Plan and Budget 2021/22

About **FSCS**

FSCS is a non-profit organisation which is fully funded by the financial services industry to provide assurance to consumers and help protect them when regulated services firms fail.

Firms regulated by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) contribute towards an annual levy which funds the cost of running our services and the compensation we pay out to customers when firms fail.

To find out more about how we calculate the compensation part of the levy, please see the 'Current 2021/22 claims assumptions' section on page 22.

For more information on our proposed budget for running our service, please see the '2021/22 Management expenses' section on page 31.

Chair's **foreword**

Marshall Bailey

Chairman

I opened last year's *Plan and Budget* by highlighting the 'anticipated change ahead of us this year'. Of course, no one could have predicted the level of disruption and challenge we would face in 2020, with COVID-19's effects touching all aspects of our lives.

I am incredibly proud of our response – with our people seamlessly shifting to working from home without losing a day of service and continuing to support our customers and the wider industry. Our years of investment in innovative technologies has ensured that this process was as smooth as possible, with the lockdowns having no impact on pay-out timeframes for customers.

With the vaccines hopefully allowing us to get back to some sense of normality soon, and a Brexit deal agreed, there are some positive signs for the year ahead. However, it only takes a cursory look at the economic forecasts to appreciate the uncertainty and challenges we face. Alongside the impacts of COVID-19, we are also expecting an ongoing trend of increased failures in some claims' classes and are, therefore, forecasting a levy increase for 2021/22.

Did you know?

Phoenixing is where someone, usually a company director, escapes the liabilities in one company and sets up another. While not illegal, there are cases where individuals break industry rules. For example, a director giving bad advice or mis-selling, closes down their company and recreates themselves as a claims management company. These directors then target the customers of the failed investment by submitting a claim to FSCS on their behalf and also take a commission on compensation paid.

To tackle the burden of the rising levy on the industry, we need to address its underlying causes. Helping prevent failures and protecting consumers from harm are top of our agenda. This includes tackling fraud and scams. According to Action Fraud, fraud cases nearly doubled in the first half of 2020 and we continue to regularly warn consumers about the concerning rise we are seeing. We recently signed a Memorandum of Understanding with the Serious Fraud Office which outlines our commitment to sharing our unique data and insights and we will be working together on investigations into complex cases.

We also share data with the Financial Conduct Authority (FCA) and other bodies as part of the Financial Services

Regulatory Family Phoenixing Working Group. This work has helped identify a number of suspected cases of phoenixing, where directors of failed firms set-up new firms, bring across assets but leave behind debts and liabilities. Our aim is that people who phoenix into claims management companies and claim compensation on behalf of their former customers, would no longer be able to provide regulated financial services. This would offer protection for consumers looking for financial advice, help prevent harm and avoid further burden on levy payers.

We accept that it is possible for some firms to be unlucky and for their employees to need a second chance, but we strongly believe that being involved in multiple failures should result in exclusion from the financial services industry. Only by taking firm action on poor conduct, such as mis-selling, will we break the cycle of unacceptable practices that detrimentally affect the whole industry.

To further tackle the burden of the rising levy, solutions are needed that drive simplicity, address bad practices and create more financial resilience in firms. To crackdown on poor conduct, we are calling for the industry to do its bit via whistleblowing and the flagging of bad practice among firms and individuals.

To promote greater simplicity, we support exploring how to prevent unsuitable high-risk products being sold to mass-market consumers. This could include implementing a higher levy for firms that include them in their product portfolio. Recent failures have demonstrated that consumers may not always understand what is and isn't a regulated product. Changes are necessary, and may lead to a more clearly defined, restricted set of protected product choices for mass retail customers. Many products are simply not suitable for the majority of customers and most people would be better guided towards a narrower scope of products, with appropriate protections, and away from those that can lead to the sort of losses that drive-up the levy.

We accept that we do not have all the answers, but we are well-positioned to work with HM Treasury and the regulators to find them. The crucial point is that the industry, the regulators and FSCS need to come together to plan out what action needs to be taken.

No one solution will resolve these long-standing issues. However, with appropriate support from the industry, a combination of measures backed and delivered by all stakeholders has a chance of succeeding and delivering a service that works for consumers and levy-payers alike.

Chief Executive's **overview**

Caroline Rainbird,

Chief Executive

As we begin a new year, now is a fitting time to reflect on the challenges of 2020, and map out how we will continue providing excellent service to our customers over the coming year. As our Chair mentions in his foreword, we did not lose a day of service in 2020 and I am proud of how we responded effectively to one of our busiest years since the 2008 financial crisis. Like many within the industry, we have worked hard to successfully adapt to our new working conditions.

In this year's *Plan and Budget*, we set-out our forecast management expenses and levy for 2021/22 and confirm the 2020/21 supplementary levy that is required.

Over the coming year, we anticipate an ongoing rise in complex pension advice claims and further failures of self-invested personal pension (SIPP) operators. We also forecast an increase in pay-outs for the insurance provision class due to recent failures. Furthermore, due to the widespread economic impacts of COVID-19, we are also, unfortunately, anticipating an increase in failures across the industry.

Latest figures

We can now confirm that the 2020/21 supplementary levy is £78m and we are currently forecasting a 2021/22 levy of £1.04bn. This forecasted figure is a best estimate and is subject to change. To find out more, please see the 'Forecast compensation costs and levy' section of this publication.

