Financial Services Compensation Scheme

Annual Report and Accounts
2021/22

HC 335

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Financial Services Compensation Scheme

Annual Report and Accounts

2021/22

Presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed on 07 July 2022

HC 335 part i of ii

An accompanying *Financial Services Compensation Scheme Annual Report and Class Statements* (part ii) was also presented to the House of Commons on 07 July 2022

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Any enquiries regarding this publication should be sent to us at www.fscs.org.uk/contact-us

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CORRECTION SLIP

Title: FSCS Annual Report and Accounts 2021/22

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Corrections:

Page 47 – text previously read: I certify that I have audited the financial statements of the Financial Services Compensation Scheme (FSCS) Limited (FSCS) for the year ended 31 March 2022 under the Financial Services and Markets Act 2000.

Text now reads: I certify that I have audited the financial statements of the Financial Services Compensation Scheme Limited (FSCS) for the year ended 31 March 2022 under the Financial Services and Markets Act 2000.

Page 47 – sub-heading previously read: Basis of opinions

Sub-heading now reads: Basis for opinions

Page 48 – text previously read: The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's report.

Text now reads: The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report.

Page 48 – text previously read: I have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires me to report to you if, in my opinion:

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

Page 50 – there is a missing sub-heading

Addition of a new sub-heading - Audit response to identified risk - below the following paragraph: In addition, I considered risk assessment procedures performed relating to noncompliance with the Sanctions and Anti-Money Laundering Act 2018 and the Russia (Sanctions) (EU Exit) Regulations 2019.

Month of corrections: August 2022

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Overview

01
2021/22 AT A GLANCE

21
years since we started

Providing customers with a trusted compensation service that helps raise confidence in the financial services industry.

132,000
decisions made

Processing customer claims as quickly and efficiently as possible.

£584m
in compensation costs

Protecting consumers when authorised financial service firms fail.

66
financial services firms failed

Meaning their customers could claim compensation from us.

108,838
customers helped[1]

Getting lives, families and businesses back on track.

45,227
regulated financial service firms

Funding the FSCS levy and enabling customer compensation.

[1] For more information see the Performance Report

99%
of complaints responded to within 20 days

Making sure we listen to our customers.

£643m
in levies raised

Ensuring we are a cost-effective and efficient compensation scheme.

£16m
in recoveries made

Reducing the cost of the levy for industry.

5,401
customers paid within seven days

Automatically compensating depositors of failed credit unions.

84%
average customer satisfaction

Putting people at the heart of everything we do.

4th
most inclusive employer

(up 22 places on 2020/21)

Reflecting our commitment to a diverse workforce that mirrors our diverse customer base.

02
OUR MISSION AND ROLE

Our mission is to provide a trusted compensation service for customers when financial firms fail. This helps to raise public confidence in the financial services industry.

Our key relationships

Our role

We are here to protect consumers if an authorised financial services firm they have been doing business with fails. We may be able to do this by paying compensation if the failed firm (referred to as the firm in default) cannot pay, or is likely to be unable to pay, amounts it owes to customers.

We are an independent body set up by Parliament under the Financial Services and Markets Act 2000 (FSMA). It is completely free to make a compensation claim directly with us. This means that customers receive the total amount of any compensation owed to them without having to pay extra fees or costs.

The financial services industry funds us by paying levies each year. Section 213 of FSMA gives the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) powers to make rules that govern our work. This includes our powers to raise levies to fund compensation payments.

What we protect

We protect deposits, insurance policies, some investments, insurance broking, mortgage advice, self-invested personal pensions (SIPPs), pensions advice, payment protection insurance (PPI), and debt management plans. From 29 July 2022 our cover will also extend to funeral plans as they come under FCA regulation.

For more information on what we cover, see www.fscs.org.uk/what-we-cover

How we are governed

We are operationally independent of, but accountable to the FCA, PRA and HM Treasury. We are a private company limited by guarantee, meaning that we do not have any shares or shareholders. We have a board of directors to run us independently of the UK regulators. However, we work closely with the UK regulators and the Financial Ombudsman Service to make sure that we can respond effectively when a firm fails. More details on how we are governed are provided in the Corporate Governance Report.

For more information about our relationship with the regulators, visit www.fscs.org.uk/how-we-work/customer-info/financial-protection

Our compensation limits

The amount of compensation we can pay depends on the type of claim. We only pay compensation for financial loss caused by failed firms and compensation limits are per person per firm. These limits are explained on our website at www.fscs.org.uk/what-we-cover

Recoveries

After we have paid a claim, we will try to recover the money, if it is reasonably possible and cost-effective to do so, from the relevant financial services firm that has failed or from its insurers.

We may also try to recover money from other third parties who contributed to customers' losses. Our recoveries reduce the levies financial services firms have to pay. There is more information about our recoveries on our website at www.fscs.org.uk/about-us/funding/recoveries/

03
CHAIR'S STATEMENT

"An ambitious and exciting agenda" was how I described FSCS's strategy when it was launched in 2019.

This is still true today, especially in the case of **Prevent**, whereby FSCS collaborates with our stakeholders to prevent consumer harm arising from firm failure and to reduce compensation costs. We have another year of great progress behind us but, as always, there is still more to do.

Over the past year we have focused on the critical relationship between **Promote and Prevent** and looked at what we see the roles and responsibilities are of the industry, regulators, public policy makers and consumers. **Promote** is about building and maintaining confidence in the UK financial system by raising individuals' confidence in their financial choices. For FSCS this means raising awareness of our protection and its limits.

More broadly, improvements are needed in financial literacy and education. Many people rely on commercial organisations for basic guidance, and there also appears to be a growing advice gap which is particularly evident where consumers are not sophisticated or experienced investors, and need help making decisions about their finances. This is most concerning when it involves pensions, decisions around which are likely to have major impacts on peoples' lives. Most of the claims FSCS sees in this area are from hard-working people who have simply been trying to put themselves into a financial position where they can retire in the future.

The 'stronger nudge' for consumers towards PensionWise appointments brought in by Parliament and the Financial Conduct Authority is a good step in the right direction, but these appointments only cover those over 50 and can only give general guidance, not the tailored, personal advice consumers may need. We want to see a vibrant advice sector that is affordable and meets the needs of as many consumers as possible.

The insights generated by our **Prevent** work this year have shown how the regulatory environment must adapt to keep pace with innovation and drive out bad practice. The pressure and scrutiny on the regulatory community to remove harm from the sector will only increase in the future, and we may need to consider more consequences for individuals as well as firms. We must all place greater emphasis on the standards to which businesses in our industry operate and support the cultivation of positive environments where bad actors are not welcome or able to operate.

We need higher standards set across all parts of the industry so that consumers are protected, along with the large proportion of levy payers who are doing good honest work. Our teams are mining our data to produce insights and highlight trends to people with the powers to make change happen. Trust in the industry is paramount for the health of our financial ecosystem, and standards and culture are vital components in building that trust.

In my first annual statement, I predicted that the 2020s would be "the decade in which FSCS gets to grips with the consequences of pensions freedom and wider consumer choice, and the more complex claims this new world will give rise to". As we have shared through our regular levy updates to the industry, this is now the reality into which we are facing. What we know about the circumstances of customers, who come to us to claim for pensions and investment advice, suggests we will be seeing the impact of this greater freedom and choice for many years to come.

I remain excited about our agenda and the opportunities we have to work with others to deliver positive and lasting change. With the strong and diverse leadership team we have at FSCS, I have no doubts that we will make more progress in the year ahead.

Marshall Bailey
Chair,
Financial Services Compensation Scheme

I remain excited about our agenda and the opportunities we have to work with others to deliver positive and lasting change.

04
CHIEF EXECUTIVE'S REVIEW

Two years ago, as I wrote my first annual statement as FSCS's Chief Executive, the COVID-19 pandemic was just beginning. Little did we know the huge impact it would have on all our lives, and the changes, positive and negative, it would leave behind.

Despite the overall harmful impact of the pandemic, the acceleration to more flexible working practices is widely recognised as something positive, and our people have adapted admirably to the new hybrid working model we have put in place.

For the second year in a row, we have achieved record levels of customer satisfaction, hitting 89% in June 2021. The progress in our **Prepare and Protect** strategies has helped us effectively handle 66 firm failures during the year, helping 108,838 customers to get back on track.

Our compensation costs were £584m for the year, the same as we paid in 2020/21. Forecasting is more challenging than ever due to the uncertain economic climate coupled with a more complex mix of claims. However, we have kept the industry up to date with our latest forecasts, including the challenges we are facing, how we calculate expected levies and how the funding model works, through our twice-yearly *Outlook* publications, as well as continuous engagement with trade bodies across the different sectors.

In December, the Financial Conduct Authority (FCA) began discussing the compensation framework with stakeholders across the industry, as part of their Compensation Framework Review.

The review, which we welcome, seeks to explore the purpose, scope, and funding of FSCS, and we support the development of a fair model which offers the right protection for consumers at a sustainable cost to the industry.

FSCS submitted an extensive response to the discussion paper and recently published some highlights from the data and views that we shared with the FCA. As this work continues, we would like to see a broad and open discussion around potential compensation models for the future and are keen to play a proactive role in progressing this over the next year.

The solution to the burden of FSCS's levy on the industry will only be found through strong collaborative working across the industry to address the root causes of harm. We know this will not be a quick fix, nor is there a silver bullet, as we pay most of our compensation against claims that have been made for advice given five or more years ago.

Promote to Prevent

As the restrictions of the pandemic have eased, new challenges have come into focus. UK inflation is rising at its fastest rate in three decades, with energy prices in particular putting huge pressure on households who are struggling to meet increased living costs. It is expected that the impact of global events, such as the war in Ukraine, will mean that these challenges will persist.

It is these uncertain times that are sadly most attractive to scammers and fraudsters, who exploit anxiety and fear wherever they can. It is also during these times when consumers may be more susceptible to taking bigger risks with their finances and be exposed to choices that might not be right for them.

This year has again seen FSCS put significant energy behind our **Promote to Prevent** work. The pensions and investments campaign we started last year has now reached more than 7.4m people, and we have recently launched two new channels to help spread awareness of FSCS protection, through Instagram and a podcast series called: *Protect your Money with FSCS*, which helps explain the complexities of protection and compensation in a simple and human way. Raising awareness of protection, and its limits, contributes to consumers' ability to make informed choices about their finances.

We also joined many influential voices in calling for financial scams to be included in the Online Safety Bill. This resulted in fraudulent online advertising being included, with the Bill now making its way through Parliament and hopefully becoming law very soon. This is just one example of the type of regulatory and legislative change we believe must happen to improve the experience of consumers in the UK.

It is worth noting that the compensation we paid to customers this year does not represent the full amount of financial harm being experienced. There were £214m in losses this year that we could not compensate customers for, due to our limit, which is currently £85,000 for most claims. We also cannot compensate for the emotional loss associated with financial harm which can be devastating. Preventing this harm from occurring in the first place remains the best way to address this issue and improve outcomes for consumers.

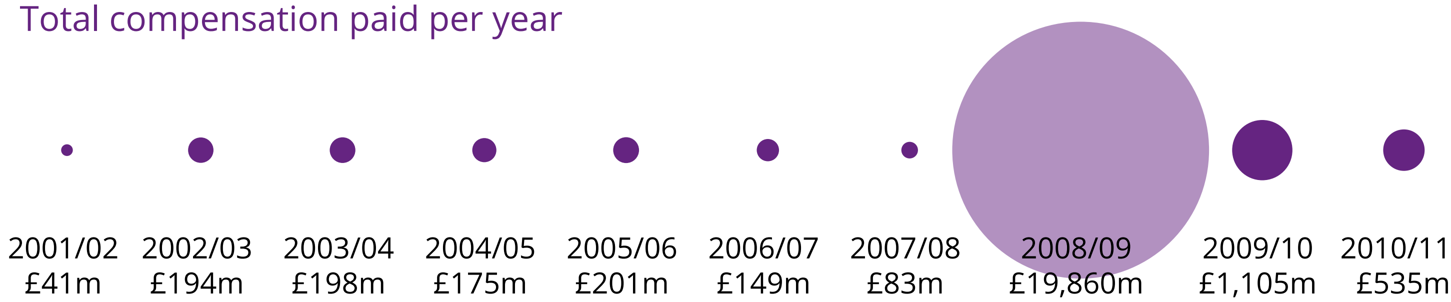
> None of the progress we have made this year would have been possible without our people.

Prepare and Protect

During the year we supported customers across the whole spectrum of FSCS protection, including failures of credit unions, insurers, and financial advice firms who advised on pension investments and transfers. This included assisting 681 former members of the British Steel Pension Scheme who made a claim with FSCS against one of 42 firms that gave them advice and have since gone out of business. These BSPS claims have an uphold rate of over 90%. Towards the end of 2021, as pandemic restrictions eased, we visited South Wales and Scunthorpe alongside the FCA, Financial Ombudsman Service and MoneyHelper to help those affected understand how to make a claim. Alongside outreach online, this has resulted in far more former BSPS members coming to us directly using our free claims service compared to other advice claims we receive. It is heartening to know that 92% of former BSPS members gave us positive feedback about their experience through our customer satisfaction survey.

In addition to our usual industry-funded work, we operated a bespoke compensation scheme on behalf of the UK Government, paying out more than £114m to approximately 9,000 London Capital & Finance plc bondholders within six months. Our team worked closely with HM Treasury to deliver the scheme, and

Total compensation paid per year



we were pleased to be able to help many bondholders get back on track after a very difficult period for them.

Last year I shared the concerns we had raised with the FCA on the issue of claims management company (CMC) fees. I am pleased to say that these fees are now capped and the most any customer choosing to use an FCA-authorised CMC will pay is £10,000. Encouraging customers to make a claim directly with us is still our priority, as this way customers will receive 100% of any compensation they are eligible for. We will continue making improvements to our service to support this.

We continue to share insights with the FCA about the role representatives play in our claims, and we have also focused on building relationships in other areas, for example with the Solicitors Regulation Authority (SRA). It is not just FCA-regulated CMCs who represent customers who come to us for compensation, but it is only these CMCs who are covered by the FCA's new rules. We have seen examples of 'regulatory shopping' in this area, with firms choosing to set themselves up so they are outside of the FCA's regulatory scope, presumably in part to avoid the new fee caps. Strengthening our relationships with a wide range of stakeholders remains a priority for us in the year ahead.

None of the progress we have made this year would have been possible without our people. I started this message by saying how admirably the team adapted to new working practices, and FSCS has continued to be recognised as a great place to work by our employees and externally through a number of award wins. This year we improved our ranking to 4th in the Inclusive Companies list of top 50 UK employers, and won awards for our approaches to flexible working, customer experience, and diversity. Our executive team is 75% female, and our Board 67%, sadly a rare position in the industry we are part of.

Compensation
Over the past 21 years we have paid over £26.5bn to 6.5m customers

2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
£347m	£326m	£243m	£327m	£271m	£375m	£445m	£448m	£527m	£584m	£584m

We have continued to discuss subjects that perhaps have not always been comfortable to talk about at work. Our people have inspired their colleagues and have been brave enough to share personal stories on how they have been impacted by issues such as racism, privilege, mental health, the menopause, and pregnancy loss. I am extremely proud of our work in this area and we will continue to strive towards being the most inclusive place possible for our people to work, with diversity that reflects the customers we help.

FSCS does great work and this is our 21st year of stepping in to help customers, often when they have nowhere else left to turn. During this time, more than 4,000 firms have failed and we have paid out over £26.5bn in compensation to around 6.5m customers. We've also recovered more than £20.9bn over the last 21 years – recouping these costs from failed firms to help reduce the annual levy.

I am very proud of FSCS as an organisation but we don't want to see firms failing and people experiencing financial loss and the associated stress. We can only solve the underlying problems leading to consumers experiencing harm in the first place by working with others. This year in particular we have been involved in many important discussions, and have shared our data and insights with a wide range of stakeholders which has helped deliver tangible change. I look forward to this continuing in the year ahead.

Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme

05
STRATEGY REPORT

Our mission: Providing customers with a trusted compensation service which helps raise public confidence in the financial services industry.

Our strategy: Achieving our mission through our four-pillar strategy.

Year 3 focus: Promote to Prevent and Prepare and Protect.

We are now at the end of the third year of our four-pillar strategy, which has matured from stand-alone pillars to strong couplings of **Promote to Prevent** and **Prepare and Protect**.

During the year, we have made significant progress against our **Promote to Prevent** strategy which centres around raising awareness and helping reduce consumer harm which is driving up FSCS's compensation costs.

The focus of our **Prepare and Protect** strategies has continued to help our customers get back on track as quickly as possible by continually improving and innovating our claims service.

