BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

FINANCIAL CONDUCT AUTHORITY

Financial Services Compensation Scheme – Management Expenses Levy Limit 2021/22

Consultation Paper

FCA CP21/2**

PRA CP4/21

January 2021

How to respond

We are asking for comments on this Consultation Paper (CP) by **19 February 2021**.

You can send them to us using the form on our website at: www.fca.org.uk/cp21-02-response-form

Please do not post responses to us at the current time.

Telephone:
020 7066 5146

Email:
cp21-02@fca.org.uk

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Contents

1 Summary

Why we are consulting and the wider context

1.1 In this Consultation Paper (CP), we – the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) – set out proposals for the Management Expenses Levy Limit (MELL) for the Financial Services Compensation Scheme (FSCS) for 2021/22. This CP is supported by the FSCS's proposed Plan and Budget for 2021/22.

1.2 The FSCS is a fund of last resort to provide compensation for consumers when financial services firms fail. Its other functions include:

- making recoveries from failed financial institutions
- promoting consumer awareness of FSCS protection and
- verifying account information firms provide to enable faster pay-out to depositors

1.3 Under section 223(1) of the Financial Services and Markets Act 2000 (FSMA), the FCA and the PRA must set a limit for the total management expenses that the FSCS can levy on financial services firms. The MELL is the maximum amount that the FSCS may levy in a year for its operating costs without further consultation. Setting the right MELL ensures that the scheme has sufficient funding to exercise the functions conferred on it by Part XV of FSMA and by rules made by the FCA and the PRA.

Who this applies to

1.4 This CP is relevant to all FCA and PRA authorised firms. It is not of direct relevance to retail financial services consumers or consumer groups and they do not need to act on it.

1.5 As costs may be passed onto consumers in the form of higher prices, consumers may indirectly meet part of the FSCS levies. However, an efficient and adequately funded compensation scheme benefits all consumers.

Summary of the proposal

1.6 The proposed MELL for 2021/22 is £105.5 million consisting of:

- FSCS management expenses budget of £90.5 million
- an unlevied reserve of £15 million

1.7 The MELL would apply from 1 April 2021, the start of the FSCS's financial year, to 31 March 2022.

1.8 More details on the MELL, how it is calculated and an explanation of the FSCS's unlevied reserve can be found in Chapter 2 and in the FSCS's 2021/22 Plan and Budget published alongside this CP.

Equality and diversity considerations

1.9 We have considered the equality and diversity issues that may arise from the proposals in this CP.

1.10 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under s 149(1) of the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules. In the meantime, we welcome your input on this.

Next steps

1.11 This consultation closes on 19 February 2021. Please send any comments on the proposed MELL using the online response form on the FCA's website.

1.12 The FCA is accepting responses on behalf of both the FCA and the PRA, and both authorities will consider the responses.

1.13 The FCA will then issue a Handbook Notice and the PRA a policy statement so that final rules can be in place for the start of the FSCS's financial year on 1 April 2021.

2 Proposals for the MELL 2021/22

2.1 In this chapter, we set out the proposals for the FSCS's MELL for 2021/22. The MELL covers the costs of operating the compensation scheme. It is the maximum amount, without further consultation by the FCA or PRA, that the FSCS can levy in a year for its operating costs to fulfil the obligations imposed on it by FSMA and set out in FCA and PRA rules. These comprise the COMP and FEES 6 section of the FCA Handbook and the Depositor Protection Part, the Policyholder Protection Part, the Dormant Account Scheme Part, and the Management Expenses in Respect of Relevant Schemes Part of the PRA Rulebook.

2.2 The MELL has two components; the management expenses budget and an unlevied reserve. The MELL does not include compensation costs which are levied separately and are determined by the FSCS. Paragraphs 2.14 - 2.16 give further details on this.

2.3 The FSCS's actual expenses for the year may differ from its budget based on the total number and type of claims it actually receives. At the end of the financial year, the FSCS will reconcile the actual expenses for the year against the total amount levied and the allocation across the funding classes.