To ensure we can pay for the anticipated increase in the volume of claims, we are currently forecasting a 2021/22 levy of £1.04bn. Given the current high levels of uncertainty, this figure is our best estimate and is subject to change. The final figure will be confirmed in our next edition of *Outlook* which we expect to publish by May. We have also revised the forecasted 2020/21 supplementary levy, announced in our November 2020 *Outlook*, down from £92m to £78m, with invoices being issued over the coming weeks.

To help us effectively process the expected increase in claims, our management expenses that are being consulted on are £90.5m, a 9% increase from our 2020/21 forecast and a 16% increase against our 2020/21 budget. This stems from a forecasted 72% rise in volume of claims compared to our 2020/21 original forecast. Many of these claims are increasingly complex and, therefore, costlier to process.

Making recoveries

Since the start of the 2015/16 financial year, we have recovered more than £280m from failed firms. Last year, we received the final recovery payment from the 2008 banking crises, through the administration of Heritable Bank. We have now recovered £20bn of the £20.9bn we paid out during the crisis.

Due to the uncertainty in the year ahead, we are also looking to increase the unlevied contingency reserve from £5m to £15m. This allows us to call for additional funds in the event of unforeseen failures.

While the levy funds the compensation and services we provide, helps protect consumers, improves market stability and increases confidence in the finance sector, we appreciate that it is far too high and that increasing levy costs could put pressure on firms' finances. I want to reassure you that we are doing everything in our power to reduce the levy which includes making recoveries from failed firms wherever possible and if cost-effective.

Improving consumer confidence

81% of those aware of FSCS say they feel more confident in their financial decision-making in the knowledge that FSCS exists, and 92% felt that providers should mention FSCS protection at the moment they decide on a product.

Another way we are addressing the issue is by ensuring better outcomes for consumers and helping them make better decisions. This includes providing consumers with clearer and more consistent explanations of FSCS protection. Currently, only deposit-takers are required to communicate the protection we offer, but if, as an industry, we are serious about protecting consumers, this must be extended across a wider range of financial products.

Find out more
Empowering consumers

Whether it's opening a new bank account, picking an insurance policy or moving a pension, it's easy to feel confused and overwhelmed. To help consumers make the right decision we have created a set of key questions to ask providers about FSCS protection. Download our questions at: www.fscs.org.uk/questions

To further empower consumers to make more informed decisions, last year we launched a campaign that provided consumers with a list of questions to ask their provider about a product's FSCS protection. Crucially, all our work to promote FSCS protection outlines in simple, clear terms what consumers can do to make the right choices for them. This kind of approach is needed across the financial services market – the industry needs to be clearer about the risks that exist, as well as the safeguards that are in place.

The pension and investment market, with its risks and complexities, is also an area many consumers find difficult to understand. Consumers can be vulnerable when searching for returns in a historically low-interest market, combined with a pension market, which now allows people to be more proactive in making their own financial plans for retirement. To assist consumers, we are preparing a new campaign to raise awareness of FSCS protection in this area specifically. It will encourage people to check our website for the types of pension and investment products that we protect, before continuing to confirm the product's protection with their provider.

Measures such as awareness raising campaigns will not solve every problem, but we believe that improving consumer awareness of financial products and FSCS protection will lead to better outcomes for consumers and the industry.

The importance of improving consumer understanding of financial products is further highlighted by our Chair in his introduction. One such measure we would recommend is the introduction of a traffic light warning system. This is well understood in other sectors, for example, food packaging, using red, amber and green to highlight the risks of different products in a simple, clear way. We appreciate the potential challenges of implementing this, so would recommend targeting simple products first.

Raising awareness

Only 41% of consumers know that we protect investments, and 36% know we protect pensions. To improve this, we are preparing a new campaign to raise awareness of FSCS protection. We look forward to launching this over the coming months.

Scams are also an ongoing factor in consumer harm and drive-up the levy. In the last year we have been working with the regulators in the fight against scams and helped to launch a 'COVID-19 and your pension' guide. We are also playing our part by sharing our unique data and insights with the FCA to help them identify and act against those profiting from consumer misery. As scams evolve to become increasingly sophisticated, and with some unauthorised websites using the FSCS logo to falsely entice customers, we believe further and more robust powers are needed. We will continue working with the industry, contributing wherever possible, to help protect consumers from this despicable practice.

Although we are prepared for a difficult and uncertain year ahead, we look forward to working with the industry and the FCA on our recommendations. Much more must be done as regulation alone cannot be expected to solve the complex problem of the rising levy. We need multiple interventions and fundamental shifts across the sector.