Our Promote to Prevent headline

We leveraged our data and collaborated with our regulatory partners and the wider industry, continuing to expose poor industry practice. Our data helped us promote FSCS protection to boost consumers' financial confidence and informed wider industry discussions about the future of FSCS protection.

Exposing poor industry practice:

> We shared our data and insights on claims management companies (CMCs) and collaborated with the Financial Conduct Authority (FCA) to help bring about the CMC fee cap policy.

> We worked closely with the FCA on its Financial Promotions Consultation around high-risk investments by providing information and insights from our experience of consumer harm in this area.

> We joined with others to successfully call on the Government to bring fraudulent paid-for adverts on social media and search engines into the scope of the Online Safety Bill.

Increasing collaboration:

> We worked with our regulatory and industry partners to build a joint insight and data framework that focuses on preventing consumer harm, and formalised our work together under the new Wider Implications Framework.

> We expanded our collaboration with industry partners to include the Solicitors Regulation Authority and the Insolvency Service.

> We broadened our influence across regulatory partner working groups. Increased collaboration allowed us to expand our capabilities in identifying bad practice and escalate issues to the FCA and others for action.

Helping to improve financial literacy:

> We delivered a marketing campaign focused on promoting pensions and investments protection, reaching 67% of our target audience (55-75 year-olds).

> We responded to insights on what consumers would like more information about by creating relevant FSCS news stories and online content, for example regarding cryptocurrencies.

> We launched an Instagram account in September 2021 with new content aimed at 18-34 year-olds.

> We launched our *Protect your money with FSCS* podcast series to help make financial knowledge more accessible. This included collaborating with the Money & Pensions Service to talk about financial well-being.

Evolving FSCS protection:

> We used our data and insights to submit a detailed evidence-based response to the FCA's call for input into the future of the FSCS Compensation Framework.

> We developed a robust set of policy stances based on our data and insights, highlighting our views on how consumer harm and compensation costs can both be reduced. This will inform our work with stakeholders in the upcoming year.

Our Prepare and Protect headline

This year continued to be operationally challenging due to rising claims numbers and complexity. Our focus remained steady however – providing excellent customer service, delivering innovation and value for money while looking to the future.

Providing excellent customer experience:

> We increased the speed at which more than 6,300 claims were resolved through proactive engagement with external firms to assess claims – this reduced the overall number of customer claims that were on hold by 43%.

> We reduced our complaint to decision ratio from 2.4% to 1.9%.

> We made additional compensation payments for 3,734 customers who had received an interim payment for failed illiquid investments. Customers now receive these payments quicker and we've increased the amount of additional compensation payments that went directly back to customers for illiquid investments by 40%.

> In addition to our usual industry-funded work, we delivered a compensation scheme on behalf of the UK Government, paying out more than £114m to approximately 9,000 London Capital & Finance plc bondholders within six months.

Delivering innovation and value for money:

> We used data to reduce the effort needed to assess customer claims. This included 8,000 claims against Beaufort Asset Clearing Services Ltd and Welcome Financial Services Ltd. This saved £1.3m in claims handling costs.

> We completed our vulnerable customer project which included measures to better identify those with additional care needs. This resulted in an increase of customers identified as vulnerable, and complaints from this group decreased by 16%.

> We recovered a total of £16m over the year through a combination of dividends from the estates of failed firms and by taking action against third parties (such as failed firms' professional indemnity insurers). Approximately £13m was used to offset levies and over £3m was passed on to customers whose claims were above our compensation limits.

> We have also made improvements that resulted in:

- a 40% reduction in customer calls for claim updates; and
- saving approximately 125 hours per month in processing time by implementing better document visibility for customers, reducing requests to resend letters.

06 PERFORMANCE REPORT

Most people in the UK benefit from our protection – for example, if they have a bank account, insurance policy, pension or investments.

We aim to make it as quick and easy as possible to make a compensation claim via our online claims service, and it is completely free for customers to claim directly with us. We want to help people and their families get their lives back on track as quickly as possible. We know it can be an incredibly stressful experience, so our customer support team is available at every step of the process.

In 2021/22, we helped 108,838 customers get back on track by either paying them compensation or enabling them to transfer to a new provider for their investment or insurance policy. In total, we made just under 132,000 decisions on claims. This figure also includes claims that we could not pay, and those we had to reassess as part of our review process or due to the customer's circumstances changing.

During this financial year, we paid compensation to customers who had experienced losses from 1,614 different firms, including some of the 66 which failed in 2021/22. It is worth noting that we expect to receive some additional claims from customers in 2022/23 against firms that defaulted (failed) in 2021/22 and earlier.

In some cases, we were able to issue compensation without any input at all from customers. Over the past year, we automatically processed more than 8,100 claims without our customers needing to do anything.

We also continued to automatically compensate eligible depositors in failed credit unions within seven days, where the credit union was able to provide all the necessary information. In 2021/22, we handled claims related to four credit union failures with a total of 5,401 customers.

Our service was financed by levies provided by 45,227 regulated financial services firms. In 2021/22, approximately £13m of the amounts we recovered was used to offset levies. We also recovered over £3m on behalf of customers whose claims were above our compensation limits, and we were able to pass this amount on to them. Since the 2015/16 financial year, we have recovered more than £290m.

This year, we also helped deliver compensation to customers on behalf of HM Treasury as part of the London Capital & Finance plc (LCF) Compensation Scheme. This included paying out more than £114m in compensation to around 9,000 customers as part of the government-funded scheme. This was in addition to our usual industry-funded work and all expenses related to processing the compensation were financed by the government-funded scheme.

In 2021/22 we also started preparing for funeral plans to come under our protection from 29 July 2022. The majority of our preparation so far has been focused on developing our processes, as well as engagement with our regulatory partners and the funeral plans industry.

During 2021/22, we focused on reducing the time it takes between our customers submitting a claim, to receiving a decision, and we did this without compromising on quality through technical enhancements.

We achieved our highest overall customer satisfaction score ever of 89% in a month. The 12-month average was maintained at 84%.

Where customers had general queries, we handled 86% of calls within 60 seconds.

We also responded to 92% of webchats within 60 seconds.

Some 98% of customers who made a claim for compensation did so online.

Understandably, some customers asked us to reconsider our decision, and others made a complaint about how we handled their claim. This year we received 552 complaints about how we handled claims, and 1,984 customers appealed and asked us to review our decision on their claim.

Our aim was to respond to customer complaints within 20 working days and we met this target in 99% of cases, with an average response time of eight working days. Regarding claim appeals, we met this target in 66% of cases, with an average response time of 31 working days. It is important to note that appeals involve obtaining information from third parties in order for us to be able to review the claim decision and this often adds time to the process.

Customers can ask us to refer their complaint to the Independent Investigator, who will carry out a review and report to our Board of directors. This year, we referred three complaints to the Independent Investigator. The Annual Report of the Independent Investigator can be found on page 21.

Judicial reviews

Customers who are unhappy with the final decision on a claim may seek a judicial review. During 2021/22 we successfully defended all five judicial review challenges that were brought against us.

Two of these cases involved challenges which, had they been successful, would have required us to pay out many millions of pounds in additional compensation, which is ultimately funded by FSCS's levy payers. The judicial review challenge brought against FSCS by a group of mini-bond investors in LCF alone had a potential claim value of approximately £200m. Following a three-day hearing, in March 2021, the High Court rejected the challenge. The claimants initially appealed to the Court of Appeal and subsequently withdrew their appeal in August 2021.

Another example was the judicial review challenge brought against us by a group of investors in a tax-avoidance scheme called Icebreaker. We had rejected their compensation claims in relation to insurance policies they had taken out with Enterprise Insurance Company plc for reasons including the involvement of tax avoidance.
The claimants represented 85 of around 400 Icebreaker investors, who together had potential claims worth £31m. Following a hearing in November 2021, the High Court refused the claimants permission to pursue the challenge and the Court of Appeal refused the claimants permission to appeal in March 2022.

FSCS's track record of successfully defending legal challenges demonstrates both the robustness of our decision-making and our resolve to defend this from challenge, when appropriate, to the benefit of our levy payers.

What do we mean by "customers helped"?

We often talk about how many customers we've helped, which is different to the number of decisions we make on claims. To us, helping customers means being able to pay them compensation or put them back on track by ensuring their investments or insurance policies are moved to new providers when theirs have gone out of business. This includes the customers we quickly reunite with their money when their bank, building society or credit union fails. It also includes those customers for whom we settle their debts. We don't include customers who we find we can't pay compensation to, or the many thousands who call or chat to us online each month. This number typically varies due to large insurance firm failures which, this year, included Gefion Insurance A/S and MCE Insurance Company Ltd.

07
ANNUAL REPORT OF THE INDEPENDENT INVESTIGATOR

April 2021 to March 2022

This is my third year serving as Independent Investigator for the review mechanism provided by FSCS to complainants who remain dissatisfied with the actions of the organisation, generally in respect of a claim for compensation, and have exhausted all internal review options.

During the year three cases were referred to me, all of which I accepted. I fully upheld one of the complaints and declined to uphold the other two. Although the number of complaints that I consider is quite small, themes do emerge which identify areas for management attention. I prepare a detailed report for each referral which is issued to both the complainant and two designated members of the Executive Team of FSCS.

The majority of referrals centre on claims for compensation that have been unsuccessful, although it is important to emphasise that my remit extends to any dissatisfaction with an FSCS case, query or complaint handling. This year's referrals related to home lending products and London Capital & Finance plc (LCF).

This year I had the opportunity to meet directly with the full Board to discuss recurrent themes and progress in adopting agreed recommendations. These meetings are an important part of ensuring the visibility of the independent accountability mechanism and the relevance of findings to future operating model decisions.

Call retention and the ease with which call recordings can be retrieved continue to be less than satisfactory. Whilst the retention period has been extended to nine months, the majority of referrals fall outside of this period. I have flagged this ongoing concern both within the relevant reports and during my meeting with the Board.

In addition, I met with the Chief Customer Officer and the Head of Complaints to review progress on addressing recommendations contained within my earlier reports. This is now a standard process and enables me to monitor adoption of my recommendations. I am satisfied that all my recommendations are considered and that a robust process exists to ensure that those which are accepted, are adopted effectively.

During the year I was also provided with a further detailed update on the LCF failure and on the associated issues and processes for FSCS. To date, I have received two referrals concerning claims arising out of the LCF failure. In addition, I had briefings from the home lending products team.

Caroline Trewhitt
Independent Investigator

08
DIVERSITY AND INCLUSION REPORT

In December 2021, we were listed in the Inclusive Companies, Inclusive Top 50 UK Employers for a third year running.

This is the definitive list of UK-based organisations that promote inclusion across all protected characteristics, including age, disability, gender, LGBT+ and race, throughout each level of employment within their organisation.

For 2021/22, FSCS was listed as the 4th most inclusive employer in this list. This is an increase of 22 places from 2020 and shows our ongoing commitment to building an inclusive workplace where everyone can succeed in achieving their personal and professional goals and feel that they truly belong.

We see gender and ethnicity pay reporting as critical in driving change, ensuring FSCS remains a great place to work.

Each year we publish our gender pay gap data as part of our commitment to narrow the difference. For the 2021/22 financial year the gap was 1.3% in favour of females compared to 15.4%[2] in favour of males nationally. Also, 67% of our Board members are female and 50% of our senior managers are female.

This year we also published our ethnicity pay gap data for the first time. There is currently no legislative requirement for employers to report this, but we have decided to conduct our own review in advance of government action. In 2021/22 the gap was 13% in favour of white groupings. Whilst we have no national data to make a comparison, we can compare our results with our first Equal Pay Audit in 2018 when the gap was 22% in favour of white groupings. This means we have reduced our ethnicity pay gap by over 8% over the last four years.

Our clear people policies and proactive initiatives were also key for achieving the following awards during 2021/22:

> Trailblazing Company of the Year at the FTAdviser Diversity in Finance Awards;

> PIMFA Inclusive Talent Management Award – medium firm;

> Family-Friendly Employer of the Year at the Personnel Today Awards and;

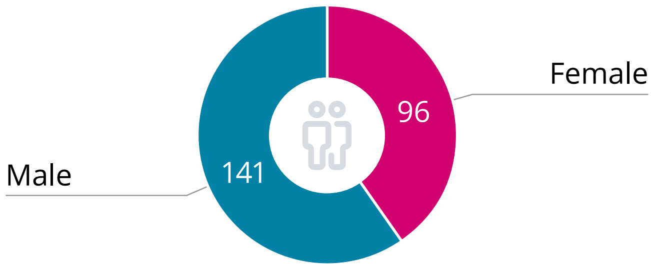
> Employer of the Year at the Women in Finance Awards.

[2] www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2021

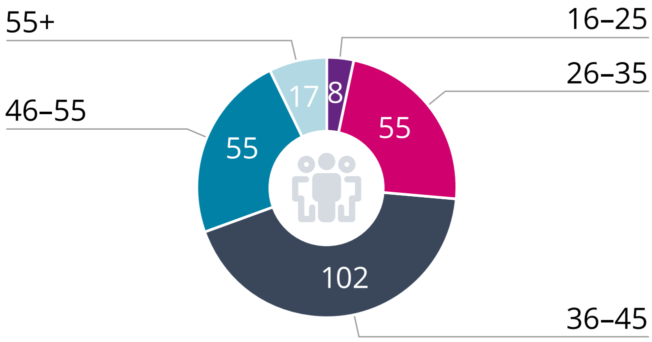
Our people:

Our total number of employees (not including non-executive directors) as at 31 March 2022 was 237.

