropriated-in-aid		420	347
Operating income payable to the Consolidated Fund	5	12	93

7 Staff numbers and related costs

A) Staff costs

	2008–09			2007–08
	Permanently employed staff £000	Others £000	Total £000	Total £000
Wages and salaries	9,920	1,860	11,780	9,969
Social security costs	782	17	789	744
Other pension costs	1,950	22	1,972	1,878
Sub total	12,652	1,899	14,551	12,591
Ombudsman's salary:				
Consolidated Fund Standing Services	190	–	190	186
Total gross costs	12,842	1,899	14,741	12,777
Recoveries in respect of outward secondments	(142)	–	(142)	(122)
Total net costs	12,700	1,899	14,599	12,655

The PCSPS is an unfunded multi-employer defined benefit scheme. PHSO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008–09 employers' contributions of £1,909,844 were payable to the PCSPS (2007–08: £1,811,730) at one of four rates in the range of 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009–10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008–09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £37,947 were paid to one or more of a panel of four appointed stakeholder pension providers (2007–08: £40,682). Employers' contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employers' contributions of £2,939, 0.8% of pensionable pay (2007–08: £3,232, 0.8%), were payable to the PCSPS to cover the cost of the future provision of lump-sum benefits on death-in-service and ill-health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £4,304. Contributions prepaid at that date were nil.

B) Average number of persons employed

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

	2008–09				2007–08 (Restated)
	Senior management	Other permanent staff	Other	Total	Total
Objective 1					
To provide an independent, high quality and accessible complaints handling service that rights individual wrongs	3	212	37	252	240
Objective 2					
To drive improvements in public services and inform public policy	1	34	6	41	30
Total	4	246	43	293	270

8 Other administration costs

	Note	2008-09		2007-08
		£000	£000	£000
Rentals under operating leases				
Accommodation		2,383		2,329
Other operating leases		61		76
			2,444	
Non-cash items				
Depreciation and amortisation of fixed assets:				
Tangible fixed assets	10	1,075		1,048
Intangible fixed assets	11	290		253
Revaluation losses	10&11	34		32
Loss on disposal of fixed assets	10&11	71		110
Cost of capital charge	16	173		190
Provisions:				
Provided in year	15	349		713
Provisions not required written back	15	(34)		(151)
Auditor's remuneration and expenses		62		50
			2,020	
Other expenditure			7,322	7,358
Other administration costs			11,786	12,008

(i) Other expenditure comprises:

	2008-09		2007-08
	£000	£000	£000
External professional advice (casework-related)	851		1,646
Associate investigators	235		131
Professional services	342		198
Consultancy	378		66
Information and communications technology	1,245		1,240
Accommodation costs	1,860		1,589
Recruitment and training	1,147		691
Travel, subsistence and hospitality	221		153
Publicity	222		56
Stationery and postage	256		198
Other	565		1,390
Total		7,322	7,358

(ii) Auditors have received no remuneration for non-audit work.

9 Income

	2008–09	2007–08
	£000	£000
Recovery of direct and overhead costs from the:		
Local Government Ombudsman for England	37	113
Public Services Ombudsman for Wales	84	51
Scottish Public Services Ombudsman	81	89
Northern Ireland Ombudsman	17	3
Information Commissioner's Office	64	60
Recoveries in respect of outward secondments	142	122
Other miscellaneous operating receipts	7	2
Total	432	440

10 Tangible fixed assets

	Furniture and fittings £000	IT equipment £000	Office machinery £000	Refurbish -ment £000	Assets under construction £000	Total £000
Cost or valuation						
At 1 April 2008	1,539	1,020	711	5,217	90	8,577
Additions	280	404	17	493	33	1,227
Disposals	(28)	(229)	–	(1)	(1)	(259)
Revaluations	48	(48)	27	–	–	27
Reclassifications	–	2	–	87	(89)	–
At 31 March 2009	1,839	1,149	755	5,796	33	9,572
Depreciation						
At 1 April 2008	485	648	201	800	–	2,134
Charged in the year	142	246	142	545	–	1,075
Disposals	(25)	(205)	–	–	–	(230)
Revaluations	13	(27)	12	–	–	(2)
At 31 March 2009	615	662	355	1,345	–	2,977
NBV at 31 March 2009	1,224	487	400	4,451	33	6,595
NBV at 31 March 2008	1,054	372	510	4,417	90	6,443

Analysis of significant movements on tangible fixed assets

The majority of the additions of £1,227,000 in year relate to the fit-out of our new Manchester office.