Find out more
COVID-19 and your pension guide

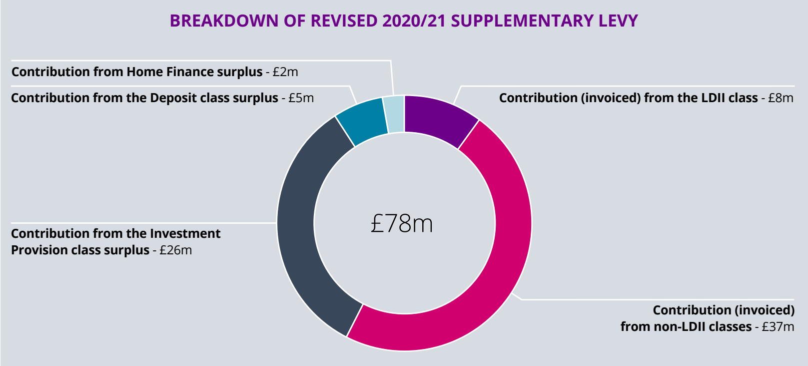
We have been working closely with the regulators in the fight against scams and last year helped to launch a 'COVID-19 and your pension' guide. The guide highlights the potential rise in pension scams and supports pension-savers by providing responses to key questions, advice on pensions scams and details about FSCS protection. www.fscs.org.uk/news/fscs-news/ppf-guide

I am a strong believer in tackling the root causes of the increased compensation costs and distress caused by failures, rather than the symptoms of the problem. We are ready to contribute by providing insights, an independent view on the issues and recommendations that could transform the financial services market. It is only by taking these steps in an integrated and coordinated way that we can improve outcomes for consumers and, in turn, reduce the burden of the levy on the industry.

Forecast compensation **costs and levy**

In this section, we confirm the 2020/21 supplementary levy that was forecast in the November 2020 edition of *Outlook*. We also provide a forecast for the 2021/22 indicative levy and outline how the levy is distributed among classes.

2020/21 Supplementary levy



In our November 2020 *Outlook* update, we announced that expected compensation costs were higher compared to the 2020/21 original forecast for several reasons including London Capital & Finance (LCF) claims, an increase in the costs of return of funds cases and an increase in pension advice compensation. Due to the increased costs, we forecasted that £92m of additional funding, in the form of a supplementary levy, was needed.

As the Life Distribution and Investment Intermediation (LDII) class had almost reached the limit for what each class can pay in a year, we confirmed that the supplementary levy would be sourced from the LDII class, surpluses from other classes, and through additional levy contributions from other classes, including those in the retail pool. Please see page 18 for an explanation of the retail pool and page 21 for more information about how the levy is distributed.

Since our November 2020 forecast, we have received more data on the compensation costs driving the supplementary levy. This includes:

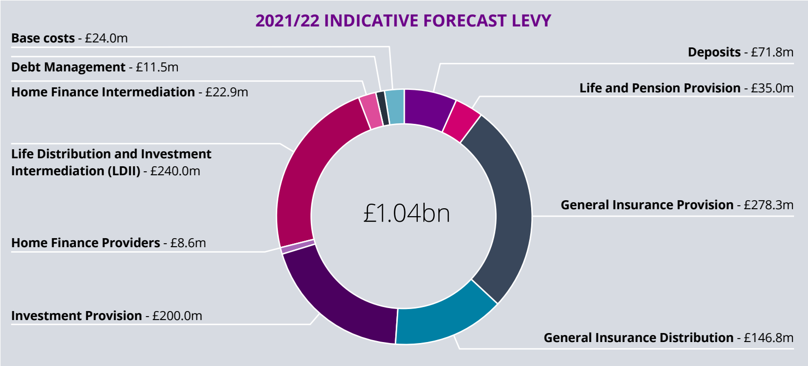
- **LCF** - £21m increase compared to the original forecast in May 2020 as more claims have been upheld than forecasted at the time the 2020/21 levy was announced in our May 2020 *Outlook*, though fewer have now been upheld than was forecast in November 2020 (£40m);
- **Return of funds cases** - £19m increase compared to the original forecast in May 2020 in the cost of return of funds cases, where we fund the cost of transferring the cash and assets of a failed stockbroker to a new provider (this was forecast at £17m in our November 2020 *Outlook*);
- **Pension advice** - £51m increase compared to the original forecast in May 2020 in pension advice compensation, with a 45% increase in the number of claims and a 5% increase in the average cost of compensation of the more complex cases

(previously forecasted at £48m in our November 2020 *Outlook*).

In light of this new compensation cost data, and taking into account recoveries, individual class opening balances being in surplus and our management expenses, we can now confirm the 2020/21 supplementary levy is £78m, £14m less than the £92m forecasted in November 2020. Of this, we will be invoicing £44.5m. This revised figure primarily reflects fewer LCF claims being upheld than predicted in November 2020.

The revised supplementary levy, and the forecasted levy as announced in the May 2020 *Outlook*, means that the total levy for 2020/21 is £700m. The £44.5m invoice for the supplementary levy will be sent to levy payers in early February.

2021/22 Indicative forecast levy



Currently, the proposed 2021/22 levy is forecast at £1.04bn. This is an increase of approximately £339m from the £700m levy raised in 2020/21. It accounts for £968.3m in forecasted compensation costs,

£90.5m in management expenses, as well as opening and closing balances and recoveries. The LDII and Investment Provision classes are expected to breach their class funding limits for the second year in a row, and therefore the retail pool will be triggered for a total of £252m. The amount that each class is forecast to pay, including all provider and retail pool contributions, is shown in Figure 1.

As a summary, the key assumptions behind the 2021/22 levy forecast change include:

1. **We are expecting an increase in failures throughout 2021/22 due to the widespread economic impacts of COVID-19**
   However, the situation is continually changing and the potential impact, both in terms of the number of firms failing, and their timing, is something we will continue to monitor carefully.