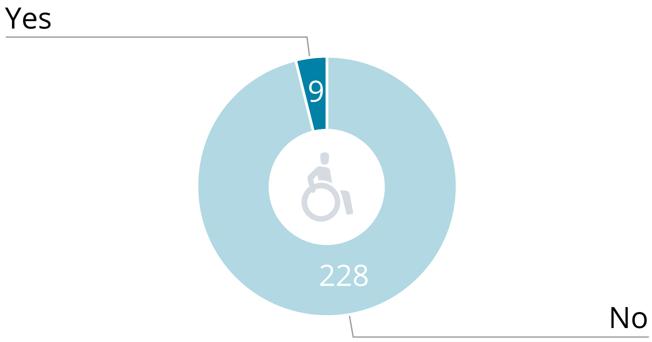
Gender split



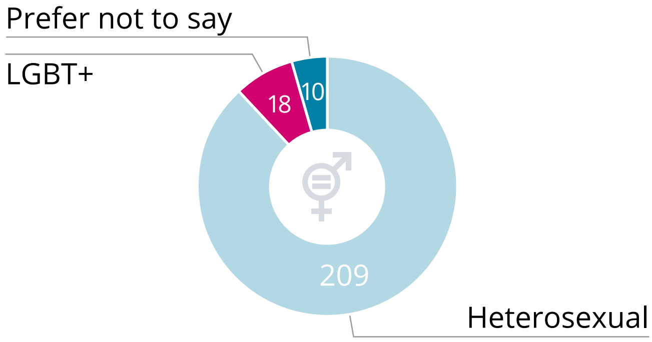
Age



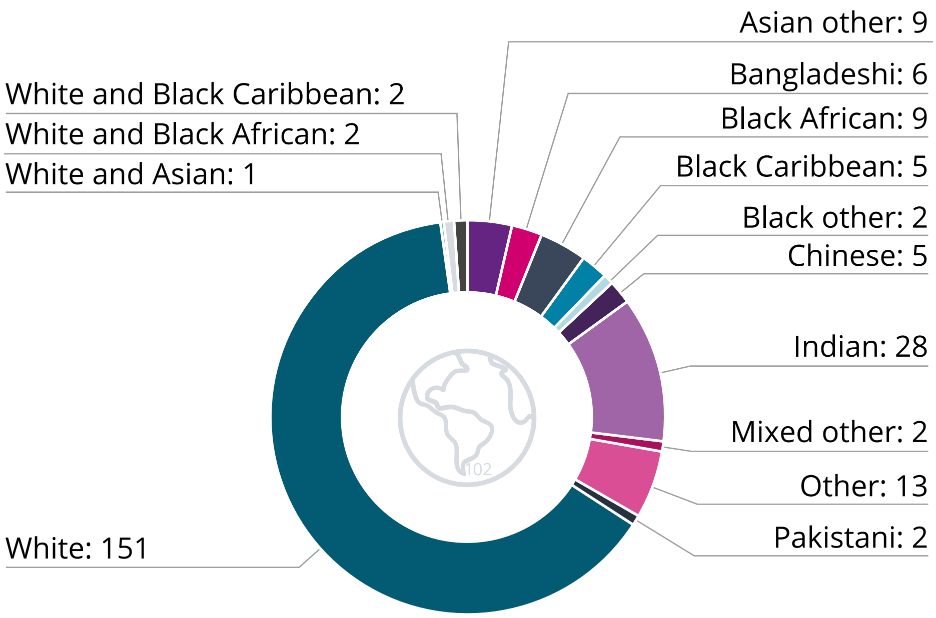
Individuals with disabilities



Sexual identity



Ethnic identity

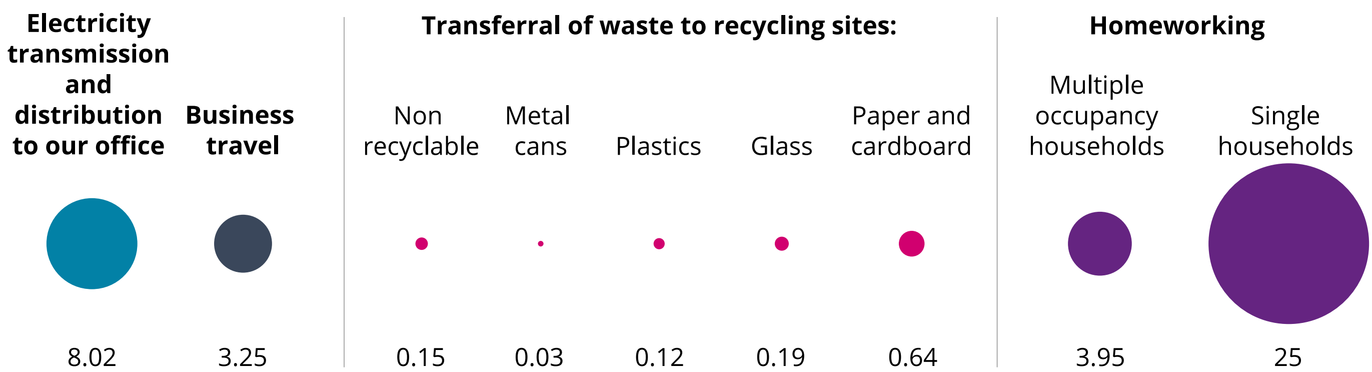


09
ENVIRONMENT REPORT

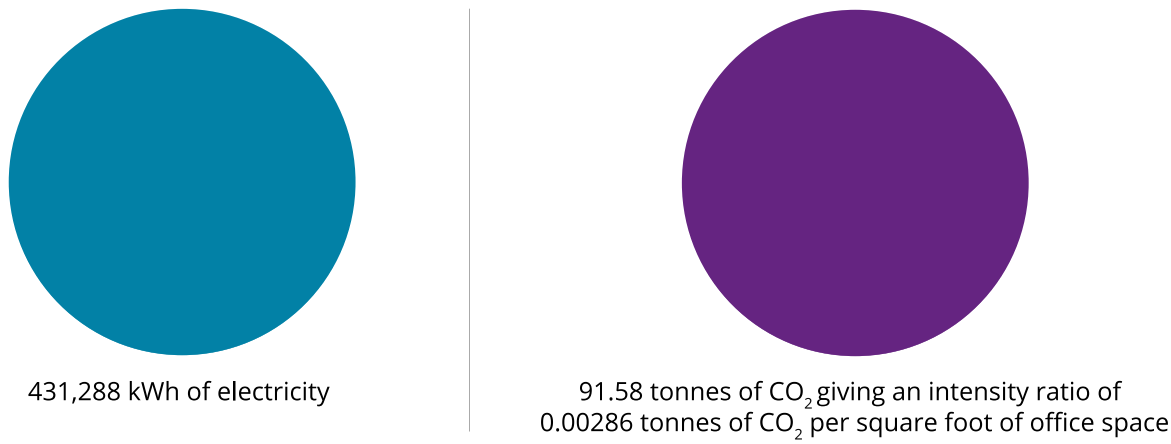
As part of taking action against climate change this year, we began reporting in accordance with the World Resources Institute Greenhouse Gas Protocol.

This means our remit for reporting carbon dioxide emissions has widened beyond how much electricity we use in the office. Now we report on indirect carbon dioxide emissions outside of Beaufort House. This includes emissions from business travel, electricity travelling from substations to our offices, transferring waste to recycling sites and staff working from home.

2021/22 indirect CO_2 emissions in tonnes:



2021/22 Beaufort House emissions:



During this financial year, we used 431,288 kilo-watt hours (kWh) of electricity. This represents a saving of more than 8,000 kWh on 2020/21.

Our electricity consumption converts to 91.58 tonnes of CO_2, which is a saving of more than 10 tonnes from the last financial year.

During 2021/22, we managed our electricity usage by:

> only switching the air conditioning on when colleagues were in the office;

> leasing energy efficient vending machines that go into sleep mode when not in use;

> using light emitting diode (LED) lights;

> reducing the time automatic lights remained on after people left a room;

> regularly maintaining lighting and air conditioning systems to make sure they were working efficiently; and

> promoting energy efficiency to staff (i.e., 'Green Weeks' to encourage and share ideas on how to save electricity and reduce waste, but also to create greater awareness generally about climate change).

10 FINANCIAL REVIEW

FSCS delivers an efficient compensation service to help build people's confidence in the financial services industry.

Compensation payments to our customers are funded through levies which are paid by regulated financial services firms. The compensation we pay out is also funded through money recovered from the estates of financial firms that have failed.

Business planning and budgets

We have an annual business-planning cycle and prepare forecasts each spring and autumn that we share with the industry to help with their financial planning regarding the annual levy. For more information about our publications see www.fscs.org.uk/industry-resources/other-publications/

Each year, the Prudential Regulation Committee of the Bank of England and the Financial Conduct Authority Board approve our annual budget after carrying out a public consultation.

Annual reporting

Each year we publish our *Annual Report and Accounts* and a separate *Class Statements* document. The *Class Statements* summarises the source of our levies and how we have used these funds. These documents are available on our website at www.fscs.org.uk/news/fscs-news/annual-report/

Following a change in FSCS' classification, as determined by the Office of National Statistics, from central government to a public financial auxiliary our accounts will form part of Whole of Government Accounts, which is a consolidated set of financial statements for the UK public sector. We provide HM Treasury with appropriate reassurance on the systems, controls and processes that underpin our accounts within relevant levels of materiality (relevant financial thresholds).

Summary of financial performance

Levy income

During the year, we had lower compensation costs relating to the Life Distribution and Investment Intermediation (LDII) and Investment Provision classes than were originally forecast in May 2021. The main reason for this was fewer self-invested personal pension (SIPP) operator failures in this financial year than had been expected.

As a result, the LDII and Investment Provision classes did not breach their annual levy limits and neither a retail pool nor supplementary levy was required this year. Surpluses in the funding classes were carried forward and offset against the 2022/23 levy.

Our total levy income for the year was £643m.

Compensation costs

Total compensation costs for the year were £584m, which is consistent with our total for 2020/21 (£584m).

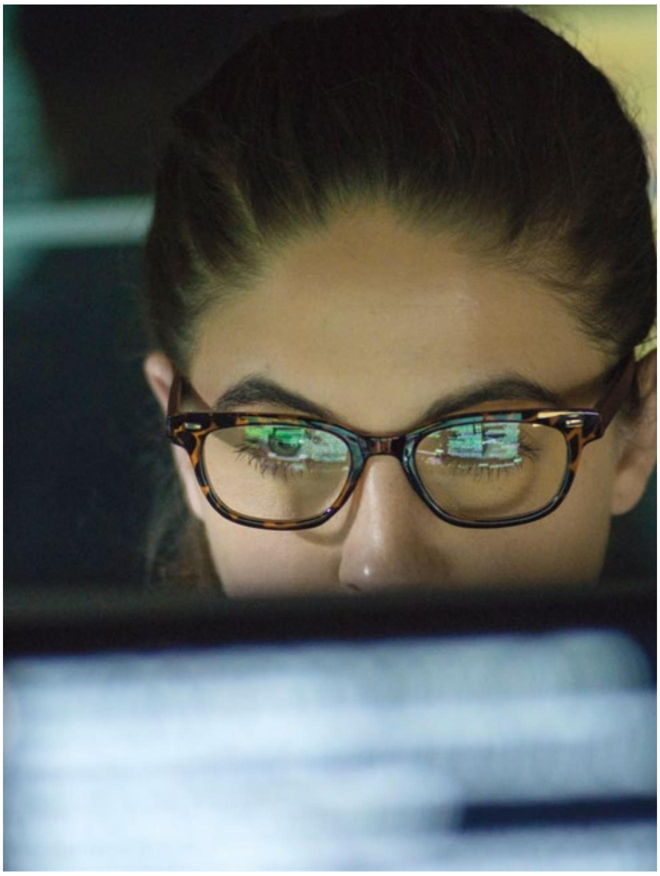
The main drivers for compensation being paid to customers this year included firm failures associated with the LDII, General Insurance Provision and Investment Provision classes:

> This year, in the LDII class, the compensation paid out decreased from £323m in 2020/21 to £263m in 2021/22. This was largely due to a £53m reduction in compensation payments for former London Capital & Finance plc customers, as the bulk of the compensation was paid to them in 2020/21.

> The reduced amount of compensation paid out in the LDII class was offset by an increase in compensation required for the General Insurance Provision class. Compensation payouts went from £111m in 2020/21 to £186m in 2021/22, and were largely related to the Gefion Insurance A/S and MCE Insurance Company Ltd failures. In addition, a change in approach to mesothelioma (asbestos-related illness) claims resulted in compensation top ups of £13m for customers of Chester Street Insurance Holdings Ltd and BAI (Run Off) Ltd.

> Compensation payouts made in the Investment Provision class totalled £122m in 2021/22, which is similar to 2020/21 (£130m).

For more information on compensation costs for the different funding classes, see the *Class Statements* pages 9-17.



Recoveries

We continue to recover compensation we have paid, when it is reasonably possible and cost-effective to do so, to reduce the FSCS levy.

In 2021/22, approximately £13m of the amounts we recovered were used to offset levies. We also recovered over £3m on behalf of customers whose claims were above our compensation limits, and we were able to pass this amount on to them.

Recoveries recognised under International Financial Reporting Standards (IFRS) totalled £16m in 2021/22. Under IFRS, some of these recoveries were recognised as income in previous years. Some income expected in future years is also recognised this year.

Administration expenses

During the year, our administration expenses decreased from £80.2m (2020/21) to £79m. This was due to fewer new firm failures in this financial year. Volume-driven costs decreased due to lower legal costs and successful judicial review court rulings.

Balance sheet

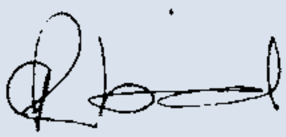
Our assets are mainly cash and recoveries receivable, which we treat in line with our accounting policy for recoveries. Our liabilities are mainly levies we have collected but have not yet accounted for as income. Our liabilities also include provisions for compensation we estimate that we will have to pay under our rules at year-end.

11
APPROVAL OF THE STRATEGIC AND PERFORMANCE REPORT

The Strategic and Performance Report is made up of the following:

> Strategy Report
> Performance Report
> Annual Report of the Independent Investigator
> Diversity and Inclusion Report
> Environment Report
> Financial Review

This was approved by the FSCS Board on 21 June 2022 and signed on its behalf by:



Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme
5 July 2022

Accountability Report

12
STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

HM Treasury has designated the FSCS Chief Executive as the FSCS Accounting Officer.

The responsibilities of an Accounting Officer are set out in *Managing Public Money*, published by HM Treasury. The responsibilities include accountability for the propriety and regularity of finances, keeping proper records and safeguarding FSCS assets.

In preparing the accounts, the Accounting Officer is also required to have regard for the requirements and principles of the Government Financial Reporting Manual (FReM). This includes:

> observing the accounts direction issued by HM Treasury including the relevant accounting and disclosure requirements and applying suitable accounting policies on a consistent basis;

> making judgements and estimates on a reasonable basis;

> preparing the accounts on a going concern basis;

> confirming that the *FSCS Annual Report and Accounts* are fair, balanced and understandable; and

> taking personal responsibility for the *Annual Report and Accounts* and the judgements required for what is fair, balanced and understandable.

As the Accounting Officer, the FSCS Chief Executive has taken all the steps required to be aware of any relevant audit information and ensure that FSCS's auditors are aware of that information. As far as the FSCS Chief Executive is aware, there is no relevant audit information of which the auditors are unaware.

13 CORPORATE GOVERNANCE REPORT

We are committed to meeting high standards of corporate governance. This report sets out how we are governed and describes the arrangements we have in place and the key activities since the last report. We report this information in line with the requirements of the Accounts Direction issued by HM Treasury.

The Board

The FSCS Board sets our overall direction, culture and strategy, ensuring that there are appropriate policies, procedures and delegations in place to fulfil its responsibilities and obligations.

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are responsible for appointing and removing members of the Board. The appointment and removal of both the Chair and the Chief Executive must also be approved by HM Treasury. All directors are appointed (or reappointed) for a period of no more than three years. The process for appointing and reappointing directors is overseen by the Nomination and Governance Committee. FSCS works closely with the FCA and the PRA on board appointments, and external consultants are engaged to help find suitable candidates.

Board appointments are based on merit and objective criteria, considering the skills and experience the individual can bring to the role. FSCS is committed to creating an inclusive organisation and actively seeks to promote all forms of diversity on the Board. FSCS has published measurable objectives of how it will continue to ensure Board diversity by 2024.

Operation of the Board

The Board has a formal schedule of matters reserved for its decision, which is available on the FSCS website. Certain responsibilities are delegated to committees of the Board.

The Board held eight formal meetings during the year and a separate strategy day.

In addition, the Board held informal meetings to discuss key strategic matters, some of which were with senior officials from outside organisations, including regulatory partners. The Board also received additional briefings and updates on important operational issues and developments.

The Board believes it received the information it needed to make appropriate decisions and the directors made sure the Board received sufficient, accurate and clear information in good time.

The Company Secretary, appointed by the Board, attended Board and committee meetings and was responsible for advising on all governance matters, as well as making sure that the correct procedures were followed and records kept.

Directors, supported by the Company Secretary, had the necessary information, time and resources required to carry out their roles effectively.

The Board considered a range of matters during the year, including reviews and approvals as necessary for the following:

- FSCS's corporate strategy
- *Annual Report and Accounts*
- Annual levy and 2022/23 budget
- Performance reports
- FSCS response to the FCA's Compensation Framework Review
- the government's London Capital & Finance plc compensation scheme
- changes to committee memberships and terms of reference
- risk and internal controls
- reports from the Independent Investigator on complaints
- the external board evaluation
- the FSCS revolving credit facility

Our board

Non-executive directors

Marshall Bailey OBE
Chair
Appointed – 1 April 2018
Expiry of appointment – 31 March 2024

Baroness Morgan of Cotes (Nicky Morgan)
Appointed – 1 September 2020
Expiry of appointment – 31 August 2023

Patrick Neville
Appointed – 1 July 2017
Expiry of appointment – 30 June 2023

Helen Parker
Deputy Chair and Senior Independent Director[3]
Appointed – 1 July 2017
Expiry of appointment – 30 June 2023

Richard Parkin
Appointed – 1 July 2019
Expiry of appointment – 30 June 2025

Cathryn Riley
Appointed – 1 February 2021
Expiry of appointment – 31 January 2024

Wendy Williams CBE
Appointed – 1 September 2020
Expiry of appointment – 31 August 2023

Executive directors

Caroline Rainbird
Chief Executive
Appointed – 13 May 2019
Expiry of appointment – 12 May 2025

Fiona Kidy
Chief Financial Officer
Appointed – 1 July 2020
Expiry of appointment – 30 June 2023

[3] The Senior Independent Director acts as a sounding board for the Chair and serves as an intermediary for other directors.

Induction and development

New directors receive a comprehensive induction process so they can quickly familiarise themselves with our work. The induction includes meeting existing Board members and staff from several business areas and receiving associated detailed briefings.

To refresh their knowledge and skills, directors take up opportunities and are offered training as part of their ongoing professional development.

The Chair carries out annual performance reviews with each non-executive director and the Chief Executive. The Senior Independent Director (Deputy Chair) carries out the Chair's performance review on behalf of the Board. The Chief Executive carries out the annual performance reviews of the other executive directors.

Board evaluation

The FSCS Board carries out formal and rigorous evaluations of its own performance, and that of its committees, usually once a year. These evaluations are externally facilitated approximately every three years. Dr Tracy Long CBE of Boardroom Review Ltd undertook a review of the effectiveness of the FSCS Board in mid-2021, with a focus on boardroom dynamics and board interactions. A full summary of the review has been published on our website.