2.4 Any changes will be reflected by providing rebates or using any unspent levies to reduce firms' future levies.

2.5 The proposed rules through which the FCA and the PRA would set the MELL are in Appendices 1 and 2 respectively. Both the FCA Board and the Prudential Regulation Committee considered the proposals for the MELL and gave approval for the consultation.

Management expenses budget

2.6 The proposed management expenses budget for 2021/22 is £90.5 million. The management expenses budget covers the FSCS's ongoing operating costs and includes the FSCS's IT, staff, legal and outsourced and internal claims' handling costs. Appendix 3 provides a breakdown of management expenses by line item.

2.7 The management expenses budget represents an increase of 16% (£12.4 million) over the 2020/21 management expenses budget of £78.2 million. 88% of the increase is due to a forecast rise in the volume and complexity of claims expected by the FSCS.

2.8 The FSCS recognises that it needs to use its resources in the most economical and efficient way. It is committed to delivering a high level of service while keeping its costs as low as possible. Its partnership with Capita is an example of how it has saved money on claims handling.

2.9 The proposed FSCS MELL is based on a greater level of uncertainty than is normal due to the Covid-19 pandemic and the difficulties this presents in forecasting possible firm failures and the number of potential FSCS claims. A number of possible scenarios might play out, and the FSCS has been working closely with the regulatory family, which include the FCA, PRA and the Financial Ombudsman Service, to understand expected volumes of claims under these different scenarios. We are proposing that, given the higher level of uncertainty, it is appropriate to base the budget on a scenario in which a plausible increase in claims materialises in the year. In recognising the uncertainty, the proposal is to increase the unlevied reserve to cover a possible increase in claims beyond the base case.

Unlevied reserve

2.10 The unlevied reserve is an important part of the FSCS's management expenses and ensures that in the event of increasing claims volumes FSCS can continue to fulfil its statutory obligations. In the past couple of years, the FSCS has used it in whole or part, allowing it to raise additional funds at short notice to meet costs that were not foreseen when the management expenses levy was raised. The unlevied reserve can be levied without further formal consultation by the FCA and the PRA.

2.11 Due to the current economic climate, the FSCS is expecting an increase in claims in the next year. As paragraph 2.9 points out, it is difficult to predict with a high degree of certainty the numbers of claims it will have to handle or the likely timing of claims. So, 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 the FSCS the flexibility required to handle a higher-than-budgeted level of claims should they materialise.

2.12 The £15 million unlevied reserve proposed for 2021/22 is made up of two components. First, the FSCS has set £7.1 million to cover the cost of processing an additional 33% of forecasted claims should they materialise next year. This is to reflect the current uncertainty. A further £7.9 million is to account for any additional unexpected claims beyond its forecasting. The FSCS does not want to levy more than is required upfront, while ensuring it can be flexible to address the increased uncertainty brought about by the pandemic. It considered alternatives, including levying the full amount needed to handle all projected (albeit highly uncertain) claims, but these were discounted.

2.13 We would welcome views for future MELL consultations on using the unlevied reserve in this way.

Compensation costs

2.14 The FSCS's compensation costs levy, which covers compensation paid to consumers, is determined separately by the FSCS and does not form part of this consultation. It is directly linked to the level of compensation claims received from consumers and agreed for pay-out. We are aware of the effects of the rising compensation bill, particularly in the investment classes.

2.15 In its recent Call for Input on the consumer investments market, the FCA was clear that the overall bill for redress is too high. There is no simple or quick solution to this complex problem. However, the FCA is committed to working with stakeholders and with the FSCS particularly under the 'Prevent' workstream of its strategy to drive forward better outcomes for consumers with a view in the longer term to reducing compensation costs.

2.16 The FSCS will indicate its current estimate of compensation costs and its related funding and levies in its 2021/22 Plan and Budget, published alongside this CP, and confirm the final levies in early April 2021.