2. **We are anticipating an ongoing rise in complex pension advice claims**
   The compensation cost for the LDII class is forecast to be £361m, which is a similar level to the latest 2020/21 forecast (£368m). The main cost (71%) of this class is estimated to be in respect of advice claims, where we expect the recent trend of processing more complex and expensive claims to continue.

3. **We expect further failures of self-invested personal pension (SIPP) operators**
   Claims in relation to SIPP operators are forecast to account for £336m of the Investment Provision's

anticipated £345m compensation costs. The compensation cost for this class is a significant (89%) increase on 2020/21, mainly due to expectations that firms in this sector may fail.

4. **We expect an increase in pay-outs for the General Insurance Provision class**
   The costs of the General Insurance Provision class are expected to increase by 46% to £233m due to continuing costs arising from current failures, such as East West Insurance Company Ltd. We also expect additional failures in this class, in line with trends we see year on year.

Retail pool contributions

The FCA and PRA set a limit on the amount that can be levied on each funding class in a year, by reference to what each class can be expected to afford in a year. If the funding requirements exceed the annual levy limit for that class, the excess is levied more widely on the other classes as part of the retail pool. For more information regarding the class limits, please see the PRA Rulebook and FCA Handbook in FEES 6 Annex 2.

Our current 2021/22 levy forecast indicates a retail pool contribution of £252m. The contributions by class are outlined below:

- Deposits - £44.8m
- General Insurance Provision - £42.7m
- General Insurance Distribution - £132.4m

- Home Finance Providers - £6.4m
- Home Finance Intermediation - £17.1m
- Debt Management - £8.5m

Payment on account

To ensure we have sufficient funds to meet our claims processing and running costs until the annual levy is raised in the summer, we will issue payments on accounts in March 2021. This is when we will invoice the largest 1,000 regulatory fee payers an advance payment (50%) towards the levy. This will be offset against their annual levy invoices issued in the summer.

How the indicative levy is **forecast**

Our compensation and levy forecast for 2021/22 is based on several assumptions. It includes the estimated number and total claims costs we expect to receive during the financial year April 2021–March 2022. It also includes our indicative management expenses and running costs for this period. More details regarding our claims assumptions and management expenses are outlined in the following sections of this report.

Figure 1 - 2020/21 Final levy including all provider and retail pool contributions compared with 2021/22 indicative levy, by class

Classes	2020/21			2021/22			
	Levies already raised (£m)	Supple-mentary levy (£m)	Total levies (£m)	Own class (£m)	Retail pool (£m)	Indicative levy (£m)	Move-ment (£m)
PRA Classes							
Deposits	19.1	1.8	**20.9**	27.0	44.8	**71.8**	51.0
Life and Pension Provision	33.2	1.8	**35.0**	35.0	-	**35.0**	–
General Insurance Provision	126.1	7.4	**133.5**	235.6	42.7	**278.3**	144.8
FCA Classes							
General Insurance Distribution	18.2	22.9	**41.1**	14.4	132.4	**146.8**	105.7
Investment Provision	200.6	-0.6	**200.0**	200.0	-	**200.0**	–
Life Distribution and Investment Intermediation (LDII)	232.3	7.7	**240.0**	240.0	-	**240.0**	–
Home Finance Providers	0.5	0.6	**1.1**	2.2	6.4	**8.6**	7.5
Home Finance Intermediation	1.5	1.5	**3.0**	5.8	17.1	**22.9**	19.9
Debt Management	-	1.5	**1.5**	3.0	8.5	**11.5**	10.1
Base costs	**24.4**	**–**	**24.4**	**24.0**	**-**	**24.0**	**-0.4**
Budget total	**655.8**	**44.5**	**700.3**	**787.0**	**252.0**	**1,039.0**	**338.7**

How the levy is **distributed**

In-line with FCA and PRA guidelines, how much levy a firm pays is based on the proportion of business it carries out and the total cost of failures of other firms within its class.

The eight different funding classes are:

1. Deposits
2. Life and Pensions Provision
3. General Insurance Provision
4. General Insurance Distribution
5. Life Distribution and Investment Intermediation (LDII)
6. Home Finance Intermediation
7. Investment Provision
8. Debt Management

The FCA and PRA set a limit on the amount that can be levied on each funding class in a year, by reference to what each class can be expected to afford in a year.

There are also ‘pooling arrangements’ in place via a retail pool if some class limits are breached. This is a separate pot that all classes are required to contribute to, where they have not reached their maximum, and it is only used when one class exceeds its annual levy limit.

For more information regarding the class limits, please see the PRA Rulebook and FCA Handbook in FEES 6 Annex 2.

Current 2021/22 claims **assumptions**

This section provides an overview of our claims assumptions figures for 2020/21 compared with our assumptions for 2021/22. We also describe the trends we are seeing in each class.

We forecast volumes of claims by monitoring trends in the industry and using data from a variety of sources, including the FCA, PRA and Financial Ombudsman Service ('The Ombudsman').

The assumptions made in this forecast are reviewed monthly and as such may change across the year when, for instance, a large failure or unforeseen event occurs. The numbers will be revised before the final levy is confirmed in our April/May 2021 *Outlook*.