The main findings and themes emerging from the review included:

> positive observations regarding the culture and dynamics of the Board;

> appropriate and constructive challenge demonstrated;

> ensuring ongoing openness and transparency of issues;

> considering the Board's mix of formal and informal time; and

> provision of Board documents and Board-related content on the FSCS website.

The Board agreed to take forward the report's findings and recommendations.

Committees of the Board

The roles and responsibilities of the committees are set out in their terms of reference. Each committee reports to the Board after each meeting.

Audit Committee

The Audit Committee is made up of four independent non-executive directors.

Matters discussed during the year included:

> internal control arrangements and assurance reports;

> internal audit plan, internal audit reports, action plans to follow up audit recommendations, and the internal audit function;

> accounting policies and significant accounting judgements and estimates;

> *Annual Report* and *Class Statements*, making recommendations to the Board, following which the Board decided that the *Annual Report and Accounts*, taken as a whole, was fair, balanced and understandable, and provided enough information for the company's performance, business model and strategy to be assessed;

> external audit function and process;

> reports on health and safety, whistleblowing, data protection, fraud and money laundering;

> reports on other matters, including quality assurance and corporate insurances; and

> the effectiveness of the Committee and its terms of reference.

There were also discussions with both internal and external auditors without the Executive.

As described in the Directors' Report on page 44, the Comptroller and Auditor General is the statutory auditor of FSCS, as required under the Financial Services Act 2012. The external auditor did not provide any non-audit services during the year.

The Board carried out an annual review of the effectiveness of the risk management and internal control systems. A full report on FSCS's risk and control arrangements is given on pages 41 to 43.

Risk Committee

The Risk Committee is made up of four independent non-executive directors. Matters discussed during the year included:

> our risk profile, risk tolerances and risk appetite;

> claims processing and quality, and risks associated with specific firm failures or claim types;

> cyber security;

> our resilience profile, including contingency planning and disaster recovery arrangements; and

> the effectiveness of the Committee and its terms of reference.

Remuneration and People Committee

The Remuneration and People Committee is made up of four independent non-executive directors. Matters discussed during the year included:

> recommendations to the Board for approving the Chief Executive's remuneration package, and setting the remuneration of the Chief Financial Officer;

> salary budget recommendations;

> recognition and reward;

> diversity, inclusion and belonging;

> employee turnover and exit interviews;

> the Board's engagement with the workforce; and

> the effectiveness of the Committee and its terms of reference.

Nomination and Governance Committee

The Nomination and Governance Committee is made up of the FSCS Chair, the Chief Executive and two other independent non-executive directors. Matters discussed during the year included:

> board composition and succession planning;

> board diversity and the mix of skills and experience on the Board;

> recommendations for reappointing directors in 2022;

> director training and development;

> FSCS's Articles of Association; and

> the effectiveness of the Committee.

Attendance at board and committee meetings

	Board	Audit Committee	Remuneration & People Committee	Nomination and Governance Committee	Risk Committee
Number of meetings held	8	4	4	2	4
Number of potential meetings attended by each committee member:					
Marshall Bailey	8 of 8		4 of 4	2 of 2	
Jimmy Barber	0 of 1				
Fiona Kidy	8 of 8				
Nicky Morgan	8 of 8	4 of 4			3 of 4
Patrick Neville	8 of 8	4 of 4			4 of 4
Helen Parker	8 of 8		4 of 4	2 of 2	
Richard Parkin	8 of 8	4 of 4	4 of 4		4 of 4
Caroline Rainbird	8 of 8			2 of 2	
Cathryn Riley	8 of 8	4 of 4		2 of 2	
Wendy Williams	7 of 8		4 of 4		3 of 4

14
SECTION 172 STATEMENT: TAKING INTO ACCOUNT THE INTERESTS OF STAKEHOLDERS

Under Section 172 of the Companies Act 2006, directors have a duty to promote the success of FSCS, taking into account the views of our stakeholders.

The Board considers matters including the likely consequences any decision could have in the long term, the interests of our employees, the need to foster good business relationships with suppliers, customers and others, and maintaining a reputation for high standards of business conduct. The following information sets out how our Board has considered the interests of our stakeholders in its discussions and decision-making:

> **Consumers** – As the consumers of financial services firms are at the heart of everything that we do, the Board always considers the implications decisions will have on our customers, both in terms of the quality of service that we provide and our role in processing claims for compensation in an efficient, timely and customer-friendly way.

> **Levy payers** – As our costs are funded by levies paid by financial services firms, the interests of levy payers are taken into account when setting levies and communicating about levies. The Board takes into account feedback from levy payers, including in situations when significant changes in compensation forecasts may result in extra levies. The potential effect on levy payers is also considered when discussing business failures that might result in significant levies. Directors are also mindful that our service is expected to be cost-effective and that we will pursue recoveries that are likely to be possible.

> **Regulators** – The Board makes sure that we are in regular contact with the FCA and the PRA on matters we share an interest in. Although we are independent of the regulators, we are still accountable to them, as well as to HM Treasury. Our directors make sure we regularly report on our work and matters considered by the Board. If the Chief Executive knows about certain views expressed by the regulators, or HM Treasury, the directors are told so that they can consider those views when making decisions. The Board also aims to fulfil our obligations in running the compensation scheme efficiently and cost-effectively, in line with relevant laws and rules, and it reports our proposed budget to the regulators.

> **Partners and suppliers** – The Board makes sure that we work to high standards of business conduct, with appropriate policies, governance and procedures in place for entering into and managing contracts for the supply of goods and services, together with values and standards expected when dealing with third parties. During the year, the Board also approved our Modern Slavery Statement, which is on our website at www.fscs.org.uk/about-us/modern-slavery/

> **Our people** – Our directors consider the effect their decisions could have on employees, including issues relating to morale and staffing, and make sure that workplace policies and practices are fair. The Board's engagement with the workforce is enhanced by regular meetings with the Chair of the Remuneration and People Committee and the organisation's engagement leads. This allows the workforce's views on certain matters to be presented at Board and committee meetings. The Chair of the Remuneration and People Committee is the designated non-executive director leading on the Board's workforce engagement, with the Committee overseeing and receiving associated reports.

15
DIRECTORS' REMUNERATION REPORT

Certain parts of this Directors' Remuneration Report are subject to audit, and these parts are marked "audited section" in the relevant sections.

Non-executive directors' fees are reviewed and set by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). We are responsible for setting the remuneration of executive directors.
The Remuneration and People Committee considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval. The Chief Executive is not present when this remuneration package is being considered. The remuneration packages of other executive directors are set by the Remuneration and People Committee.

Directors' remuneration 2021/22

Audited section	2021/22					
	Banded fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Banded performance-related bonus[3] £'000	Pension[4] £'000	Compensation for loss of office[5] £'000	Banded total £'000
Non-executive directors						
Mark Adams[6]	–	–	–	–	–	–
Marshall Bailey	**75-80**	–	–	–	–	**75-80**
Steven Cooper[6]	–	–	–	–	-	–
Charles McKenna[6]	–	–	–	–	–	–
Nicky Morgan[6]	**20-25**	**1.0**	–	–	–	**25-30**
Patrick Neville	**25-30**	**2.9**	–	–	–	**30-35**
Helen Parker	**30-35**	**0.4**	–	–	–	**30-35**
Richard Parkin	**25-30**	–	–	–	–	**25-30**
Cathryn Riley[6]	**20-25**	**0.6**	–	–	–	**25-30**
Wendy Williams[6,7]	**0[7]**	–	–	–	–	**0–5[7]**
Executive Directors						
Jimmy Barber[6]	**20-25**	–	–	–	–	**20-25**
Fiona Kidy[6]	**205-210**	**2.4**	**20-25**	**20**	–	**250-255**
Alex Kuczynski[6]	–	–	–	–	–	–
Caroline Rainbird	**285-290**	**2.3**	**25-30**	**22**	–	**340-345**

Directors' remuneration 2020/21

Audited section	2020/21					
	Banded fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Banded performance-related bonus[3] £'000	Pension[4] £'000)	Compensation for loss of office[5] £'000	Banded total £'000
Non-executive						
Mark Adams[6]	0-5	–	–	–	–	0-5
Marshall Bailey	75-80	–	–	–	–	75-80
Steven Cooper[6]	5-10	–	–	–	–	5-10
Charles McKenna[6]	20-25	–	–	–	–	20-25
Nicky Morgan[6]	10-15	–	–	–	–	10-15
Patrick Neville	25-30	2.0	–	–	–	30-35
Helen Parker	30-35	–	–	–	–	30-35
Richard Parkin	25-30	–	–	–	–	25-30
Cathryn Riley[6]	0-5	–	–	–	–	0-5
Wendy Williams[6,7]	0[7]	–	–	–	–	0-5[7]
Executive Directors						
Jimmy Barber[6]	275-280	2.5	50-55	40	230[5]	600-605
Fiona Kidy[6]	150-155	1.9	10-15	14	–	180-185
Alex Kuczynski[6]	5-10	–	–	–	–	5-10
Caroline Rainbird	290-295	2.4	25-30	22	–	340-345

Notes:

1 The Chair and other non-executive directors are paid fees, and executive directors are paid salaries. Executive directors do not receive fees or any extra remuneration for their roles as directors. Salaries and fees are stated for the financial year they are earned in and relate to each director's period of appointment. For executive directors, the figures in the "Fees and salary" column are made up of basic salary, non-taxable benefits, other benefits paid through PAYE and any other payments or special allowances agreed from time to time. More details on directors' salaries and fees are given on page 39.

2 "Taxable benefits" represent the gross (pre-tax) value of benefits, whether cash or non-cash, that UK income tax is charged on. The figures in this column include certain employee benefits taken up by executive directors, as explained below under "Other benefits", and any *taxable expenses* directly and properly incurred by directors in the performance of their duties. Some of these taxable expenses relate to non-executive directors' travel (and any associated accommodation, meals and refreshments) for attending board and committee meetings. The figures shown include the associated income tax and National Insurance liability, which we pay in line with HM Revenue & Customs guidelines.

3 "Performance-related bonus" is shown for the financial year it is earned in. More details on the bonus framework are given on page 40.

4 "Pension" figures are shown as the amounts we paid to defined-contribution pension schemes and as cash in lieu of (instead of) pension contributions.

5 Payments in respect of compensation for loss of office are outlined under Compensation for loss of office.

6 Alex Kuczynski left the Board on 9 April 2020. Mark Adams left the Board on 23 April 2020. Steven Cooper left the Board on 30 June 2020. Fiona Kidy joined the Board on 1 July 2020. Nicky Morgan joined the Board on 1 September 2020. Wendy Williams joined the Board on 1 September 2020. Charles McKenna left the Board on 31 January 2021. Cathryn Riley joined the Board on 1 February 2021. Jimmy Barber left the Board on 30 April 2021.

7 By mutual agreement with the Home Office, Wendy Williams has taken up her role as a director of FSCS on a pro bono basis. As a result, she does not receive Board fees.

Pay multiples (*audited section*)

This section shows the relationship between the remuneration of the highest-paid director and the remuneration of employees at the 25th, 50th and 75th percentile of pay and benefits of our workforce. The 50th percentile is also known as the median, the midpoint of our range of salaries.

For these purposes, total remuneration includes basic salary, bonuses and taxable benefits. It does not include pension contributions or cash in lieu of pension contributions. To keep comparisons consistent, it also does not include compensation for loss of office or any one-off or special additional payments. Details of the remuneration of the highest-paid director are given in Note 10 to the financial statements.

Ratio of the remuneration of the highest-paid director to the remuneration of the workforce as a whole (excluding highest-paid director):

Year	25th percentile pay ratio	Median (50th percentile) pay ratio	75th percentile pay ratio
2021/22	5.9	4.8	3.8
2020/21	6.5	5.5	4.2

Pay and benefits of FSCS employees at the 25th, 50th and 75th percentile of pay and benefits of the workforce (excluding the highest-paid director):

Year	25th percentile		Median (50th percentile)		75th percentile	
	Total pay & benefits	Salary component of pay & benefits	Total pay & benefits	Salary component of pay & benefits	Total pay & benefits	Salary component of pay & benefits
2021/22	£53,189	£47,470	£65,549	£59,590	£82,075	£73,730
2020/21	£51,395	£45,500	£60,269	£54,000	£79,539	£71,000

Average percentage change in the remuneration of the workforce as a whole from 2020/21 to 2021/22 (excluding highest-paid director):		Percentage change in the remuneration of the highest-paid director from 2020/21 to 2021/22:	
Salary & allowances	Performance pay & bonuses	Salary & allowances	Performance pay & bonuses
3.2%	5.3%	7.5%	-47.6%

The changes in the pay ratios compared to the previous year's pay ratios are consistent with our expectations and reflect the application of our Recognition and Reward Policy and salary benchmarking across the organisation. There were no significant changes to our employment models or methodology. The Chief Executive was the highest-paid director in 2021/22, whereas in 2020/21 the highest-paid director was the Chief Operating Officer. The 'performance pay and bonuses' paid to the highest paid director were lower in 2021/22 than in the previous year because the 2020/21 figures also included part of the redundancy settlement for the Chief Operating Officer.

Directors' remuneration framework

Directors' fees and salaries

Non-executive directors

The fees we currently pay to non-executive directors, including the Chair, were set in April 2011 and have not changed since.

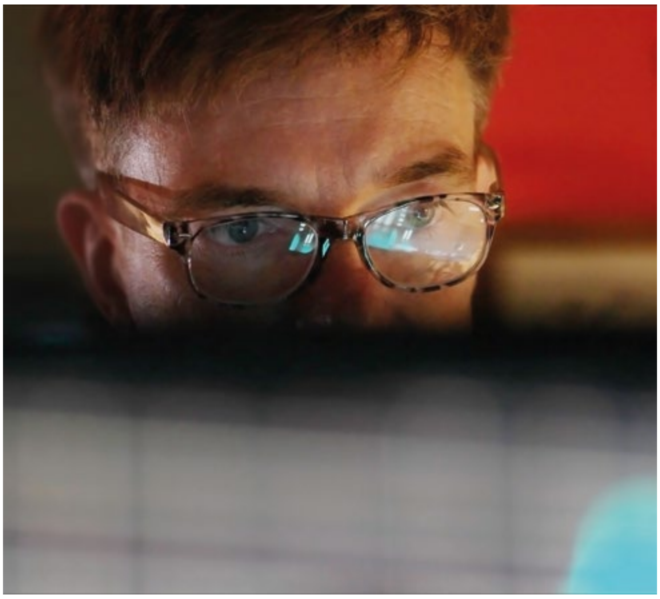
The fees paid to the Chair in 2021/22 were £75,000 a year, and fees paid to other independent non-executive directors were £24,500 a year. Additional fees paid to each of the chairs of the Audit Committee, Risk Committee and Remuneration and People Committee were £5,000 a year. All these fees are unchanged from 2020/21.

The Chair of the Board was also the Chair of the Nomination and Governance Committee, but does not receive an additional fee for this role. The Deputy Chair and Senior Independent Director (a combined role) receives an additional £5,000 a year.

Executive directors

The Remuneration and People Committee applies certain principles when reviewing the remuneration of executive directors.

The first principle is that any growth in the salaries of individual executive directors should take account of external benchmarks. This is in line with the approach across our workforce. For this purpose, we regard the median (midpoint average) salary for equivalent roles in the general UK workforce to be an appropriate benchmark. This is to make sure we broadly match market rates to motivate and retain staff, but not necessarily to pay significantly more or less generously than the market.



The second principle is that executive directors get the same starting salary and salary increase procedure as other staff. In some circumstances, we may allow salaries to increase faster than the annual rise in inflation to reflect specific market pressures or recruitment challenges for certain roles, or where the loss of critical people would jeopardise our performance.

Salaries for executive directors occasionally change due to independent pay reviews carried out across the organisation by external consultants. Otherwise, benchmarks and salaries generally increase in line with the overall uplift in the salary bill, as agreed by the Remuneration and People Committee and the Board.

In 2021/22, the salaries of executive directors were reviewed and set in line with the principles above, and were based on individual performance and comparisons with appropriate benchmarks.

Performance-related bonus

Executive directors were eligible to be considered for performance-related bonuses. These bonuses are not available to non-executive directors.

The main principle of our bonus system is that they should be non-consolidated awards (that is, one-off payments that do not count towards pension entitlements) reflecting the contribution the executive director has made and the performance of the organisation. Objectives are set for each executive director and include a strategic element linked to the performance of the organisation as a whole. These are measured and reviewed during the course of the year and at year-end, along with other aspects of individual performance.