Management Expenses Budget further detail

2.17 In this section, the FSCS's proposed management expenses budget is broken down by activity, with information on the main changes from last year's budget. The FSCS has distinguished between volume driven costs, which are sensitive to changes in claims volumes, and controllable costs which are not directly impacted by changes to claims volumes.

Table 1: Management expenses: Activity-based costing (£million)

ABC Category	2021/22 Budget			2020/21 Budget			Variance	
	Budget	Controllable Costs	Volume Driven	Budget	Controllable Costs	Volume Driven	Total	Total %
Claims handling infrastructure and support	**69.5**	**36.7**	**32.8**	**57.9**	**35.3**	**22.5**	**11.7**	**20%**
Outsourced Claims Handling	21.8	-	21.8	17.3	-	17.3	4.5	26%
Internal Claims Processing	15.8	5.6	10.3	10.6	5.3	5.2	5.3	50%
Core Support: IT, facilities, central services	31.9	31.1	0.7	30.0	30.0	-	1.9	6%
Funding Readiness	**8.2**	**8.2**	**-**	**7.2**	**7.2**	**-**	**1.0**	**14%**
Protection, recoveries, investment & pension deficit	**12.8**	**12.3**	**0.6**	**13.1**	**13.1**	**-**	**-0.3**	**-2%**
Consumer Protection	0.9	0.9	0.1	0.8	0.8	-	0.2	21%
Depositor Protection	3.4	3.2	0.2	3.0	3.0	-	0.3	11%
Recoveries	2.6	2.3	0.3	3.4	3.4	-	-0.8	-24%
Investment / Change	4.0	4.0	-	4.0	4.0	-	-	0%
Pension Deficit Funding	1.9	1.9	-	1.9	1.9	-	-	0%
Total management expenses	**90.5**	**57.2**	**33.4**	**78.2**	**55.7**	**22.5**	**12.4**	**16%**

Key points to highlight

2.18 **Claims-handling infrastructure and support:** This makes up the largest part of the management expenses budget, amounting to £69.5 million or 77% of the total budget and allows the FSCS to carry out its core function of handling claims following firm failures.

- Outsourced claims handling costs are budgeted at £21.8 million. This is an increase of £4.5 million from last year's budget, and reflects the projected increase in the volume of claims and the increase in the complexity of claims the FSCS expect to handle. However, the budgeted increase compared to the actual spend in 2020/21 will be £3 million, as the latest FSCS forecasts for this year project £18.8 million will be spent, compared with £17.3 million originally budgeted.
- The FSCS has realised efficiencies in this area by continuing its partnership with Capita, entered into in 2018, and more recently its new contract with Deloitte as an additional partner to process more complex claims; projected 2021/22 handling costs are £7.4 million lower since it engaged Capita.
- Internal claims handling support costs are budgeted at £15.8 million. This is an increase of £5.3 million on the original budget position from last year, reflecting the additional staff costs required to process claims and related legal costs. However, when compared to this year's actual spend on internal claims handling support costs, projected to be £15.8 million, there is no increase to this year's proposed spend for this element of the budget.
- Core support, includes IT, facilities and central service costs, and amount to £31.9 million. This is an increase of £1.9 million to take account of a rise in staff headcount which is discussed in paragraph 2.21.

2.19 **Funding readiness:** The FSCS maintains a borrowing facility, available within one business day to fund pay-outs following significant firm failures. The cost of the facility, bank charges and processing fees, is expected to be £8.2 million, an increase of £1 million on last year's budget. The rise is due to an expected increase in standby fees because of the current market conditions.