Figure 2 outlines, by class:

- Our claims assumptions for 2020/21 as originally forecast in our 2020/21 *Plan and Budget* report.
- Our revised forecast of claims assumptions for 2020/21, taking account of trends we have seen since the original forecast in our 2020/21 *Plan and Budget*. It also includes the percentage change in claims since the 2020/21 original forecast.
- Our assumed number of claims for 2021/22 and the percentage change from the 2020/21 original forecast.

Figure 2 - Claims assumptions 2020/21 and 2021/22

Claim type	2020/21 Original forecast	2020/21 Revised forecast *(and % change from 2020/21 original forecast)*	2021/22 Plan and Budget assumption *(and % change from 2020-21 original forecast)*
Deposits	7,680	3,281 (▼57%)	12,680 (▲65%)
Home Finance Intermediation	744	1,088 (▲46%)	1,247 (▲68%)
General Insurance Distribution	4,775	5,876 (▲23%)	6,709 (▲40%)
Investment Provision	8,202	6,509 (▼21%)	13,083 (▲60%)
Life Distribution and Investment Intermediation (LDII)	10,134	22,251 (▲120%)	19,269 (▲90%)
Debt Management	0	12,000	1,125
Life and Pension Provision	0	0	0
Total claims excluding insurance payments	**31,535**	**51,005 (▲62%)**	**54,113 (▲72%)**

Figure 3 outlines compensation costs for the General Insurance Provision class. Please note, this is forecast in terms of spend, rather than for individual claims.

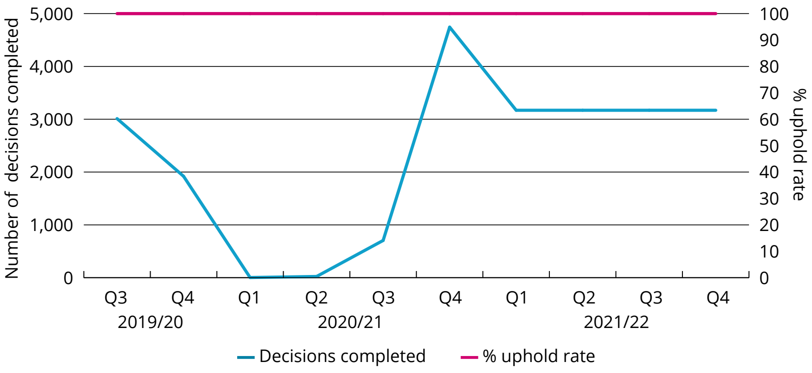
Figure 3 - General Insurance Provision class compensation costs for 2020/21 and 2021/22

Class	2020/21 Original forecast (£m)	2020/21 Revised forecast (£m)	2021/22 Forecast (£m)
General Insurance Provision	152.3	158.7	233.0

Claims by class

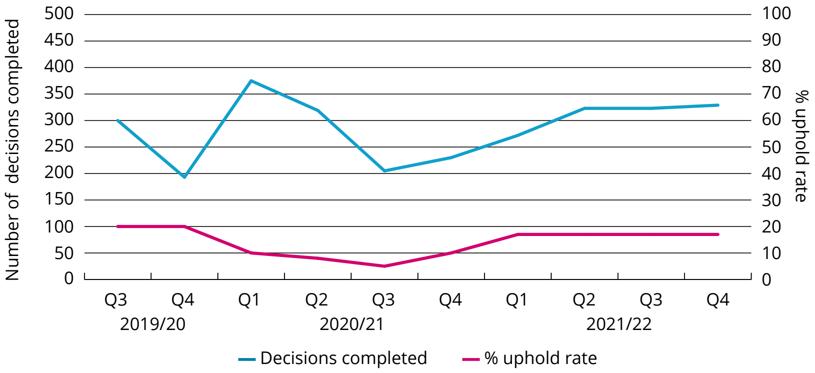
The following information details, by class, the trends we are seeing and how this has informed our current 2021/22 forecasts. Each graph outlines the number of claims decisions completed ('number of decisions completed') since Q3 (October – December) 2019/20, and claims decisions predicted to be completed in 2021/22, across each class. The graphs also include the '% uphold rate', which refers to the proportion of claims decisions that resulted, or are forecasted to result, in a pay-out.

Deposits



This year (2020/21), we saw one firm failure within this class - Faifley Credit Union Limited. We are anticipating claims in this class to almost quadruple in 2021/22 due to credit union failures.

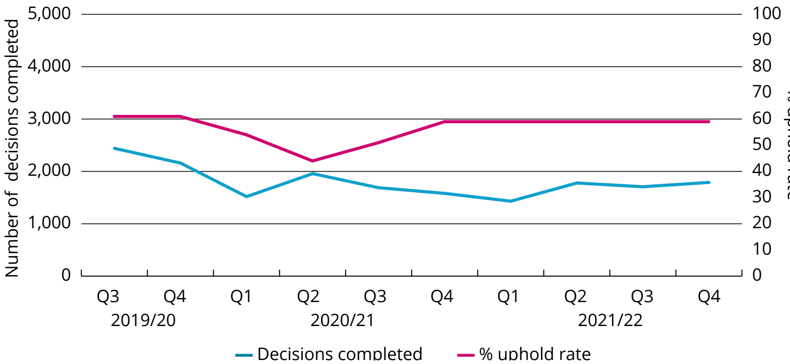
Home Finance Intermediation



During 2020/21, we experienced a continued increase of claims relating to unsuitable advice against home finance intermediation products, such as mortgages and equity releases. These claims often come to us through claims management companies (CMCs).