Compensation for loss of office (*audited section*)

Jimmy Barber left FSCS under redundancy terms on 30 April 2021. He received a gross (pre tax) settlement payment of £229,908 and a bonus payment. These were recognised in the 2020/21 accounts.

Other benefits

Executive directors are entitled to receive other benefits under our flexible benefits programme. Some of these benefits are taxed and some are paid through salary sacrifice (where the director's salary is reduced by the amount of the benefit, so they then pay tax only on the reduced salary). Taxable benefits are shown in the Directors' remuneration table.

Remuneration for executive directors holding other non-executive positions

Executive directors may be non-executive directors of other organisations. Decisions on whether they may retain any remuneration from these appointments are made on a case-by-case basis.

16
RISK MANAGEMENT REPORT

We recognise that there are always risks involved in managing processes, systems and people. We want to make sure that risks are identified, assessed, and controlled without restricting innovation and excellent customer service.

Risk appetite

The FSCS Board sets the level of risk that we are prepared to accept (risk appetite) to achieve our aims. The Board is also responsible for setting and maintaining reliable risk management and internal control systems to support our risk appetite.

We have a statutory responsibility to process compensation claims resulting from the failure of financial services firms and to support this we also:

> make recoveries from failed financial institutions;

> promote consumer awareness of FSCS protection; and

> verify account information provided by firms to enable faster pay-outs to depositors.

In delivering our statutory responsibilities, FSCS has a low to cautious risk appetite. However, for improved efficiency and to encourage innovation, we recognised that it is not always possible, or useful, to remove all the risks attached to our activities. The acceptance of some risk is appropriate so we can improve the experience and outcomes for our customers and stakeholders.

It is also important to recognise that the sector we operate in is ever-changing, so we need to be flexible in how we manage risk. We are a volume driven organisation which means that we must be flexible to meet demand. To help us remain flexible, we operate separate risk categories (Strategic, Governance, Financial, Information Technology & Security and Operational) and risk appetites for each area of our organisation.

Risk identification, management and reporting

Risk is constant, ever changing and extends beyond today. To help meet this challenge, we systematically examine potential threats for us to manage (emerging risks) as well as look for opportunities.

In common with most businesses, FSCS faces risk across our organisation, the most important perhaps, is the risk that we fail to meet our statutory responsibility to process compensation claims resulting from the failure of financial services firms. In this regard, our principal risks include:

> **Strategic:** The current or emerging risks to the delivery of FSCS' strategy and statutory objectives from changes in the business environment, adverse business decisions or failed implementation of decisions.

> **Governance:** The risk that breakdown in information flow and the management of decision-making, review and oversight as well as failure to comply with laws, leads to variances in expected outcomes and FSCS' performance.

> **Financial:** Risks arising from poor economic conditions, unanticipated management expenses and increase in compensation claims, including the associated reporting risks from unreliable or inaccurate information and reporting procedures.

- **Information Technology & Data:** The risk associated with use, ownership, operation, involvement, influence and adoption of IT within FSCS. More specifically, the potential that a given threat will exploit vulnerabilities of an asset or group of assets and thereby cause harm to FSCS.
- **Operational:** The risk of loss and/or missed opportunities resulting from inadequate or failed internal processes or from external events.
- **People:** The risk to providing a high-quality service to our customers arising from staff availability, talent management and conduct of FSCS and its partners.

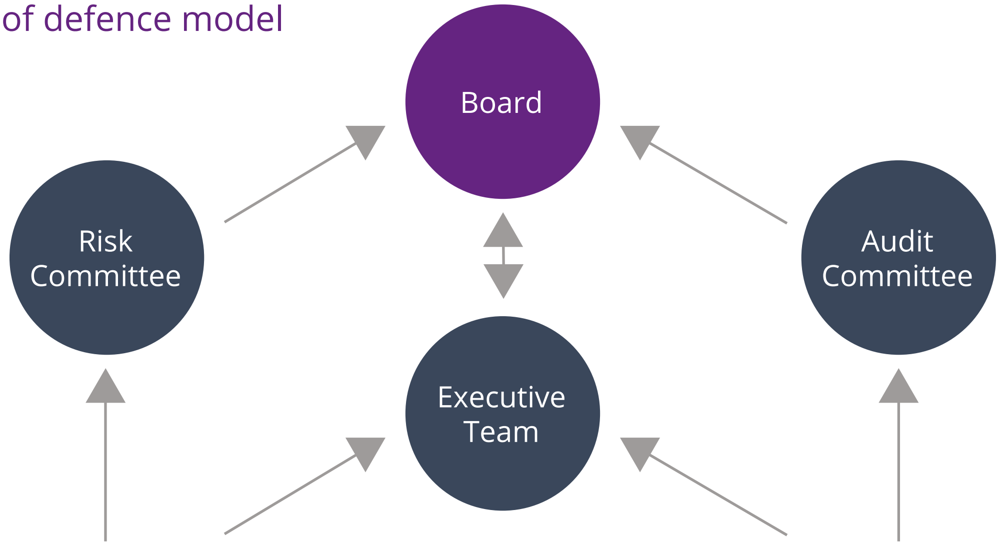
FSCS manages the principal risks which underpin our ability to deliver our statutory responsibilities through the above-mentioned risk categories. Any risks assessed as outside of the agreed appetite levels for each category are reported to our Risk Committee. Remediation plans are then developed to return the risk within the agreed appetite. The Risk Committee meets every three months and reports to the FSCS Board after each meeting.

We also use a risk approach based on the three lines of defence model. This promotes an integrated approach to monitoring, managing and reporting risk.

The following (internal auditing and whistleblowing) are also key to our risk monitoring and reporting procedures:

- **Internal auditing:** We use an independent company to carry out our internal audits. This gives us an unbiased view of our activities. The auditors provided a risk-based audit plan which was a key source of assurance for our Executive Team and Board.
- **Whistleblowing:** The culture at FSCS encourages open and honest communication, including raising concerns and challenges where appropriate. Our most recent People Survey reinforced this with the vast majority of respondents actively affirming that our “organisational culture could be described as positive and healthy”.
- **Future direction:** We continue to challenge ourselves to operate a balanced risk management framework that meets the needs of our organisation. Looking ahead to the next financial year, we are aiming to further improve integrated assurance reporting to our senior management and Board. This will be achieved by further linking organisational performance to our assurance plan, such that we can continue to build reliability and drive compliance.
- This integrated approach, which compares our risk appetite and the effectiveness of associated controls, ensures the Risk Team is empowered to provide an unbiased assessment of overall risk across the organisation. This approach also helps us to realise the benefits of integrated assurance.

Three lines of defence model



Second line of defence[2]
The Risk Team

Third line of defence[3]
Internal audit

First line of defence[1]
Each business area

1 Each business area has responsibility for identifying, managing and controlling risks within their areas of accountability. They do this in line with our overarching risk management policy and associated framework.

2 The Risk Team is a centralised team that oversees and challenges our risk decisions. The team provides advice, conducts independent testing, reports on our risk profile and ensures that any mitigating actions are appropriate.

3 Internal Audit provides independent assurance to the Audit Committee and the Board through reviews, engaging with committees and executive management, providing opinion, challenge and informal advice.

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DIRECTORS' REPORT

For the year ending 31 March 2022, the FSCS directors present this report, together with the audited financial statements on pages 51 to 53.

The directors have prepared these financial statements in line with International Financial Reporting Standards (IFRS). This has been done to enhance the quality of the financial information, with the aim of making the financial statements easier to compare and understand internationally, and to increase transparency.

The directors

The directors who held office during the year and up to the date of signing the financial statements include:

- Marshall Bailey OBE;
- James Barber – left the Board on 30 April 2021;
- Fiona Kidy;
- Baroness Morgan of Cotes (Nicky Morgan);
- Patrick Neville;
- Helen Parker;
- Richard Parkin;
- Caroline Rainbird;
- Cathryn Riley; and
- Wendy Williams CBE.

Directors' remuneration

Details of directors' remuneration are set out in the Directors' Remuneration Report on page 36 and in Note 10: Directors' remuneration.

Directors' indemnity and insurance

FSCS maintains insurance to indemnify its directors and its officers against claims arising from its operations. The company has also granted qualifying third-party indemnities (as defined in the Companies Act 2006) to directors in relation to acts or omissions arising in the ordinary course of their duties. Indemnities were in force during the financial year to 31 March 2022 and at the date of the approval of this report.

Under the Financial Services and Markets Act 2000, FSCS has an exemption from liability in damages for anything done or omitted in relation to the discharge, or purported discharge, of its statutory functions. This is provided that such acts or omissions are done in good faith and do not infringe section 6(1) of the Human Rights Act 1998.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken to make himself/ herself aware of any relevant audit information, and to ensure that the company's auditors are aware of that information.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors prepare financial statements for each financial year. Under that law the directors have prepared the

financial statements in accordance with IFRS as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the situation of the company and of the income or expenditure of the company for that period. In preparing these financial statements, the directors are required to:

> select suitable accounting policies and then apply them consistently;

> make judgements and accounting estimates that are reasonable and prudent;

> state whether applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

> prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for:

> keeping adequate accounting records that show and explain the company's transactions and that disclose with reasonable accuracy the financial position of the company, and enable them to ensure that the financial statements comply with the Companies Act 2006;

> safeguarding the assets of the company and taking reasonable steps for preventing and detecting fraud and other irregularities; and

> maintaining the integrity of the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate governance and financial risk management

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained earlier in this Accountability Report. Information on the use of financial instruments by the company is disclosed in Note 16. In particular, the company's exposure to credit risk, liquidity risk and interest rate risk is separately disclosed in that Note.

Going concern

The directors are satisfied that FSCS is able to meet its obligations. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis.

Independent auditor

Under the Financial Services Act 2012, the Comptroller and Auditor General is the statutory auditor of FSCS.

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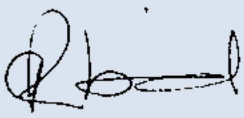
APPROVAL OF THE ACCOUNTABILITY REPORT

The Accountability Report is made up of the following:

> Statement of Accounting Officer's Responsibilities
> Corporate Governance Report
> Section 172 Statement: Taking into Account the Interests of Stakeholders
> Directors' Remuneration Report
> Risk Management Report
> Directors' Report

This was approved by the FSCS Board on 21 June 2022 and signed on its behalf by:



Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme
5 July 2022

Financial Statements

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AUDITOR'S REPORT

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE MEMBERS OF THE FINANCIAL SERVICES COMPENSATION SCHEME AND THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the Financial Services Compensation Scheme Limited (FSCS) for the year ended 31 March 2022 under the Financial Services and Markets Act 2000. The financial statements comprise the FSCS's:

> Statements of Financial Position as at 31 March 2022;

> Statement of Comprehensive Income and Statement of Cash Flows for the year then ended; and

> the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards.

In my opinion the financial statements:

> give a true and fair view of the state of the FSCS's affairs as at 31 March 2022 and of the deficit for the year then ended;

> have been properly prepared in accordance with UK adopted international accounting standards;

> have been prepared in accordance with the requirements of the Financial Services and Markets Act 2000; and

> have been prepared in accordance with the requirements of the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Entities in the United Kingdom*. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the FSCS in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the FSCS's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the FSCS's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this certificate.

Other information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance the Companies Act 2006.

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

> the Strategic Report and Performance Report and the Accountability Report have been prepared in accordance with applicable legal requirements; and

> the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the FSCS and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic and Performance Report or the Accountability Report.

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

> adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

> the financial statements and the parts of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

> certain disclosures of remuneration specified by the accounts direction issued by HM Treasury under the Financial Services and Markets Act 2000 are not made; or

> a corporate governance statement has not been prepared; or

> I have not received all of the information and explanations I require for my audit.

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determine is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the FSCS's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000 and International Standards on Auditing (ISAs) (UK).

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the FSCS's accounting policies.
- inquiring of management, the FSCS's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the FSCS's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the FSCS's controls relating to the FSCS's compliance with the Financial Services and Markets Act 2000.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the FSCS for fraud and identified the greatest potential for fraud in the following areas: revenue recognition; posting of unusual journals; and bias in management estimates involving recoveries receivables and provisions. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the FSCS's framework of authority as well as other legal and regulatory frameworks in which the FSCS operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the FSCS. The key laws and regulations I considered in this context included Financial Services and Markets Act 2000; Financial Services Act 2012; Financial Services (Banking Reform) Act 2013; Companies Act 2006; FSCS and HM Treasury Framework Document; and relevant employment law and taxation legislation.

In addition, I considered risk assessment procedures performed relating to non-compliance with the Sanctions and Anti-Money Laundering Act 2018 and the Russia (Sanctions) (EU Exit) Regulations 2019.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

> reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;

> enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;

> reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;

> in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

> I assessed a sample of compensation claims paid to ensure payments were only made to a relevant person, who was not on the sanctions list, relating to a regulated firm (per sections 213-217 of the Financial Services and Markets Act 2000).

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies (Statutory Auditor)
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP
6 July 2022

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FINANCIAL STATEMENTS AND NOTES

Statement of comprehensive income

	Note	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Income:			
Levy income in respect of compensation costs		568,627	519,720
Other levy income		74,339	79,795
Total levy income	*4*	642,966	599,515
Recoveries	*5*	15,505	63,983
Recharges to HM Treasury in respect of LCF	18	1,644	–
Total income		660,115	663,498
Expenditure:			
Compensation costs	6	(584,132)	(583,703)
Administrative expenses	*7, 8*	(78,951)	(80,213)
Interest payable	*14*	(115)	(25)
Net interest on defined benefit pension scheme	*20*	230	207
Total expenditure		(662,968)	(663,734)
Surplus/(deficit) before tax		**(2,853)**	**(236)**
Surplus/(deficit) after tax		**(2,853)**	**(236)**
Other comprehensive income			
Remeasurements on defined benefit pension scheme	*20*	2,853	236
Total comprehensive result for the year		**–**	**–**

All of FSCS's operations are continuing.

A statement of changes in equity has not been presented as there were no equity balances brought forward or any changes in equity balances during the year.

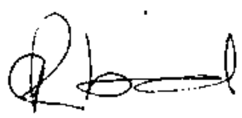
The Notes on pages 54-76 form part of these financial statements.

Statement of financial position

	Note	As at 31 March 2022 £'000	As at 31 March 2021 £'000
ASSETS			
Non-current assets			
Property, plant and equipment, and right of use assets		8,293	1,317
Other non-current financial assets	*11*	46,214	46,228
Employee benefit assets	*20*	14,847	10,075
		69,354	**57,620**
Current assets			
Trade and other receivables	*11*	39,138	73,430
Cash and cash equivalents	*12*	333,011	250,100
		372,149	**323,530**
Total assets		**441,503**	**381,150**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		**–**	**–**
Non-current liabilities			
Other non-current financial liabilities	*13*	61,061	56,303
Provisions	*15*	516	516
Lease liabilities	*14*	7,515	189
		69,092	**57,008**
Current liabilities			
Bank overdraft	*12*	3,441	–
Trade and other payables	*13*	317,045	284,553
Provisions	*15*	51,498	38,814
Lease liabilities	*14*	427	775
		372,411	**324,142**
Total liabilities		**441,503**	**381,150**
Total equity and liabilities		**441,503**	**381,150**

The Notes on pages 54-76 form part of these financial statements. These financial statements are exempt from the requirements of Part 16 of the Companies Act 2006 by virtue of Section 482 (non-profit making companies subject to public sector audit) of that Act.

The financial statements on pages 51-53 were approved by the Board of Financial Services Compensation Scheme Limited (registered number 3943048) on 21 June 2022 and signed on its behalf on 5 July 2022 by:



Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme

Statement of cash flows

	Note	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Operating activities			
Net cash generated from operations	*17*	80,776	7,560
Net cash flows from operating activities		**80,776**	**7,560**
Investing activities			
Purchases of property, plant and equipment		(521)	(227)
Net cash flows used in investing activities		**(521)**	**(227)**
Financing activities			
Returns on investments and servicing of finance	*14*	(785)	(1,029)
Net cash flows used in financing activities		**(785)**	**(1,029)**
Net increase/(decrease) in cash and cash equivalents		79,470	6,304
Cash and cash equivalents at 1 April	*12*	250,100	243,796
Cash and cash equivalents at 31 March	*12*	**329,570**	**250,100**

Notes to the financial statements for the year ended 31 March 2022

1 Constitution

Financial Services Compensation Scheme Limited (FSCS) is a company incorporated and domiciled in the UK under the Companies Act 2006 as a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member. FSCS has no share capital and no ultimate controlling party.