2.20 **Consumer protection, depositor protection, recoveries, investment and pension deficit:** The FSCS proposes a budget of £12.8 million for these areas:

- On consumer protection £0.9 million is budgeted for to increase overall consumer awareness of FSCS, its products and services with a view to reducing potential consumer harm. This is up by £0.2 million from last year.
- On depositor protection, the FSCS has budgeted for £3.4 million which is £0.3 million more than last year. This will enable the FSCS to continue being prepared to manage and deal with any potential failures and allow the FSCS to continue to proactively review Single Customer View files.
- £2.6 million has been budgeted for recoveries and will include focusing specifically on both Professional Indemnity Insurance and cases relating to illiquid funds. Illiquid funds are high-risk esoteric investments that some customers may have been wrongly advised to purchase, often for example requiring the transfer of their existing pensions into a self-invested personal pension. The budget for recoveries is down from £3.4 million last year. The FSCS Plan and Budget and its November Outlook gives more information on this.
- The budget for investment will remain flat at £4 million. The FSCS budgets £2 million for service transformation to provide improvements in processes and procedures to enable it to more effectively deliver higher numbers of claims. It will

spend a further £2 million on technology to keep its infrastructure stable, up to date and secure. The FSCS expects its new IT partnership with Capgemini, which will help it migrate to Cloud technology, will provide savings over time.
- Due to a revaluation, the FSCS will continue spending on pension deficit funding. The Trustees advise that £1.9 million is required to enable the FSCS to meet its obligations.

Staff costs

2.21 Staff costs are included within the activity-based spending categories. The FSCS proposes a staff budget of £23.4 million, an increase of £0.7 million on last year. This will facilitate an increase in staff headcount of 13 full-time equivalents (FTE) and provide a budget of up to 1% for salary increases and 0.5% for hotspots and challenges. Higher medical and life premiums also contribute to this cost increase.

2.22 The additional headcount will be split across FSCS's Human Resources, Legal and Operations functions. The additional headcount in Legal and Operations is to handle the expected increase in complex claims.

Budget allocation

2.23 The management expenses budget component of the MELL is made up of:

- A base costs element – related to the general running costs of the FSCS (and is not dependent on the level of claims received). Base costs are split 50:50 between the FCA and PRA regulatory classes and then allocated in proportion to regulatory fees.
- A specific costs element – which includes the costs of assessing claims and making payments relating to a particular funding class (FSCS funding classes comprise groupings of activities regulated by the FCA and PRA for which the FSCS offers protection; management expenses are allocated proportionately between these classes).

2.24 The FSCS's proposed base costs are £28.8 million and the proposed specific costs are £61.7 million.

2.25 Appendix 4 contains a breakdown of the FSCS's proposed budget by funding class. The FCA funding class allocation would increase by £8.7 million and the PRA funding class allocation would increase by £3.6 million.

2.26 The proposed increase in the FCA funding class allocation is due to a projected 47% increase in FCA-related claims volumes. The proposed 11% increase in PRA classes is due to increased claims volumes and the investment planned to improve the insurance system and other process improvements to be ready for any future failures in PRA classes.

2.27 Further information on the FSCS's proposed management expenses budget is in its 2021/22 Plan and Budget, published on 22 January 2021 on the FSCS website.

Annex 1
Questions in this paper

Q1: **Do you have any comments on the proposed FSCS MELL for 2021/22?**

Q2: **We would welcome views for future MELL consultations on the use of the FSCS unlevied reserve for expected increases as opposed for unexpected scenarios that were not known at forecasting stage.**

Annex 2
Cost benefit analysis

Introduction

1. Sections 138I and 138J FSMA, as amended by the Financial Services Act 2012, require the FCA and the PRA to publish a cost benefit analysis (CBA). Specifically, sections 138I and 138J requires the FCA and PRA respectively, before making rules, to (a) consult each other, and (b) after doing so, publish a draft of the proposed rules in the way appearing to them to be best calculated to bring them to the attention of the public. The draft rules must be accompanied by a CBA, being an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.

3. The costs and benefits are illustrated by setting them against a baseline of the MELL not being levied and the FSCS not paying out. The incremental changes in the MELL this year are a fraction of the figures set out in this CBA (see paragraph 2.7).

Benefits

4. Setting the MELL at £105.5 million ensures the FSCS can continue to operate and to meet its objective of providing a compensation scheme that is efficient, fair, approachable and responsive.