11 Intangible fixed assets

	Purchased software licences £000
Cost or valuation	
At 1 April 2008	1,176
Additions	131
Disposals	(41)
Revaluations	(55)
Reclassifications	—
At 31 March 2009	1,211
Amortisation	
At 1 April 2008	657
Charged in the year	290
Disposals	—
Revaluations	(42)
At 31 March 2009	905
NBV at 31 March 2009	306
NBV at 31 March 2008	519

12 Debtors

	2008–09	2007–08
	£000	£000
Amounts falling due within one year		
Trade debtors retainable	69	14
Trade debtors payable to the Consolidated Fund	10	91
Deposits and advances	242	312
Prepayments	960	883
Total	1,281	1,300

13 Cash at bank and in hand

	2008–09	2007–08
	£000	£000
Balance at 1 April	122	391
Net change in cash balances	22	(269)
Balance at 31 March	144	122
The following balances at 31 March are held at:		
HM Paymaster General	141	115
Cash in hand	3	7
Balance at 31 March	144	122

14 Creditors

	2008–09	2007–08
	£000	£000
Amounts falling due within one year		
Trade creditors	530	400
Taxation and social security creditor	320	254
Rent accrual	71	71
Accruals and deferred income	716	507
Amounts issued from the Consolidated Fund for supply but not spent at year end	142	120
CFERs due to be paid to the Consolidated Fund:		
Received	2	2
Receivable	10	91
Sub total	1,791	1,445
Amounts falling due after more than one year		
Rent accrual	617	688
Total	2,408	2,133

15 Provisions for liabilities and charges

	2008–09			2007–08	
	Early departure costs £000	Legal claims £000	Other £000	Total £000	Total £000
Balance at 1 April	1,089	56	–	1,145	844
Provided in the year	206	68	75	349	724
Provisions not required written back	–	(34)	–	(34)	(151)
Provisions utilised in the year	(242)	(23)	–	(265)	(272)
Unwinding of discount	–	–	–	–	–
Balance at 31 March	1,053	67	75	1,195	1,145

Early retirement and pension commitments

PHSO meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. PHSO provides for this in full when the early retirement programme becomes binding on PHSO by establishing a provision for the estimated payments.

Legal claims

The above liability is based on management's best estimate of amounts likely to be paid with respect to legal costs awarded against PHSO.

Other

PHSO is contractually obliged to restore the floors currently occupied in the Exchange Building, Manchester, to their condition prior to our refurbishment work, at the end of the lease. The above liability represents management's best estimate of the likely cost of this work.

16 General Fund

The General Fund represents the total assets less liabilities of PHSO, to the extent that the total is not represented by other reserves.

	2008–09		2007–08	
	£000	£000	£000	£000
Balance at 1 April		4,660		4,709
Net Parliamentary Funding:				
Drawn down	25,270		23,690	
Deemed	120		386	
		25,390		24,076
Consolidated Fund Standing Services		190		186
Year end adjustment:				
Supply creditor – current year		(142)		(120)
Net transfer from operating activities:				
Net operating cost	(26,095)		(24,345)	
Non-operating income	–		–	
CFERs repayable to the Consolidated Fund	(12)		(93)	
		(26,107)		(24,438)
Non-cash charges:				
Cost of capital	173		190	
Auditor's remuneration	62		50	
		235		240
Transfer from Revaluation Reserve		19		7
Balance at 31 March		4,245		4,660

17 Revaluation Reserve

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	2008–09	2007–08
	£000	£000
Balance at 1 April	446	376
Arising on revaluation during the year (net)	51	77
Transfer to General Fund in respect of realised element of Revaluation Reserve	(19)	(7)
Balance at 31 March	478	446

18 Notes to the Consolidated Cash Flow Statement

A) Reconciliation of operating cost to operating cash flows

		2008–09	2007–08
	Note	£000	£000
Net operating cost		26,095	24,345
Adjustments for non-cash transactions	8	(2,020)	(2,245)
Increase/(decrease) in debtors	12	(19)	332
(Increase)/decrease in creditors falling due within one year	14	(437)	27
Less movements in creditors relating to items not passing through the Operating Cost Statement:			
Consolidated Fund creditor	14	22	(266)
CFERs received and receivable	14	(81)	88
(Increase)/decrease in creditors falling due after more than one year	14	71	137
Use of provisions	15	265	272
Less non-cash use of provisions		–	(11)
Net cash outflow from operating activities		23,896	22,679