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA). FSCS, as Scheme Manager, operates broad funding classes based on identifiable industry sectors – Deposits; General Insurance Provision; General Insurance Distribution; Life and Pensions Provision; Life Distribution and Investment Intermediation; Investment Provision; Home Finance Intermediation; and Debt Management.

The registered office is 10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7QU.

2 Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with the Companies Act 2006, UK adopted International Accounting Standards and the Accounts Direction issued by HM Treasury. The directors are satisfied that FSCS is in a position to meet its obligations as they fall due, given its statutory rights to raise levies on Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) authorised firms. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis.

Section 218 of the FSMA requires us to prepare a statement of the value of each of the funds established by FSCS (the Scheme Manager). These statements, referred to as the *Class Statements*, are separate from the statutory financial statements of the Scheme Manager and have not been prepared under the basis of IFRS. The *Class Statements* are prepared by the Scheme Manager in accordance with the FCA Handbook and the PRA Rulebook. These statements can be found at www.fscs.org.uk

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

The principal accounting policies for the Scheme Manager are set out below.

a) Revenue recognition

The core principle of IFRS 15 – Revenue from Contracts with Customers is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires an entity to identify the contract(s) with a customer and the performance obligation related to the contract. It further requires the transaction price to be determined and allocated to the performance obligations in the contract. Revenue can only be recognised under the standard when the entity satisfies a performance obligation.

Management assessed the implication of adopting IFRS 15 directly, however given the nature of FSCS' activities and that IFRS 15 relates to commercial organisations it was not considered appropriate. Accordingly, management have applied IAS 8(10) to use its judgement to develop and apply an accounting policy that provides information that is relevant and reliable. In doing so, management have broadened the definition of a contract to include legislation and regulation. In this circumstance, a "contract" is the underlying statutory framework set out in FSMA and the FCA and PRA rules for FSCS. This framework enables FSCS to raise levies to recover the costs of carrying out its statutory functions and pursue recoveries from the estates of failed firms to offset these costs. The performance obligation under the "contract" is the protection provided by FSCS which all regulated firms benefit from in the form of increased consumer confidence.

Levies for compensation costs
FSCS recognises levies receivable in respect of compensation costs on an accruals basis to match compensation costs net of recoveries. Any excess funds are ultimately repayable to the levy payer (with shortfalls similarly recoverable from the levy payer), by way of a return or a reduction in next year's levy, in accordance with the funding rules set by the FCA and the PRA.

Recoveries
Recoveries are recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors). This differs from the treatment in the *Class Statements*, where recoveries are only recognised on receipt or notification from an insolvency practitioner.

Other operating income
FSCS recognises levy revenue raised from authorised firms in respect of management fees to cover the administration costs of FSCS when incurred. The management expenses levy is used to fund FSCS's overheads and is split between base costs and specific costs. All authorised firms contribute to the base costs, which are the costs of running FSCS and are not dependent on levels of activity. Specific costs are the costs of assessing claims, making payments and any other costs which can be directly attributable to a particular class.

Any deficit or surplus in the defined benefit pension scheme will eventually be funded through, or used to reduce, future levies on levy paying firms. Consequently, an asset and accrued levy income, or a liability and deferred levy income, is recognised in these financial statements

b) Compensation costs

Compensation costs are only recognised when the eligibility and quantum of the claim is known, or for reinstatement cases when fully valued. In most cases, this is when the claim has been assessed and a decision has been made, as before that point the eligibility and quantum of the claim cannot be known.

In the case of deposit defaults, Special Administration Regime (SAR) defaults and return of premium cases, these do not generally require an application form or decision to be made by FSCS; therefore, the expenditure is recognised when the firm is declared in default.

c) Financial instruments

Trade and other receivables
Trade and other receivables are measured at amortised cost using the effective interest rate method. FSCS has applied the simplified approach to impairment of financial assets by providing for expected lifetime credit losses as permitted by IFRS 9. These provisions are based on an assessment of risk of default and expected timing of collection estimated by reference to past default experience, adjusted as appropriate for current observable data. Levy receivables are also reviewed periodically to assess if any objective evidence has been identified which indicates that a specific impairment for uncollectable amounts is required.

This excludes recoveries receivable, which are measured at fair value through profit and loss at each reporting date.

Allowance losses for levies receivable are included within levy income in the statement of comprehensive income.

Trade and other payables
Payables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowings
Borrowings are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument and drawdowns are made. Borrowings are measured initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Interest is charged to the statement of comprehensive income over the term of the borrowings. Interest accrued within a financial period becomes due and payable in accordance with the terms of the loans.

d) Provisions and contingent liabilities

A provision is recognised in the statement of financial position when there is a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the value can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

On occasion, legal proceedings are threatened or initiated against or by FSCS. A provision is made for the estimated full cost in respect of any such proceedings where at the end of the year it is probable that there is an obligation which will require an outflow of economic benefit.

Provisions for compensation costs only include claims where FSCS is able to determine their eligibility and can reliably estimate the quantum of those claims. Generally, this would only apply to deposit defaults, Special Administration Regime (SAR) defaults and return of premium cases, as these do not require an application form or decision to be made by FSCS and an estimate can be made based on records held by the failed firm. Liabilities and provisions are not recognised for other types of claims until they have been assessed because the eligibility and therefore obligation is not known before that point.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

e) Interest payable

Interest received on cash deposits is credited to the classes in proportion to their relative fund balance.

f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are charged to the classes.

g) Third-party arrangements as agent

Where FSCS works for and makes compensation payments on behalf of third parties, as agent; these are recoverable from such parties. Any amounts so due from third parties are shown in the statement of financial position.

Management expenses incurred in performing work on behalf of third parties are recovered from such parties by FSCS and not allocated to the classes or funded by levy payers, so will only be shown within the *Annual Report and Accounts* of the Scheme Manager. These costs will be shown in the statement of comprehensive income within administrative expenses with a corresponding recharge as income.

h) Taxation

FSCS is only liable to pay corporation tax on investment income. The related tax is charged to the classes as shown in the fund movements of the *Class Statements*.

i) Pension Scheme

FSCS operates both a defined benefit pension scheme (Pension Scheme) and a money purchase scheme.

The pension costs for the Pension Scheme are accounted for in accordance with International Accounting Standard (IAS) 19 'Employee Benefits'. The aggregate Pension Scheme asset/liability recognised in the statement of financial position is the excess or deficit of the present value of the Pension Scheme's assets over the value of the Pension Scheme's liabilities. Any deficit will be funded by future levies and any surplus used to reduce future levies. The deficit or surplus for funding purposes will be that calculated for the Pension Scheme, which is required by The Pensions Regulator to be prepared on a prudent basis. This may differ from the IAS 19 deficit or surplus shown in these financial statements.

The costs of the money purchase scheme are charged to the statement of comprehensive income as incurred.

Further details are contained in Note 20.

j) Changes in accounting policy

i. New and amended standards adopted by FSCS:

There were no IFRS or IFRS Interpretations Committee interpretations effective for the first time in the financial year beginning on or after 1 April 2021 that have a material impact on the company.

ii. New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 April 2021 and not early adopted:

There were no IFRS or IFRS Interpretations Committee interpretations not yet effective that would be expected to have a material impact on the company.

3 Accounting judgements and key estimation uncertainties

In applying the accounting policies as set out in Note 2, there are a number of uncertainties that could impact on the amounts recognised in the financial statements.

The key area of judgement identified in the financial statements is:

- in preparing these financial statements, a fundamental judgement has been applied to revenue recognition in respect of levy income (see Note 2(a)). Levy income represents fees to which FSCS deemed it was entitled during the financial year, after taking into account costs associated with running the compensation scheme, including compensation costs less recoveries and management expenses incurred. Any surplus or deficit against levy income in the year is therefore held payable or receivable on the statement of financial position as the intention is to return any surplus, by way of a refund or a reduction in next year's levy, or claim any deficit in the following year.

The key areas of judgement and estimation uncertainties identified in the financial statements are:

- the value and expected timing of recoveries through dividends from the estates of failed firms, as explained in Note 11;
- the value and expected timing of provisions for compensation costs, as explained in Note 15; and
- the current valuation of the defined benefit pension scheme, as explained in Note 20.

4 Levy income

In FSCS's financial statements, levies are recognised on an accruals basis, taking into account the costs which have been incurred and any recoveries FSCS has made. The table below shows the total of all constituent parts of levy income for the year reported in the statement of comprehensive income (SoCI).

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
Levy income recognised in SoCI		
Levy income in respect of compensation costs	**568,627**	**519,720**
Other levy income:		
Levy income in respect of base costs	27,045	25,977
Levy income in respect of specific costs	51,951	55,868
Levy income in respect of interest payable	115	25
Levy income in respect of pension obligations	(4,772)	(2,075)
	74,339	**79,795**
Total levy income	**642,966**	**599,515**

5 Recoveries income

Recoveries income recognised in the statement of comprehensive income of FSCS is analysed as below:

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
2008/09 banking failures	–	588
Other defaults	15,505	63,395
	15,505	**63,983**

6 Compensation costs

The table below provides an analysis of the compensation cost by funding class.

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
Funding class		
Deposits	4,646	2,682
General Insurance Provision	185,976	110,804
General Insurance Distribution	7,181	15,364
Life Distribution and Investment Intermediation	263,372	322,659
Investment Provision	121,977	130,502
Home Finance Intermediation	979	1,664
Debt Management	1	28
Total compensation costs	**584,132**	**583,703**

7 Administrative expenses and interest payable

Administrative expenses and interest payable incurred by FSCS which were specifically levied to levy payers are shown in the table below by levy class.

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
Deposits	12,462	11,690
General Insurance Provision	6,932	6,102
General Insurance Distribution	5,472	5,435
Life and Pensions Provision	221	206
Life Distribution and Investment Intermediation	20,776	25,781
Investment Provision	5,475	5,322
Home Finance Intermediation	728	1,363
Debt Management	–	(6)
Base costs	27,045	25,977
IAS 19 pension adjustments	(1,689)	(1,632)
LCF Government Scheme administration costs	1,644	–
Other – interest payable	(115)	(25)
Total administrative expenses	**78,951**	**80,213**
Other – interest payable	115	25
Total administrative expenses and interest payable	**79,066**	**80,238**

8 Administrative expenses

		Year ended 31 March 2022	Year ended 31 March 2021
	Note	£'000	£'000
Staff costs	*9*	20,669	19,737
Accommodation and office services		1,847	2,007
IT maintenance costs		5,947	4,820
Outsourced claims-handling costs		13,235	18,130
Contractors		6,635	5,674
Change including IT development costs		5,785	6,258
Depreciation		1,193	1,390
Press and communications		3,364	3,270
Auditor's remuneration			
Statutory audit of the financial statements		159	159
Other audit services		–	–
Legal and professional fees		5,675	6,357
Bank charges		7,559	6,679
LCF Government Scheme administration costs		1,644	–
Other		5,239	5,732
		78,951	**80,213**

9 Staff costs

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	£'000
Wages and salaries, including the executive directors	16,781	16,054
Social security costs	2,043	1,955
Pension costs	1,845	1,728
	20,669	**19,737**

The employer's pension contributions shown above include the liability for contributions in respect of service during the year.

The average number of employees of FSCS during the year was as follows:

	Year ended 31 March 2022	Year ended 31 March 2021
Average number of employees:		
Executive Team	8	8
Operations	155	143
Other	75	75
	238	**226**

Other includes Finance, Legal and People Teams.

10 Directors' remuneration

As at 31 March 2022, there were seven independent non-executive directors (2021: seven) and two executive directors (2021: three). The directors of the company who were in office during the year can be found within the Directors' Report. Total remuneration paid to directors is as follows:

	Year ended 31 March 2022	Year ended 31 March 2021
	£'000	**£'000**
Aggregate remuneration	797	1,042
Pension contributions	42	76
	839	**1,118**

Retirement benefits during the year accrued to no directors (2021: one) under FSCS's defined benefit scheme and two under the money purchase scheme (2021: four).

The highest paid director, the Chief Executive (2021: Chief Operating Officer), received aggregate remuneration of £318,841 (comprising basic salary of £282,800, bonus of £28,280 and other emoluments of £7,761) (2021: £334,472 (comprising basic salary of £263,574, bonus of £52,715 and other emoluments of £18,183)). Payments of £22,366 have been made for pension (2021: £39,536). The Chief Executive did not receive any additional remuneration in respect of her role as director.

The fees paid to the Chair are set at £75,000 per annum (2021: £75,000) and the fees paid to the independent non-executive directors, or their employers, are set at £24,500 per annum (2021: £24,500). Additional fees paid to the chair of the Audit Committee, Remuneration and People Committee, and Risk Committee were set at £5,000 per annum (2021: £5,000). From 1 February 2021, an additional fee of £5,000 per annum was also payable to the Deputy Chair and Senior Independent Director. In addition, business-related expenses totalling £4,999 (2021: £1,967) were reimbursed to the independent non-executive directors. The Chair and the other independent non-executive directors are not entitled to a pension funded by FSCS.

11 Receivables

Trade and other receivables: amounts falling due within one year

	Note	31 March 2022 £'000	31 March 2021 £'000
Amounts due from the FCA	18	13,490	11,580
Levies receivable			
General Insurance Provision		351	1,156
General Insurance Distribution		100	4,353
Life Distribution & Investment Intermediation		–	2,443
Investment Provision		1,039	1,035
Home Finance Intermediation		14	428
Debt Management		1	550
In respect of base costs		105	119
Net amounts due from levy payers in the following classes:			
General Insurance Distribution		–	442
Life and Pensions Provision		265	43
Life Distribution & Investment Intermediation		–	29,467
Recoveries receivable in respect of other defaults	13	18,380	15,263
Amounts due from HM Treasury		161	–
Other receivables		326	596
Prepayments		4,906	5,955
		39,138	**73,430**

Other non-current financial assets: amounts falling due after more than one year

	Note	31 March 2022 £'000	31 March 2021 £'000
Recoveries receivable in respect of other defaults	13	46,214	46,228
		46,214	**46,228**

Total recoveries receivable in respect of other defaults of £64,594,000 (2021: £61,491,000) include £44,365,000 (2021: £44,959,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class; £20,229,000 (2021: £16,479,000) from firms declared in default in the Life Distribution and Investment Intermediation class; and £nil (2021: £53,000) from firms declared in default in the Investment Provision class. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable and distribution of surplus owed to customers (see Note 13).

The timing and value of recoveries receivable are estimated based on information available to the directors up to the date of signing these accounts, including Insolvency Practitioners' statements of estimated outcome and other reports published as part of the various insolvency processes; however, the timing and final outcome are uncertain. Recoveries receivable are categorised as level 3 within the fair value hierarchy as they are based on insolvency practitioner's statements of estimated outcome and other reports. These amounts could change significantly if administrator assessments change.

The movements in net recoveries receivable in the statement of financial position are analysed below:

	Receivable at 31 March 2020	Movements in recoveries receivable	Receivable at 31 March 2021	Movements in recoveries receivable	Receivable at 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Current recoveries receivable:					
2008/09 banking failures	4,349	(4,349)	–	–	–
Other defaults	8,314	5,813	14,127	2,909	17,036
Non-current recoveries receivable:					
2008/09 banking failures	–	–	–	–	–
Other defaults	1,804	43,635	45,439	(693)	44,746
	14,467	**45,099**	**59,566**	**2,216**	**61,782**

12 Cash and cash equivalents, overdraft, facilities and class borrowings

As at 31 March 2022, FSCS had bank facilities of £1,500m, comprising a 364-day sterling Revolving Credit Facility of £1,450m expiring on 14 March 2023, and an overdraft facility of £50m. Any drawdown of the Revolving Credit Facility is subject to Board approval.

	31 March 2022	31 March 2021
	£'000	£'000
Cash at bank	333,011	250,100
	333,011	**250,100**
Bank overdraft	(3,441)	–
	329,570	**250,100**

Prior to the UK's exit from the EU, the recast Deposit Guarantee Schemes Directive required FSCS to have ex-ante funding of 0.8% of the amount of covered deposits of its members (to be built up by 2024). The Government used the bank levy to meet this funding requirement. FSCS will continue to be permitted to access this fund from HM Treasury, through the National Loans Fund or any other appropriate source, for a term and at an interest rate to be agreed at the time.
The amount of the borrowing facility available to FSCS is determined by HM Treasury. As at 31 March 2022, this facility was not utilised. Any amounts drawn from this facility will be replenished by means of FSCS levies on the Deposits class and recoveries in subsequent years.