5. If a MELL was not set then the FSCS would not be able to operate and provide direct benefits to consumers through the payment of compensation to eligible claimants in the event of firm failure. While the wider benefits of the FSCS are hard to quantify, the direct benefit to consumers from FSCS compensation is expected to be £729 million in 2020/21. This is the FSCS's forecast of the amount to be paid out in compensation for 2020/21 based on known and likely claims. The amount is based on an estimate of the number of completed claim decisions, the proportion of claims upheld and the average cost of each claim.

6. The existence of the compensation scheme, where applicable, reduces consumers' financial loss and increases consumer confidence in authorised financial services firms. This is particularly important for depositors, as timely compensation in the event of the failure of a deposit taker helps ensure consumer confidence in the financial system. It is also important given the number of pension related failures so that consumers do not lose their retirement income.

7. Compensation pay-outs are partially offset by the recoveries made by the FSCS from the estates of failed firms or from third parties responsible for the losses. So far, this financial year as at 31 December 2020, £15.2 million was recovered.

Costs

8. The one-off direct costs to firms are equal to the budget of £90.5 million. The MELL will be split between the FCA and the PRA funding classes and levied on all authorised firms according to the volume of regulated financial services business they conduct. Appendix 4 provides a summary of how the MELL costs are allocated between the FCA and the PRA classes.

9. Management expenses are charged to firms and may be passed on to consumers in the form of higher prices.

10. The unlevied reserve of £15 million would give the FSCS some margin to meet costs that exceed its budgeted expenses and that need to be funded at short notice. The FCA and the PRA recognise that the FSCS needs to be able to respond quickly and efficiently to firm failures. Should the FSCS require funding beyond the limit imposed by the MELL due to exceptional circumstances, the FCA and PRA would urgently consider the request.

11. As explained in paragraph 2.10, the unlevied reserve is normally used for unexpected scenarios that were not known at the forecasting stage. However, due to the increased uncertainty brought about by Covid-19 pandemic, the FSCS is proposing to use its unlevied reserve to cover an additional 33% of forecasted claims in addition to unexpected claims.

Summary

12. The FCA and PRA consider that the benefits of raising the MELL outweigh the costs placed on industry primarily because the provision of compensation in the event of the failure of a financial services firm helps to ensure consumer confidence in the financial system and, where compensation is paid, reduces financial harms.

Annex 3
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's and PRA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's and PRA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under FSMA.

FCA general duties and objectives

2. When consulting on new rules, the FCA is required by s. 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rule is

   a. compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives
   b. compatible with its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles set out in s. 3B FSMA (see paragraphs 14 to 18).

3. The FCA considers that the proposals set out in this consultation are compatible with the statutory objectives. They are primarily intended to advance the FCA's operational objective of consumer protection.

4. The role of the FSCS is, in general, to provide compensation to consumers of financial products when authorised firms are unable, or likely to be unable, to meet their obligations. A compensation scheme provides a safety net, offering protection to consumers, which in turn leads to greater confidence in their dealings with financial services firms, benefiting all firms and leading to a stronger financial system. If the FSCS was unable to process claims because of financial constraints due to an inappropriate MELL this would undermine the protection offered to consumers.

5. The proposal is also compatible with the FCA's competition duty to promote effective competition in the interests of consumers. Any levy placed on a firm because of this proposal will take into account the firm's size, and as such is not likely to disadvantage specific groups of firms, in particular smaller firms.

6. The FCA considers that the proposed FSCS MELL is appropriate. The limit proposed ensures the FSCS has adequate resources to perform its functions for the coming year. In addition, in setting the MELL for 2021/22, the FCA and the PRA have allowed for sufficient unlevied reserve to prevent disruption to the FSCS's work if it needs to exceed its operating budget for unexpected reasons.