The majority were rejected as we were unable to find evidence of negligent advice as per our compensation guidelines. We are currently working to reduce the number of these similar cases forwarded by CMCs and expect uphold rates to return to previous levels of 16% in 2021/22.

General Insurance Distribution



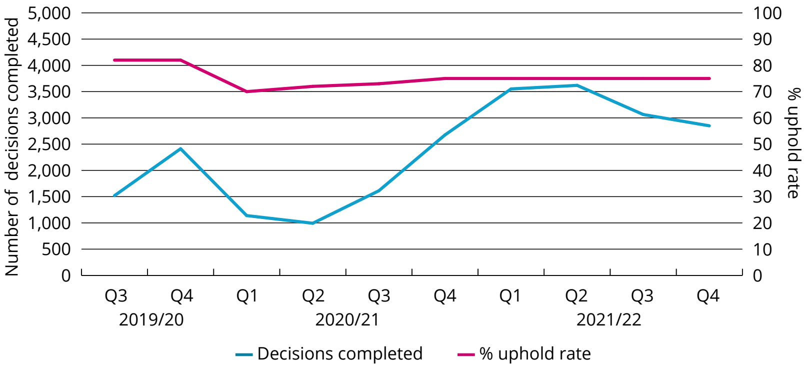
Payment protection insurance (PPI) claims generally represent the majority of claims in this class, making up over 95% of claims in 2020/21. Since the PPI claims deadline in August 2019, we have experienced a decline in new PPI claims.

In 2020/21, while new PPI claims have remained consistent, we saw an increase in the number of duplicate claims, whereby rejected claims are resubmitted. This has reduced the uphold rate since Q4 (January – March) for the 2019/20 financial year. We are now expecting PPI claims to decrease over Q4 2020/21.

This financial year (2020/21), we declared 18 failed firms in default within this class, the largest being Palace Motor Finance declared in September 2020, currently with 32 claims.

The majority of the 2020/21 claims decisions are against the 675 firms declared in default prior to the 2020/21 financial year. In 2021/22, we are preparing for a similar level of claims, and number of decisions completed, to the current financial year.

Investment Provision

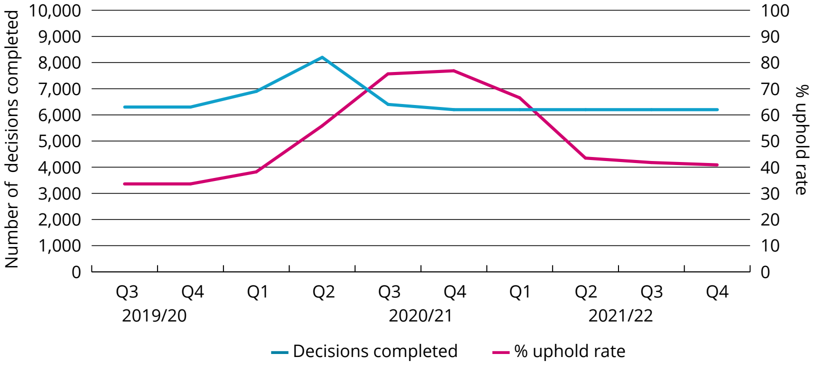


In the 2020/21 financial year, we saw four SIPP operator firms declared in default with the failures of Guinness Mahon Trust Corporation Limited (1,122 claims), Greyfriars Asset Management LLP (347 claims), Pointon York Limited (155 claims) and Liberty SIPP Limited (2,000 claims).

This year, we also saw an increase in decisions in this class, driven by previous failures totalling 3,150 claims in the year to date relating to failures prior to the 2020/21 financial year.

We anticipate all of these, and additional failures, to result in decisions increasing next year. These claims tend to be upheld, as they often relate to clear due diligence failings among SIPP operators. They are also often of higher value compensation, averaging £36,000 per claim.

Life Distribution and Investment Intermediation (LDII)



This financial year (2020/21), we have seen 48 defaults declared within the class, the largest being B&G Finance Limited (824 claims), Capital & Income Solutions Limited (751 claims) and Direct Market Touch Limited (293 claims).

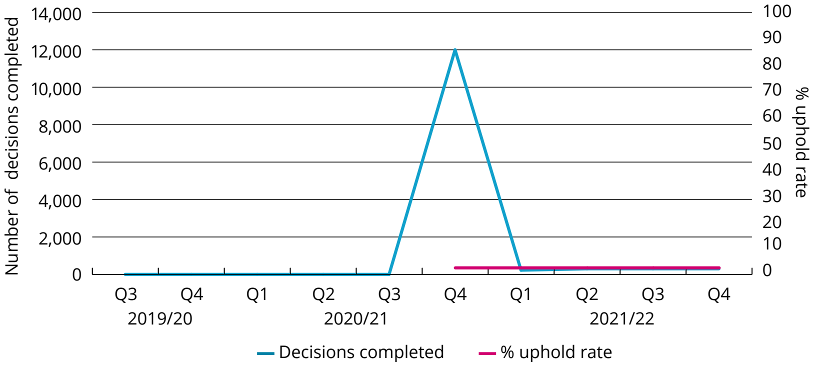
The increase in decisions completed through 2020/21 Q3 (October – December) and Q4 (January – March) was driven by London Capital & Finance (LCF) claims, after FSCS declared it had failed in January 2020.

We have also seen an increase in claims decisions completed, driven by failures prior to the 2020/21 financial year.

With the exclusion of LCF, we have seen claims in this class primarily driven by self-invested personal pension (SIPP) failures (41%) and General Investment Products (32%). Pension related claims continue to increase, making up 14% of the decisions in this class. Other failures include General Investment Shares (11%) and Mortgage Endowment (2%) failures.

In 2021/22, we are predicting lower claims decisions than in 2020/21, which was particularly high due to the LCF collapse.

Debt Management



We are expecting to receive debt management claims in 2020/21, whereby customers have been overcharged, with fees paid over the agreed caps within the contract.

We do not expect significant claim volumes in this class in 2021/22.

General Insurance Provision

We do not provide a graph showing the number of claims decisions completed for the General Insurance Provision class. This is because compensation for this class works slightly differently compared to the other classes. Often, rather than paying individual policy-holders compensation directly, the costs accumulated by this class are driven by the cost of FSCS arranging remedial work or transferring policies to other insurers. Therefore, we do not collect data showing ‘number of claims completed’ and the ‘% uphold rate’. Instead, we measure our total forecast spend for each failed firm.

During 2020/21, we saw a slight increase in compensation within this class, from £142.2m in 2019/20 to £158.7m in 2020/21.

We are forecasting compensation costs of £233m in 2021/22. This is because we expect continued costs arising from current failures, such as East West Insurance Company Ltd. We also expect additional failures in this class, in line with trends we see year on year.

2021/22 **Management expenses**

In this section, we cover our forecasted management expenses for the upcoming financial year (April 2021 – March 2022). The management expenses budget includes the costs for running our service.

The FSCS Board has approved a management expenses budget for 2021/22 of £90.5m. This represents an increase of £7.3m (9%) on the latest 2020/21 full-year forecast as outlined in our November 2020 *Outlook* report. This is a £12.4m (16%) increase on the 2020/21 budget that was included in our *Plan and Budget* 2020/21.

The reason for this increase is that we are anticipating further increases in failures as a result of COVID-19 throughout 2021/22. This has a direct effect on the costs of providing our services, due to the additional costs of investigating more claims cases and processing pay-outs.

This financial year (2020/21), we expect that up to all of the £5m unlevied reserve will be used. This is driven mainly by the surge in claim volumes related to the LCF failure.

Due to the current economic climate, FSCS is expecting an increase in claims in the next year. It is difficult to predict with a high degree of certainty the numbers of claims it will have to handle. Because of the heightened level of uncertainty, we are proposing an unlevied reserve of £15 million (an increase of £10 million over the £5m reserve in 2020/21). This will give FSCS the flexibility required to handle the expected rise in claims should they materialise.

The PRA and FCA are consulting on our overall management expenses levy limit of £105.5m, which takes account of the £90.5m budget and the £15m unlevied reserve.

Figure 4 shows our management expenses for 2021/22 via an activity-based costing (ABC) view, compared to our latest 2020/21 full-year forecast. The £83.2m 2020/21 forecast includes the use of up to £5m of unlevied reserve, split across the ABC categories.

To provide greater clarity regarding our expenses, we split the total £7.3m (9%) increase into two sections:

Controllable costs - £3.3m increase from latest 2020/21 full-year forecast

Defined as costs that are not directly impacted by changes in claims volumes (e.g. rent and our critical business support functions, including IT and human resources).

Previously referred to as 'Depositor Readiness', we maintain a 'Funding Readiness' borrowing facility. This means that we have funds available to us within one business day to pay-out following significant firm failures. The cost of this facility has increased due to current market conditions impacting the cost of the credit.

Additionally, in the latest 2020/21 forecast, choices have been made to reduce spend in the controllable cost base in order to fund volume-related cost increases. These costs have been reinstated in the 2021/22 budget.

Excluding the one-off cost in relation to the 'Funding Readiness' facility, the controllable cost base has been kept flat against the £55.7m 2020/21 budget, which has only been adjusted for inflation.

Volume-driven costs - £4.1m increase from latest 2020/21 full-year forecast

Defined as costs associated with processing forecasted claims volumes, e.g. outsourced claims-handling costs, internal claims-handling resource, legal fees, together with other costs to meet our statutory obligations.

The volumes and complexity of claims we have received has been subject to significant change over the last four years, with total claim levels almost tripling in that time. These trends are expected to continue and increased economic uncertainty must also be taken into account.

Given these factors, volume-related costs in 2021/22 are expected to increase by 14%, driven by a predicted increase in claim volumes, and anticipated rises in legal and communications costs as a result of COVID-19.

Figure 4: 2020/21 full-year forecast and 2021/22 budget

ABC Category	2020/21 Forecast (£m)			2021/22 Budget (£m)		
	Total (£m)	Control-lable costs	Volume driven	(£m)	Control-lable costs	Volume driven
Outsourced claims handling	18.8	-	18.8	21.8	-	21.8
Internal claims processing	15.8	5.3	10.5	15.8	5.6	10.3
Core support funding	30.2	30.2	-	31.9	31.1	0.8
Funding readiness	6.8	6.8	-	8.2	8.2	-
Consumer protection	0.8	0.8	-	0.9	0.9	0.1
Depositor protection	2.9	2.9	-	3.4	3.2	0.2
Recoveries	2.0	2.0	-	2.6	2.3	0.3
Investment/change	4.0	4.0	-	4.0	4.0	-
Pension deficit funding	1.9	1.9	-	1.9	1.9	-
Budget total	**83.2**	**53.9**	**29.3**	**90.5**	**57.2**	**33.4**
Unlevied reserve	*	*	*	15.0	-	15.0
Total including unlevied reserve	**83.2**	**53.9**	**29.3**	**105.5**	**57.2**	**48.4**

* Note: The 2020/21 full-year forecast of £83.2m includes the use of up to £5m of the unlevied reserve.

Activity-based **costing (ABC) category**

- **Outsourced claims handling**: costs associated with outsourcing claims processing to external companies.
- **Internal claims processing**: costs associated with internal processing of claims, including any legal fees that may be required.
- **Core support**: costs associated with supporting FSCS to carry out its business, e.g. IT, human resources and operations costs.
- **Funding readiness**: previously referred to as 'Depositor readiness', FSCS maintains a 'Funding readiness' borrowing facility, available within one business day, to help fund pay-outs following significant firm failures.
- **Consumer protection**: costs associated with raising awareness regarding financial preparedness.
- **Depositor protection**: costs associated with consumer awareness campaigns and Single Customer View (SCV) review costs.
- **Recoveries**: costs associated with recovering money from failed firms,
  e.g. legal costs.
- **Investment/change**: costs associated with continual improvements, e.g. new initiatives and ways of reducing running costs and improving our services for customers.
- **Pension deficit funding**: costs associated with the FSCS staff pension.

FSCS publication timetable and **next steps**

Next **steps:**

- **February 2021**: Firms invoiced for the 2020/21 supplementary levy.
- **March 2021**: 1,000 largest regulatory fee payers are invoiced for advance payment (‘payment on account’) of the forecasted indicative 2021/22 levy.
- **April/May 2021**: The 2021/22 indicative levy figures announced in this *Plan and Budget* are confirmed in our *Outlook* report.
- **Summer 2021**: Invoices for the 2021/22 levy are issued to all companies that are required to pay the levy. Firms that have already made a ‘payment on account’ will have their summer invoice offset against this.

Publication timetable

Launch date	January 2021	April/May 2021	June 2021	October 2021
Publication	**Plan and Budget - 2021/22**	**Outlook – 2021/22**	**Annual Report and Accounts and Class Statements 2020/21**	**Outlook – Interim Update - 2021/22**
What is it?	A forecast of the next year’s levy, building on the Interim *Outlook* Report forecast which was published in November 2020. If a supplementary levy is required, the amount will be confirmed in this report.	Confirmation of the levy figures for 2021/22. These were indicatively forecasted in the previous *Plan and Budget* publication.	The publication of our Statutory Financial Statements. It also includes a Strategic and Performance report, and the auditors’ report, as well as an overview of our work during the year. The Class Statements report outlines the sectors that contribute to our funding and how this is spent. It is published simultaneously with the Annual Report and Accounts.	An overview of the levy position at the mid-year point, as well as the first indication of the likelihood of a supplementary levy for 2021/22.

Appendix: A

Management expenses by PRA/FCA split

	2020/21			2021/22			Movement		
	FSCS total costs (£m)	Fee block allocation		FSCS total costs (£m)	Fee block allocation		FSCS total costs (%)	Fee block allocation	
		PRA (£m)	FCA (£m)		PRA (£m)	FCA (£m)		PRA (%)	FCA (%)
Base costs total (split 50:50)	**27.7**	**13.9**	**13.9**	**28.8**	**14.4**	**14.4**	**4%**	**4%**	**4%**
Specific costs									
Deposits	13.0	13.0		14.8	14.8		14%	14%	
General Insurance Provision	4.8	4.8		6.0	6.0		24%	24%	
Life and Pension Provision	-	-		-	-		-	-	
General Insurance Distribution	5.7		5.7	7.5		7.5	32%		32%
Life Distribution and Investment Intermediation (LDII)	18.8		18.8	21.5		21.5	14%		14%
Investment Provision	6.8		6.8	9.7		9.7	41%		41%
Home Finance Intermediation	1.3		1.3	2.1		2.1	60%		60%
Debt Management	0.0		-	-		-	-		-
Specific costs total	50.5	17.8	32.7	61.7	20.8	40.8	22%	17%	25%
Management Expenses total	**78.2**	**31.7**	**46.6**	**90.5**	**35.2**	**55.3**	**16%**	**11%**	**19%**

Appendix: B

Compensation costs by class

Compensation	2020/21 forecast (£m)	2021/22 forecast (£m)
Deposits	3.2	12.7
General Insurance Provision	158.7	233.0
General Insurance Distribution	9.7	10.4
Life Distribution and Investment Intermediation (LDII)	361.9	360.5
Investment Provision	182.0	344.7
Home Finance Intermediation	3.9	6.5
Debt Management	1.5	0.6
Total	**720.9**	**968.3**

Financial Services Compensation Scheme

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