13 Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2022 £'000	31 March 2021 £'000
Compensation payable		3,103	4,671
Net amounts held on behalf of levy payers			
Deposits		16,391	6,437
General Insurance Provision		1,360	23,557
General Insurance Distribution		1,822	–
Life Distribution & Investment Intermediation		26,478	–
Investment Provision		78,104	54,797
Home Finance Intermediation		8,672	5,803
Debt Management		487	536
Payments on Account		148,140	157,118
Social security and other taxes		594	681
Accruals		8,090	7,954
Deferred income in respect of base costs		1,014	3,939
Distribution of surplus owed to customers		1,344	788
Net amounts due to levy payers in respect of recoveries receivable	*11*	17,036	14,127
Other payables		4,410	4,145
		317,045	**284,553**

Non-current liabilities: amounts falling due after more than one year

	Note	31 March 2022 £'000	31 March 2021 £'000
Net amounts due to levy payers in respect of recoveries receivable		44,746	45,439
Distribution of surplus owed to customers		1,468	789
Amounts due to levy payers in respect of pension surplus		14,847	10,075
		61,061	**56,303**

Under the funding rules, the FCA instructed the largest 1,000 levy payers to make payments on account for FSCS's 2022/23 levy. These firms were invoiced in February, with a due date of 1 April 2022. As at 31 March 2022, invoices totalling £268,978,000 (2021: £252,676,000) were issued, of which £147,459,000 (2021: £156,553,000) was collected, leaving amounts due from levy payers of £121,520,000 (2021: £96,123,000). The amounts received are held to the credit of those individual firms rather than to any particular funding class and are shown separately in Note 13 (above) and in the *Class Statements*. These funds will be applied to reduce the payments of these firms when the 2022/23 annual levies are invoiced in July 2022, which are allocated against funding classes. FSCS has presented the receivable and the liability on a net basis in the statement of financial position after considering the fundamental principles in the International Accounting Standards Board (IASB) Conceptual Framework and the requirements of IFRS 15.

14 Lease liabilities

On 20 December 2011, FSCS entered a lease agreement for its premises at 10th Floor, Beaufort House, 15 St Botolph Street, London. The original lease term was from 31 December 2011 to 30 December 2021. On 24 March 2016, FSCS entered another lease agreement for its premises at the Bank of England, Debden. The lease term is from 24 March 2016 to 23 March 2026. At the date of implementation, the remaining lease liability was £2,956,000 based on discounted lease payments. The rate used to discount the lease payments for IFRS 16 purposes was 1.74% as quoted by the Public Works Loan Board.

On 20 April 2021, FSCS signed a new 10 year lease for its office premises at 10th Floor, Beaufort House, 15 St Botolph Street, London. The new lease term is from 31 December 2021 to 30 December 2031. The new lease has been treated as a lease modification in accordance with IFRS 16. The remeasured lease liability of circa £8.1m has been calculated as the present value of the remaining lease payments at circa £8.8m, discounted using an expected interest rate of 1.42% based on a 10.5 year loan from the Public Works Lending facility. A corresponding adjustment has been made to the right of use asset. The lease arrangement has a one year rent free period from 31 December 2021 and a further 6 months rent free period from 31 December 2026 if the lease is not terminated. The contract provides for a rent review on 31 December 2026.

	31 March 2022	31 March 2021
Lease liabilities movements:	**£'000**	**£'000**
Brought forward	964	1,968
Lease modifications	7,648	–
Payments during the year	(785)	(1,029)
Interest expense on lease liabilities	115	25
Lease liabilities at 31 March	**7,942**	**964**

	31 March 2022	31 March 2021
Lease liabilities fall due as follows:	**£'000**	**£'000**
Within 1 year	427	775
Within 2 to 5 years	3,250	189
Within 6 to 10 years	4,265	–
Greater than 10 years	–	–
Lease liabilities at 31 March	**7,942**	**964**

15 Provisions

	As at 31 March 2021	Additional provisions made in the period	Unused amounts reversed during the period	Utilised in the year	As at 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Compensation cost	38,178	29,762	(8,688)	(8,184)	51,068
Levy provision	636	430	–	(636)	430
Other	516	–	–	–	516
Total provisions	**39,330**	**30,192**	**(8,688)**	**(8,820)**	**52,014**
Current	38,814	30,192	(8,688)	(8,820)	51,498
Non-current	516	–	–	–	516
	39,330	**30,192**	**(8,688)**	**(8,820)**	**52,014**

Compensation cost provision

The provision for compensation costs of £51,068,000 (2021: £38,178,000) includes estimates for return of funds, return of premiums, general insurance claims, and other claims settlements agreed. This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the amount of these claims, using the best information available to the directors at this time.

This provision includes a remaining estimate of £2,972,000 for SVS Securities plc and £7,940,000 estimated for Reyker Securities plc. These are based either on estimates provided by or ongoing discussions with the administrators as to how much FSCS would be liable to contribute towards investors' losses. The information available to the directors includes evidence received from the administrators who are third parties and independent from FSCS and are appointed by the courts. The overall costs will depend on the outcome of the distribution plan and the finalisation of the return of client assets, which are still subject to change. These changes can have a significant impact on the overall cost, so the outcome could be higher or lower. We had a remaining provision of £8,543,000 for SVS Securities plc in 2020/21. This was reduced by £2,714,000 in light of information from the administrators. We also made interim payments totalling £2,858,000 during 2021/22, leaving a provision of £2,972,000 remaining for SVS. The remaining provision for Reyker Securities plc was £13,560,000 in 2020/21. This was reduced by £1,892,000 in light of the latest information from the administrators. We also made interim payments totalling £3,728,000 during 2021/22, leaving a provision of £7,940,000 remaining for Reyker. Significant judgements had to be made by the administrators in arriving at these estimates, such as the timing of the return of remaining client assets on some estates, which are still subject to change. These changes can have a significant impact on the overall cost, so the provision could be different to the final outcome.

Provisions of £5,350,000 and £7,167,000 were made for the return of premiums on the failures of Elite Insurance Company Ltd and MCE Insurance Company Ltd. These provisions were arrived at using our best estimates from a variety of sources on the likely number of policies FSCS would be paying and the associated cost of unexpired premiums based on broker or customer submissions.

Compensation costs also include an amount of £22,053,000 (2021: £8,502,000) for other general insurance claims. This is an estimate of unpaid compensation claims that were accepted on or before 31 March 2022. The provision is based on submissions from Run-Off Agents who receive the acceptance of offers, where possible, or a review of post-year-end payments to determine the value of claims likely to have been accepted on or before 31 March 2022. Due to other third parties being involved, the Run-Off Agents may not be aware of all acceptances unless these third parties provide notification. These are not expected to be material. A risk adjustment of 7% has been applied to the amounts submitted. FSCS does not hold all the information pertaining to general insurance claims, and the final outcome could be different.

Levy provision
A number of firms applied for a reduction in the amount levied and requests for refunds were received from levy payers due to errors in the tariff data submitted by them to the FCA. Based on the best information available to the directors, a provision of £430,000 (2021: £636,000) has been made in the accounts for credit notes to be raised.

16 Financial risk management

The company's financial risk management policy is disclosed below.

Liquidity risk
Liquidity risk is the risk that FSCS is unable to meet its payment obligations associated with its financial liabilities as they fall due. FSCS manages its liquidity by carefully monitoring the projected income and expenditure related to its day-to-day business. Each month, FSCS identifies liquidity up to the point when it next expects to levy the majority of fees. FSCS also has available to it, for liquidity purposes, £1,500m of facilities, comprising a 364-day sterling Revolving Credit Facility of £1,450m expiring on 14 March 2023 and an overdraft facility of £50m at a fixed margin above bank rate. Any usage of the Revolving Credit Facility would be subject to Board approval.

In the event that FSCS is unable to raise sufficient levies and the facilities mentioned above do not provide adequate funds, FSCS would request a loan from HM Treasury.

The table below summarises the maturity profile of the company's financial liabilities based on expected undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31 March 2022	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	13,094	303,951	61,061	–	378,106
Lease liabilities	–	–	427	3,250	4,265	7,942
Loan interest payable	–	–	–	–	–	–
	–	**13,094**	**304,378**	**64,311**	**4,265**	**386,048**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31 March 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	12,780	271,773	56,303	–	340,856
Lease liabilities	–	–	775	189	–	964
Loan interest payable	–	–	–	–	–	–
	–	**12,780**	**272,548**	**56,492**	**–**	**341,820**

Interest rate risk
Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is not exposed to significant interest rate risk.

Any interest rate risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any interest rate risk is ultimately passed on to and absorbed by the levy payers.

Credit risk
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with FSCS, resulting in a financial loss to FSCS. FSCS's principal financial assets are cash and cash equivalents, together with levies and recoveries receivable.

FSCS's credit risk falls into three main categories:

i. the collection of levies from the financial services industry: the FCA, which collects the levies on behalf of FSCS, has a strong record in collecting levies;

ii. the placement of those levies as deposits with various counterparties: FSCS only invests with those financial institutions that meet its minimum credit rating as assigned by credit-rating agencies; and

iii. recoveries receivable from claims against institutions where FSCS has paid compensation (most often made through an insolvency process).

Any credit risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any loss due to credit risk will be absorbed by the levy payers.

Currency risk
FSCS is recovering funds from a number of institutions where the recoveries will be in foreign currencies. Changes in the exchange rate for US dollars or euros may affect the value recovered. Any currency risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any loss due to currency risk will be absorbed by the levy payers. The company is not exposed to significant currency risk.

Fair values
The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, other current assets and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments, such as recoveries receivable (financial assets) is calculated by discounting management's estimate of future expected cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. These receivables are categorised as level 3 within the fair value hierarchy as their valuation uses inputs which are not based upon observable market data.

For the level 3 financial assets, changing certain estimated inputs to reasonably possible alternative assumptions does not change the fair value significantly. The gain on revaluation of the level 3 financial assets in the year was not material.

The carrying amounts of the company's financial assets and financial liabilities are a reasonable approximation of fair value.

17 Reconciliation of the profit/(loss) on ordinary activities before interest and tax to net cash inflow from operating activities

The statement set out below relates cash flows to items shown in the statement of comprehensive income and statement of financial position movements.

		Year ended 31 March 2022	Year ended 31 March 2021
	Note	**£'000**	**£'000**
Surplus on ordinary activities before tax		(2,853)	(236)
Interest payable		115	25
		(2,738)	(211)
Depreciation		1,193	1,390
Loss on disposal		–	1
Decrease/(increase) in receivables	*11*	34,306	(17,525)
Increase/(decrease) in payables	*13*	37,250	71,392
IFRS 16 – lease adjustments		–	258
Difference between pension charge and cash contributions		(1,919)	(1,839)
Increase/(decrease) in provisions for liabilities and charges	*15*	12,684	(45,906)
Net cash inflow from operating activities		**80,776**	**7,560**

18 Transactions with related parties

During the year, FSCS entered into transactions with the FCA as a related party. The FCA and the PRA appoint, and have the right to remove, directors to the Board of FSCS and they establish the rules under which FSCS operates. The FCA and the PRA are considered to be related parties but not controlling parties during the year.

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £734,166,000 (2021: £748,688,000) during the year. Collections of £718,340,000 (2021: £693,749,000) were received from levy payers. The fee for the agency service was £323,000 (2021: £425,000).

Overall, payments of £719,835,000 (2021: £701,281,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2022 of £13,487,000 (2021: £11,412,000). The FCA also held £3,000 of funds on behalf of FSCS, which will be returned to firms in the Deposits class. The total of these two balances amounted to £13,490,000.

During the year, FSCS did not enter into any transactions with the PRA.

HM Treasury is not considered to be a related party or a controlling party. However, in the interests of transparency, full disclosure of the transactions with HM Treasury has been made. These transactions with HM Treasury comprise funding, management expenses recharged, and compensation payments made on behalf of HM Treasury.

In April 2021, the government appointed FSCS to administer a compensation scheme for bondholders who lost money when London Capital & Finance plc (LCF) collapsed. During the year, HM Treasury provided funding of £118,197,000 to FSCS for the purpose of administering the LCF Government Compensation Scheme. During the year, FSCS has made compensation payments totalling £114,406,000 to eligible bondholders of this scheme and has incurred £1,644,000 of management expenses which have been recharged to HM Treasury. As at 31 March 2022, this leaves an amount of £2,148,000 held on behalf of HM Treasury.

There were no other such transactions during the year.

The remuneration of key management personnel is set out in the Directors' Remuneration Report.

19 Contingent liabilities and contingent assets

Compensation costs
As at 31 March 2022 and 31 March 2021, compensation payments may become due as a result of claims made to us by customers of authorised financial services firms which have failed. To qualify for compensation customers must be eligible under our rules. These rules are outlined in the FCA Handbook and in the PRA Rulebook sections on depositor protection and policyholder protection. FSCS can only pay compensation for financial loss and there are limits to the amounts of compensation FSCS pays. There is significant uncertainty around the number of claims we will receive from customers, the likelihood of eligible claims, the type or product of those claims, the amount of compensation we will pay, and the timing of those payments. Therefore, it is not practicable to provide an estimate of the costs of potential claims we may receive or claims we have received but not yet decided on.

Recoveries receivable
FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost-effective to pursue, which will offset some of the compensation FSCS will pay out. At 31 March 2022 and 31 March 2021, FSCS had a number of ongoing recoveries actions against failed firms, the insurers of those failed firms, or other third parties, which are deemed probable to succeed. However, some of these have not been recognised as assets in the statement of financial position because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of FSCS.

Section 27 claims
Following the uncertainty from the Court of Appeal decision in relation to the Adams v Options case in April 2021, FSCS has been adopting an interim approach to paying customers eligible for compensation for due diligence failures by their SIPP Operator, namely those against SIPP operators involving an unregulated introducer where there could potentially be an additional liability under Section 27 of FSMA.

Now that the Supreme Court has decided that it will not hear an appeal in the Adams case, FSCS will review its position and whether it should make final decisions on these claims. As well as considering the court's decisions to date, FSCS must also consider the COMP Rules that govern how FSCS must determine claims. As the approach to these claims is still being considered, there is a possible obligation which will only be confirmed when the approach has been agreed.

It is not practicable to provide an estimate of the total cost of these claims or the timing of any outflows as it would depend on the particular facts of each case. FSCS would need to consider in each case: i) whether an identifiable unauthorised third-party was involved; ii) whether there is evidence that the third-party acted in breach of the General Prohibition in relation to the particular transaction and, if so; iii) whether the customer entered into an agreement with an authorised firm in consequence of the unauthorised third-party's actions; and finally iv) whether it is just and equitable for the agreement between the customer and the authorised firm to be enforced in any event.

There are no other material contingent liabilities or contingent assets identified at the reporting date.

20 Retirement benefits

FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Pension Scheme), which was closed to new staff and closed to future accrual on 30 June 2011.

Money purchase scheme
A non-contributory money purchase pension scheme, for permanent and fixed-term contract staff, was set up with effect from 1 February 2001. From 1 April 2019, FSCS makes contributions equal to 9% of the basic annual salary so long as the permanent or fixed-term contract staff pay a minimum employee contribution of 1%. FSCS increases this contribution to 11% after three years' service. If staff choose to increase their employee contribution above 1%, FSCS will match this with an employer's contribution up to a maximum of an additional 4% of their basic annual salary.

Amounts paid by FSCS into the money purchase scheme amounted to £2,465,000, and £235,000 was outstanding to be paid at 31 March 2022 (2021: £2,322,000 and £nil respectively).

Defined benefit pension scheme with money purchase underpin (hybrid pension scheme)
FSCS operates a funded scheme with defined benefits payable that are underpinned by the value of notional money purchase units allocated to members in respect of service prior to 1 April 2002. Assets are held in separate Trustee-administered funds. An actuarial valuation of the Pension Scheme was carried out as at 1 April 2021. The valuation used the projected unit method and was carried out by professionally qualified actuaries.

The Trustees have the primary responsibility for governance of the Pension Scheme. Benefit payments are from Trustee-administered funds and the Trust is governed by UK regulation. Responsibility for governance of the Pension Scheme, including investment decisions and contribution rates, lies jointly with the company and the Trustees. The Trustees comprise representatives of FSCS and members in accordance with the Trust Deed and Rules. FSCS is entitled to recover any surplus contribution upon wind-up of the pension scheme.

Principal actuarial assumptions at the statement of financial position date are:

	31 March 2022	31 March 2021
	% (p.a.)	% (p.a.)
Discount rate	2.70	2.10
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	3.40	3.15
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	2.50	2.25
RPI inflation assumption	3.65	3.30
CPI inflation assumption	3.30	2.60

The following standard mortality tables published by the Institute and Faculty of Actuaries and projections of future mortality improvements have been used:

Pre- and post-retirement: 100% S3PMA light for males and 100% S3PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation (CMI) mortality projections model 2021, with a 1.25% per annum long-term trend rate for males and a 1.25% per annum long-term trend rate for females from 2013 onwards, allowing for an individual member's year of birth.