7. When consulting on new rules, the FCA is also under a duty on the FCA to discharge its general functions in a way which promotes effective competition in the interests of consumers (s. 1B(4) FSMA). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

8. Setting an FSCS MELL has no material significance for the reduction of financial crime objectives.

The PRA's general duties and objectives

9. The PRA, under s. 2B FSMA, must, when discharging its general functions, so far as is reasonably possible, act in a way that advances its general objective – i.e. promoting the safety and soundness of PRA-authorised firms.

The PRA must carry out that objective primarily by

- Seeking to ensure that the business of PRA-authorised persons is carried out in a way which avoids any adverse effect on the stability of the UK financial system
- Seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system

10. The PRA considers that the proposed rule on setting the MELL is compatible with these statutory obligations. The continued operation of the FSCS with a MELL set at an appropriate level assists in minimising the adverse effect of the failure of a PRA-authorised person on consumers and so helps promote the stability of the UK financial system as well as confidence in the UK financial system.

11. Under s. 2C FSMA, the PRA has an additional primary objective for insurance. In addition to promoting insurers' safety and soundness, thereby supporting the stability of the UK financial system, it has an insurance objective to contribute to securing an appropriate degree of protection for those who are or may become policyholders. The PRA considers that the proposed rule to set the MELL is compatible with this duty because the continued operation of the FSCS with a MELL set at an appropriate rate assists in securing an appropriate degree of protection for policyholders of a PRA-authorised person that has failed.

12. When discharging its general functions in a way that advances its objectives under ss. 2H(1), 2H(2) and 3B of FSMA, the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.

13. The MELL is not expected to have any adverse effect on competition as it applies to firms in proportion to their share of FSCS protected business within their funding class. Any levy on a firm as a result of this proposal will take into account the business volume of the firm levied, as well as the claims received in the relevant classes; as such the MELL is not likely to disadvantage specific groups of firms (in particular smaller firms).

The FCA's and PRA's regulatory principles: Compatibility statement

14. In preparing the proposals set out in this consultation, the FCA and PRA have had regard to the regulatory principles set out in s. 3B FSMA. The FCA and the PRA believe that the proposed MELL is compatible with these regulatory principles. The regulatory principles most relevant to this proposal are:

- The need to use the resources of each regulator in the most efficient and economic way
- The principle that a burden or restriction should be proportionate to the benefits

15. The FSCS is operationally independent of, but accountable to, the FCA and the PRA. This means that the FCA's and the PRA's resources are not directly involved in carrying out the proposed activities

16. The FCA and the PRA rules require the FSCS to use its resources in the most efficient and economical way when carrying out its functions. Setting the MELL, after public consultation, encourages good internal management and effective operating procedures.

17. The FCA and the PRA believe that an appropriate balance has been struck between the need to ensure their regulatory objectives are fulfilled and the need to keep regulatory burdens proportionate.

18. The FCA's and the PRA's assessment of the fairness and proportionality of the burden and benefits relating to this proposal can be found in the cost benefit analysis section of this CP in Annex 2.

Expected effect on mutual societies

19. The FCA and the PRA do not expect the proposals in this paper to have a significantly different impact on mutual societies. Management expenses are levied on all authorised firms including mutual societies according to the volume of regulated financial services they conduct.

HM Treasury recommendation letter

20. HM Treasury has made recommendations to the FCA and the PRA about aspects of the Government's economic policy to which the FCA and the PRA should have regard in connection with our general duties. The FCA and the PRA consider that the recommendations most relevant to the proposals in this CP are:

i. Competition
ii. A better outcome for consumers
iii. Competitiveness

21. Recommendation (i) has been considered in paragraphs 5, 7, 12 and 13 of this annex and recommendation (ii) in paragraph 5 of Annex 2. With regard to recommendation (iii), the FCA and the PRA consider that an appropriately funded compensation scheme will enhance consumers' trust in UK regulated firms. This will help to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as a leading financial centre.

Equality and diversity

22. We are required under s 149(1) of the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.

23. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. We do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010. However, we would welcome any comments respondents may have on any equality issues they believe arise as a result of these proposals.