B) Analysis of capital expenditure and financial investment

		2008–09	2007–08
	Note	£000	£000
Tangible fixed asset additions	10	1,318	1,369
Intangible fixed asset additions	11	131	92
Proceeds on disposal of fixed assets		–	–
Net cash outflow from investing activities		1,449	1,461

C) Analysis of financing

		2008–09	2007–08
	Note	£000	£000
From the Consolidated Fund (Supply) – current year	16	25,270	23,690
From the Consolidated Fund (non-Supply) – Standing Services	16	190	186
Net financing		25,460	23,876

D) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

		2008–09	2007–08
	Note	£000	£000
Net Cash Requirement		(25,248)	(23,956)
From the Consolidated Fund (Supply) – current year	16	25,270	23,690
Amounts due to the Consolidated Fund – received in prior year and paid over		(2)	(5)
Amounts due to the Consolidated Fund – received and not paid over	5	2	2
Increase/(decrease) in cash		22	(269)

19 Notes to the Statement of Operating Costs by PHSO's objectives

PHSO's capital is employed exclusively for administration purposes. Its distribution amongst objectives is, therefore, not markedly different from the proportion of the related gross administration costs. Administration costs and income have been attributed to objectives in accordance with PHSO's management accounting practices.

In prior years PHSO's operating costs have been split between investigation of health service and parliamentary complaints. For 2008–09 the strategic objectives set out in our Strategic Plan 2008–11 have been used as the basis for disclosure. The 2007–08 figures have been restated on the same basis.

20 Capital commitments

	2008–09	2007–08
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	–	–

21 Commitments under leases

Operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2008–09	2007–08
	£000	£000
Land and buildings:		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	325	–
Expiry thereafter	2,318	2,368
	2,643	2,368
Other:		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	61	52
Expiry thereafter	–	–
	61	52

Lease payments on land and buildings expiring after 5 years represent the annualised rental payments on Millbank Tower after accounting for the rent-free period.

Finance leases

There were no finance leases as at 31 March 2009, or as at 31 March 2008.

22 Other financial commitments

PHSO has entered into non-cancellable contracts (which are not leases or Private Finance Initiative contracts) for the service and maintenance of IT equipment. The payments to which PHSO was committed during 2008–09, analysed by the period during which the commitment expires, are as follows:

	2008–09	2007–08
	£000	£000
Expiry within 1 year	248	282
Expiry after 1 year but not more than 5 years	1,557	917
Expiry thereafter	755	790
	2,560	1,989

23 Financial instruments

As the cash requirements of PHSO are met through the Estimates process, financial instruments play a more limited role in creating risk that would be the case for a non-public sector body of similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with PHSO's expected purchase and usage requirements and PHSO is therefore exposed to little credit, liquidity or market risk.

24 Contingent liabilities disclosed under FRS 12

There is one legal case which may be pursued against PHSO in relation to an employment decision. The total estimated liability for costs and court awarded damages is £10,000.

25 Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

PHSO has no contingent liabilities that are not required to be disclosed under FRS 12 but should be included for parliamentary reporting and accountability purposes.

26 Losses and special payments

	2008–09		2007–08	
	No. of cases	£000	No. of cases	£000
Total	39	263	46	255

No individual cases in either 2008–09 or 2007–08 exceeded £250,000.

27 Related-party transactions

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

PHSO and the Local Government Ombudsman for England (LGO) undertake joint working and collaboration across a wide number of areas and initiatives.

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

Other than as noted above, neither the Ombudsman nor any members of the management group or key managerial staff have undertaken any material transactions with PHSO during the reporting period.

28 Post balance sheet events

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date the accounts are laid before Parliament. These accounts will be laid before Parliament on 15 July 2009.

**Parliamentary and
Health Service Ombudsman**
Millbank Tower
Millbank
London SW1P 4QP
T: 0345 015 4033
F: 0300 061 4000
E: phso.enquiries@ombudsman.org.uk
www.ombudsman.org.uk



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