	31 March 2022	31 March 2021
Key assumptions		
Life expectancy at 60 for male aged 60	28.0	27.6
Life expectancy at 60 for female aged 60	29.7	28.8
Life expectancy at 60 for male aged 45	29.0	28.7
Life expectancy at 60 for female aged 45	30.7	30.0

For the 31 March 2022 disclosures, 75% of retiring members are assumed to exercise their option to commute the maximum amount of their pension for a Pension Commencement Lump Sum using the cash commutation factors in place as at 31 March 2022. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2022 disclosures, 80% of male and 75% of female members are assumed to have eligible adult dependants of the opposite sex, with males assumed to be three years older than females.

The assumptions were chosen by FSCS, with professional advice.

At 31 March 2022, the Pension Scheme's assets were invested in a diversified portfolio. The asset allocation was 47% growth assets (property, diversified growth funds and alternatives) and 53% matching assets (bonds, liability driven investments and cash).

The fair values of the Pension Scheme's assets are set out below:

As at 31 March 2022	Quoted £'000	Unquoted £'000	Total £'000
Global equities	–	–	–
Property	–	2,630	2,630
Indexed-linked gilts	6,767	–	6,767
UK corporate bonds	6,966	–	6,966
Diversified growth funds	–	14,341	14,341
Cash and net current assets	3,436	–	3,436
Alternative	4,607	–	4,607
Liability Driven Investments	7,356	–	7,356
Total assets	**29,132**	**16,971**	**46,103**

As at 31 March 2021	Quoted £'000	Unquoted £'000	Total £'000
Global equities	12,788	–	12,788
Property	–	2,125	2,125
Indexed-linked gilts	6,271	–	6,271
UK corporate bonds	4,216	–	4,216
Diversified growth funds	–	13,424	13,424
Cash and net current assets	489	–	489
Alternative	3,970	–	3,970
Liability Driven Investments	–	–	–
Total assets	**27,734**	**15,549**	**43,283**

The assets as at 31 March 2022 are consistent with the Pension Scheme's investment strategy as set by the Trustees. As the Pension Scheme matures, it is intended to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. This involves an asset liability management framework that has been developed to achieve long-term investments that are in line with the obligations under the Pension Scheme. Within this framework, the objective is to match assets to the pension obligations by investing in long-term fixed interest and index-linked securities with maturities that match the benefit payments as they fall due and in the appropriate currency. FSCS actively monitors the duration and the expected yield of the investments that are matching the expected cash flows arising from the pension obligations.

The Pension Scheme does not invest in the sponsor's own financial instruments, including property or other assets owned by the sponsor.

The amounts recognised in the statement of financial position are as follows:

	31 March 2022	31 March 2021
	£'000	£'000
Fair value of assets	46,103	43,283
Present value of obligations	(31,256)	(33,208)
Funded status	**14,847**	**10,075**
Adjustment in accordance with paragraph 64 of IAS19 (the 'asset ceiling')	–	–
Net defined benefit asset/(obligation)	**14,847**	**10,075**

	Year ended 31 March 2022	Year ended 31 March 2021
Movement in net defined benefit asset/(obligation) over the year	£'000	£'000
Net defined benefit asset/(obligation) at beginning of the year	10,075	8,000
Employer contributions	1,920	1,920
Expense recognised in income statement	(1)	(81)
Remeasurement gain/(loss) recognised in other comprehensive income	2,853	236
Net defined benefit asset/(obligation) at end of the year	**14,847**	**10,075**

	Year ended 31 March 2022	Year ended 31 March 2021
Changes in present value of the defined benefit obligation	£'000	£'000
Opening defined benefit obligation	33,208	26,748
Past service cost	–	4
Interest cost	693	626
Distributions	(388)[1]	(256)[1]
Experience (gains)/losses	(1,287)	–
Actuarial (gains)/losses arising from change in financial assumptions	(1,410)	6,086
Actuarial (gains)/losses arising from change in demographic assumptions	440	–
Closing defined benefit obligation	**31,256**	**33,208**

1 Net of defined contribution transfers in of £9,000 in the year ended 31 March 2021 and £5,000 in the year ended 31 March 2022.

Sensitivity analysis of the Pension Scheme liabilities

The sensitivity of the principal assumptions used to measure the Pension Scheme liabilities is set out below:

	Change in assumption	Value of Scheme liabilities
		£'000
No change to the assumptions		31,256
Discount rate reduced by	0.25%	32,963
Discount rate increased by	0.25%	29,673
Inflation increased by[2]	0.25%	32,457
Inflation reduced by[2]	0.25%	30,100
Life expectancy increased by	1 year	32,347
Life expectancy reduced by	1 year	30,152

[2] This sensitivity allows for the impact on all inflation related assumptions (deferred revaluation and pension increases (subject to the relevant caps and floors))

Description of risks to which the Pension Scheme exposes FSCS
If the Pension Scheme assets do not move in line with Pension Scheme liabilities, then a deficit may arise. As the Pension Scheme matures, FSCS intends to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). Increases in life expectancy will increase pension scheme liabilities. The inflation-linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy.

	Year ended 31 March 2022	Year ended 31 March 2021
Changes in fair value of the Pension Scheme assets	£'000	£'000
Opening fair value of assets	43,283	34,748
Contributions paid by employer	1,920	1,920
Interest income	923	833
Return on Scheme assets excluding interest income	596	6,322
Distributions	(388)[3]	(256)[3]
Administration expenses	(231)	(284)
Closing fair value of assets	**46,103**	**43,283**

[3] Net of defined contribution transfers in of £9,000 in the year ended 31 March 2021 and £5,000 in the year ended 31 March 2022.

Expenses recognised in the income statement	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Past service cost	–	4
Administration expenses	231	284
Net interest on the net defined benefit obligation/(asset)	(230)	(207)
Total expense/(income)	**1**	**81**

Remeasurement effects recognised in other comprehensive income	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Return on Pension Scheme assets excluding interest income	596	6,322
Experience gains and (losses) on Pension Scheme obligations	1,287	–
Actuarial gains/(losses) arising from change in financial assumptions	1,410	(6,086)
Actuarial gains/(losses) arising from change in demographic assumptions	(440)	–
Net actuarial gains/(losses) recognised in the period	**2,853**	**236**

	£'000
Best estimate of employer contributions to be paid over following year	1,920

Expected future benefit payments	
Year ending 31 March 2023	359
Year ending 31 March 2024	534
Year ending 31 March 2025	459
Year ending 31 March 2026	577
Year ending 31 March 2027	600
Five years ending 31 March 2032	4,652

As required by IAS 19, the projected unit method has been used to determine the liabilities.

FSCS has agreed with the Trustees that the funding objective is to aim to ensure that the Pension Scheme has sufficient and appropriate assets to cover its technical provisions (which are effectively the liabilities in respect of service already completed) under the scheme specific funding regulations (the Pension Scheme operates under the Pensions Act 2004 regulatory framework).

The valuation of the Pension Scheme's liabilities for accounting purposes has been carried out at a different date from when the Pension Scheme's last actuarial valuation was carried out to determine the funding position and using some different assumptions. Therefore, the figures quoted in this Note are different from those disclosed in the last actuarial valuation report as would usually be expected. The figures set out in this Note are calculated according to the requirements of IAS 19. Separate calculations will be carried out for the Trustees and possibly the sponsor, to monitor and control the funding of the Pension Scheme using assumptions selected by the Trustees.

FSCS estimates the duration of the Pension Scheme liabilities on average to fall due around 21 years.

21 Other disclosures

FSCS was issued with an updated Accounts Direction in March 2022, which required FSCS to disclose information contained within this Note. The impact on the financial statements was the removal of disclosures relating to balances with other government bodies, removal of the special severance payments disclosure, and a requirement to include staff turnover disclosures.

Sickness absence (unaudited)
FSCS actively promotes the health, safety and well-being of its staff, aware this helps to boost morale, staff engagement and, in turn, excellent performance. The average number of working days lost to sickness absence during the year to 31 March 2022 was 4.3 days per person (2021: 2.4 days per person).

Staff turnover (unaudited)
Staff turnover percentage during the year was 16% (2021: 11%).

Exit packages
FSCS is required to disclose summary information on the use of exit packages, in accordance with the Accounts Direction issued by HM Treasury. The following table includes exit packages as they relate to all employees, and exit packages are accounted for in full in the year of departure.

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Exit package cost band	Year ended 31 March 2022	Year ended 31 March 2022	Year ended 31 March 2022	Year ended 31 March 2021	Year ended 31 March 2021	Year ended 31 March 2021
≤ £10,000	2	–	2	–	–	–
£10,001-£25,000	4	–	4	–	–	–
£25,001-£50,000	1	1	2	3	1	4
£50,001-£100,000	–	1	1	1	–	1
£100,001-£150,000	2	1	3	–	–	–
£150,001-£200,000	–	–	–	–	–	–
Over £200,001	–	–	–	1	–	1
Total number of exit packages by type	**9**	**3**	**12**	**5**	**1**	**6**
Total resource cost (£'000)	**345**	**256**	**601**	**417**	**30**	**447**

FSCS is not required to follow the provisions of the Civil Service Compensation Scheme, as its principal governance arrangement is with the FCA/PRA. Any FSCS exit packages are approved in line with our own internal procedures.

Losses and special payments
Total losses and special payments were £599,261 (2021: £432,653) during the year to 31 March 2022. There were no individual losses or special payments exceeding £300,000. The majority of this is made up of claim overpayments which is further explained below.

During the year, the mix of our claims has become increasingly more complex. We have experienced a continual decrease in PPI, Mortgage Endowment and Share claims which now make up 22% of our volume compared to 42% in 2020/21, and a continued 25% increase year-on-year for Pension claims which now make up 25% of our new claim volume compared to 11% in 2020/21. This rising complexity combined with the increased value in average compensation paid for these claims (Pensions £50k v PPI £2.6k) brings increased cost risks associated with these claims. Our error rates for the year were 0.17% (2021: 0.12%) of compensation paid based on value.

FSCS Quality Assurance (QA) checked a percentage of claims in line with decisions volumes across operations. Pension QA checks increased year-on-year due to increased volume and added complexity in this area. Through our robust quality checks, we have made further enhancements to the guidance, training and accreditation of our claims processing function, including:

- the implementation of an enhanced Quality Control (QC) function within our main outsourcing partner for the SIPP and General Investment workstreams, thus ensuring a further sample of all claims processed are subject to review prior to issuing payment, reducing our exposure to potential under/overpayments and assisting our partner to identify areas whereby further guidance and training support could be provided;
- investment in our Pension (RECAL) expertise, enabling FSCS to have capability to process Pension claims (Defined Benefit Pension transfers) with capacity recently increased;
- enhanced accreditation of Claims Handlers and Reviewers – ensuring all compensated claims are peer-reviewed by skilled and knowledgeable staff; and
- for new defaults requiring amendments to existing established claims processes, setting up a model office, to test amended and newly designed claims processes prior to 'Go Live'.

For 2021/22, QA and other checks FSCS performed, identified net compensation calculation errors of £553,453, of which there was an outstanding recovery balance of £527,887 as at 31 March 2022.

22 Events after the reporting period

There were no material events after the reporting period. The Board authorised these financial statements for issue on 6 July 2022.

Appendix

21
FIRM DEFAULTS

From 1 April 2021 to 31 March 2022 the total number of firms declared in default was 66.

The following firms were declared in default by FSCS during 2021/22:

Name of authorised firm	Date declared in default
Wrightway Financial Consultants Ltd	07 May 2021
Knight Wealth Management Services Ltd	07 May 2021
Sovereign Wealth Advisory Ltd	07 May 2021
IFA Home Counties Ltd	17 May 2021
Highpoint Trustees Ltd	18 May 2021
Triton Insurance Brokers Ltd	19 May 2021
A Campbell t/a The Newton-Barr Partnership	25 May 2021
The Heath Consulting Company Ltd formerly C E Heath Financial Services Ltd	26 May 2021
MedDen Financial Services LLP	27 May 2021
Gefion Insurance A/S	07 June 2021
Westminster Financial Planning Ltd formerly known as Westminster I.F.A. Ltd	09 June 2021
Independent Financial Matters Ltd t/a Unite Financial Services	09 June 2021
Premiumwatch Financial Services Ltd t/a PFS	09 June 2021
Gateway Home Loans Ltd	06 July 2021
Paradigm Financial Partners LLP	12 July 2021
Paxtons Insurances	13 July 2021
Cardenden & Kinglassie Credit Union Ltd	19 July 2021
TFP (Life & Pensions) Ltd t/a Medical & Professional	28 July 2021
Capital Asset Management Ltd formerly HSJ Asset Management Ltd	28 July 2021
Karl Jones t/a Total Financial Solutions	29 July 2021
City of London Markets Ltd t/a Berkeley Capital	12 August 2021
Thomson Brown Financial Management Ltd t/a Audley Asset Management	12 August 2021
Advicelite Ltd t/a Investorlite, Isalite, Pension & Investor Lite	12 August 2021

Name of authorised firm	Date declared in default
Omada Investment Management Ltd t/a Fairfax Investment Management Ltd	24 August 2021
AFX Markets Ltd t/a STO, Quantic Prime, tradealot, XSecurities, eloFX	24 August 2021
BPI 55 Ltd formerly Broadstone Pensions & Investments Ltd, BDO Investment Management Ltd	24 August 2021
J.S. Financial Advice Service Ltd	02 September 2021
CFP Management Ltd	02 September 2021
Coniston Wealth Management Ltd t/a Lighthouse (Coniston) Ltd	06 September 2021
Barrow & District Credit Union Ltd	16 September 2021
Rock Financial Consultants 2002 Ltd	23 September 2021
Clear Capital Management LLP t/a Clear Advice, Kalis Capital LLP	29 September 2021
David Meek Ltd t/a David Meek Daewoo, David Meek Group, David Meek Proton	29 September 2021
Border Cars (Dumfries) Ltd t/a BC Motorhomes, BCM, BM Services, Border Cars	06 October 2021
Will Insurance Services Ltd	07 October 2021
Lifestyle Financial Consultancy Ltd	12 October 2021
Retirement & Pension Planning Services Ltd	20 October 2021
Broadlands Partnership Ltd t/a Manning Gee Investments	28 October 2021
Spires Independent Ltd t/a Paladin t/a Tony Castrey Wealth Management	28 October 2021
Armstrong Campbell Ltd Liability Partnership	29 October 2021
Fortuna Wealth Management Ltd previously Fidelis Wealth Management Ltd, AWG Financial Ltd	08 November 2021
A. W. Dallas Financial Services Ltd t/a Portfolio Pension Consultancy	19 November 2021
Meyado Private Wealth Management London Ltd formerly Berkshire Financial Advisers Ltd	19 November 2021
West Wales Financial Services Ltd t/a IWA Financial Solutions t/a Mike Powell Mortgages	19 November 2021
Tramway Financial Management Ltd	19 November 2021
MCE Insurance Company Ltd	19 November 2021
Independent Benefit Consultancy Ltd	26 November 2021
Network Direct Ltd	26 November 2021
Acklam Financial Ltd	26 November 2021

Name of authorised firm	Date declared in default
PWH Financial Planning Ltd t/a WGN Wealth Management	13 December 2021
The Energy Advisory Centre (UK) Ltd	21 December 2021
F T Stockbrokers Ltd	22 December 2021
Hamilton Rose Wealth Management Ltd t/a Athena Wealth t/a www.theisaexpert.co.uk	23 December 2021
South Coast Trade Centre Ltd	10 January 2022
Foresight Financial Services Ltd t/a Foresight	13 January 2022
Financial Planning Solutions (UK) Ltd	20 January 2022
Argent Wealth Ltd t/a Orchard Financial Planners, Morley James Asset Management	20 January 2022
PWM Advisers Ltd	20 January 2022
All Flintshire Credit Union Ltd	25 January 2022
Midland Independent Financial Services Ltd formerly The Mortgage Shop (1977) Ltd	25 January 2022
Channel One Financial Planning LLP t/a Channel One Financial Services	25 January 2022
Perry Prowse (Insurance Consultants) Ltd	08 February 2022
Strathkelvin Credit Union Ltd	22 February 2022
SDSC (Midlands) Ltd formerly SJL Wealth Management Ltd	03 March 2022
John Dyer (Life & Pensions) Ltd	03 March 2022
Philip Griffin & Associates	16 March 2022

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