Annex 4
Abbreviations used in this paper

CBA	Cost benefit analysis
CP	Consultation Paper
FCA	Financial Conduct Authority
FEES	Fees manual
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTE	Full time equivalent
MELL	Management expenses levy limit
PRA	Prudential Regulation Authority

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Appendix 1
FCA Draft Handbook text

FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT 2021/2022) INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137T (General supplementary powers);
(2) section 213 (The compensation scheme);
(3) section 214 (General); and
(4) section 223 (Management expenses).

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 April 2021.

Amendments to the Handbook

D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit 2021/2022) Instrument 2021.

By order of the Board
[*date*]

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text.

6 Financial Services Compensation Scheme Funding

…

6 Annex 1R Financial Services Compensation Scheme – Management Expenses Levy Limit

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
…	
1 April to 31 March 2021	£83,167,893
1 April 2021 to 31 March 2022	£105,524,319

Appendix 2
PRA Draft rulebook text

PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2021

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137T (General supplementary powers);
(2) section 213 (The compensation scheme);
(3) section 214 (General); and
(4) section 223 (Management expenses).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2021

D. The PRA makes the rules in the Annex to this instrument.

Commencement

E. This instrument comes into force on [**DATE**].

Citation

F. This instrument may be cited as the PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2021.

By order of the Prudential Regulation Committee
[DATE]

Annex

Amendments to the FSCS Management Expenses Levy Limit and Base Costs Part

In this Annex new text is underlined and deleted text is struck through.

…

2 LIMIT ON MANAGEMENT EXPENSES LEVIES

2.1 The total of all *management expenses levies* attributable to the period 1 April ~~2020~~2021 to 31 March ~~2021~~2022 of the *deposit guarantee scheme*, the *dormant account scheme* or the *policyholder protection scheme* may not exceed ~~£83,167,893~~£105,524,319 less whatever *management expenses levies* the *FSCS* has imposed in accordance with *FCA compensation scheme rules* attributable to that period.

…

Appendix 3
FSCS management expenses line by line

Budget: Significant items (£m)	2021/22	2020/21	change	% change
Staff costs (including contractors)	**28.6**	**23.8**	**4.8**	**20%**
Staff costs	23.4	22.7	**0.7**	**3%**
Contractors	5.1	1.0	**4.1**	**397%**
Communications	**4.1**	**3.8**	**0.3**	**8%**
Depositor awareness	2.2	2.1	**0.2**	**8%**
Awareness of other protection	0.7	0.7	**0.0**	**6%**
Core support	1.2	1.1	**0.1**	**10%**
Professional, legal and recovery costs	**10.7**	**10.0**	**0.7**	**7%**
Professional, legal and recovery costs	10.7	10.0	**0.7**	**7%**
Outsourced claims handling	**22.2**	**17.7**	**4.5**	**25%**
Outsource claims	21.5	17.0	**4.5**	**26%**
Outsource printing	0.7	0.7	**0.0**	**0%**
Investment	**4.0**	**4.0**	**0.0**	**0%**
Digital	4.0	3.5	**0.5**	**14%**
Prevent	0.0	0.5	**-0.5**	**-100%**
Credit facility	**8.2**	**7.2**	**1.0**	**14%**
Pension Deficit funding	**1.9**	**1.9**	**0.0**	**0%**
Facilities, IT and overheads	**10.8**	**9.7**	**1.0**	**11%**
Facilities	2.2	2.2	**0.0**	**-2%**
IT	5.6	4.9	**0.7**	**14%**
Depreciation	1.5	1.5	**0.0**	**-2%**
Other/Contingency	1.0	0.6	**0.4**	**70%**
External providers	0.5	0.5	**0.0**	**0%**
Total management expenses	**90.5**	**78.2**	**12.4**	**16%**

Appendix 4
FSCS management expenses by funding class

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

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FINANCIAL
CONDUCT
AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk