Company Number: 3943048

Financial Services Compensation Scheme Limited

Annual Report and Accounts 2019/20

Registered Office:
Financial Services Compensation Scheme Limited
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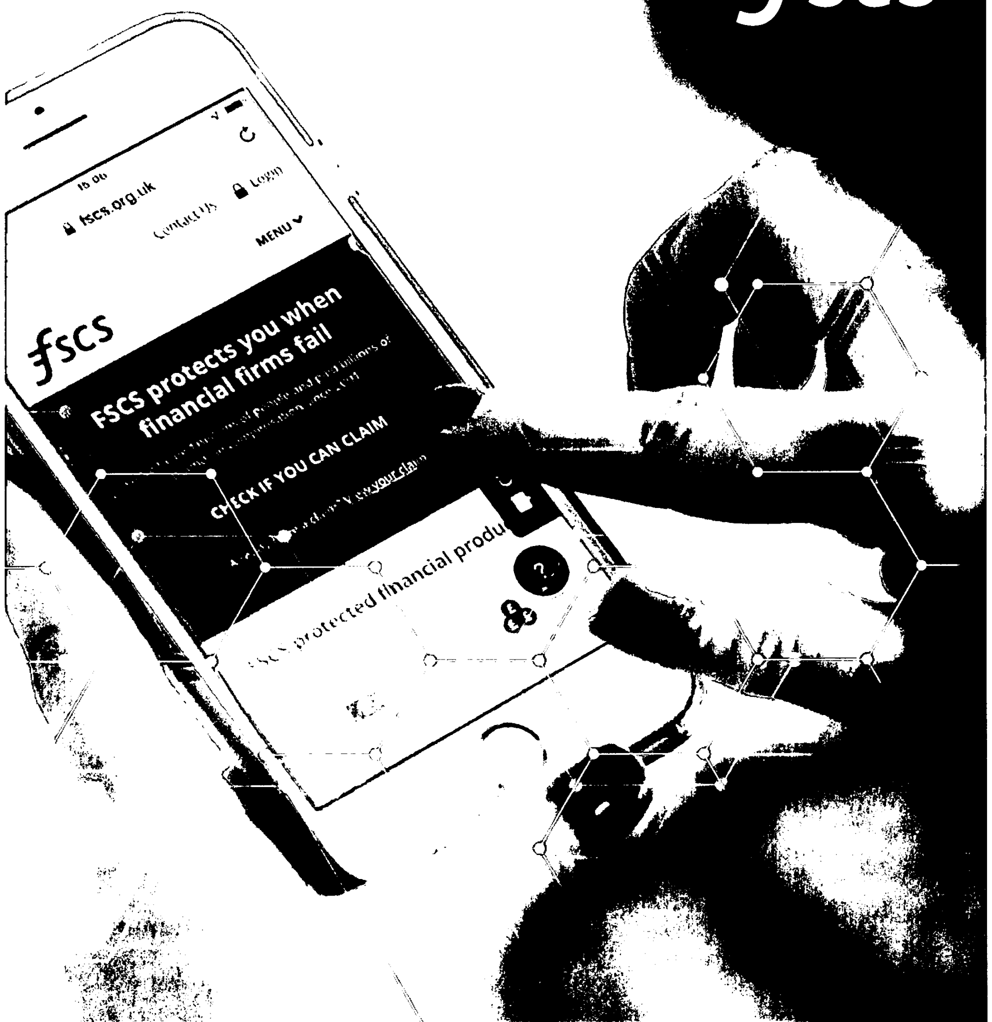
EC3A 7QU

www.fscs.org.uk



Financial Services Compensation Scheme
Annual Report and Accounts
2019/20

HC 430

Financial Services Compensation Scheme

Annual Report and Accounts

2019/20

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 24 June 2020

HC 430 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 30 June 2020

This publication is available at www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at FSCS.

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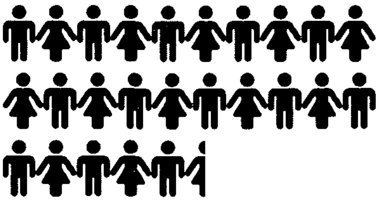
2019/20 AT A GLANCE



258,119
Customers helped

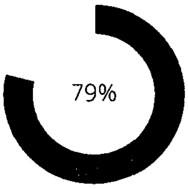
Helping to get lives, families and businesses back on track

Pillar: PROTECT

£50 million
Recoveries made

Reducing the cost of our levies for industry

Pillar: PREPARE



79 per cent
Customer satisfaction

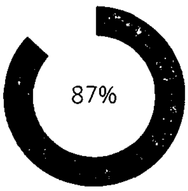
Putting people at the heart of everything we do

Pillar: PROTECT

137
Financial services firms failed

Allowing their customers to make compensation claims to us

Pillar: PROTECT



87 per cent
Complaints responded to within 20 days

Looking after our customers across their entire journey

Pillar: PROTECT

8 per cent
Reduction in like-for-like claims-handling costs

Delivering value for money for our levy payers

Pillar: PROTECT

11 per cent
Increase in employee engagement score

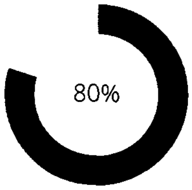
Investing in our staff, providing opportunities and broadening the range of skills necessary to deliver for our customers

Pillar: PREPARE

Over 100 cases
of phoenixing referred to FCA

Putting our data and experience to use across the regulatory family

Pillar: PREVENT



80 per cent
Consumer awareness of FSCS or a scheme

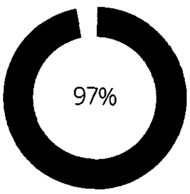
Raising awareness and understanding helps build trust in the financial services industry

Pillar: PROMOTE

874
Firms whose customers we compensated

Handling varied and complex claims from across the financial services industry

Pillar: PROTECT



97 per cent
Quality of claims

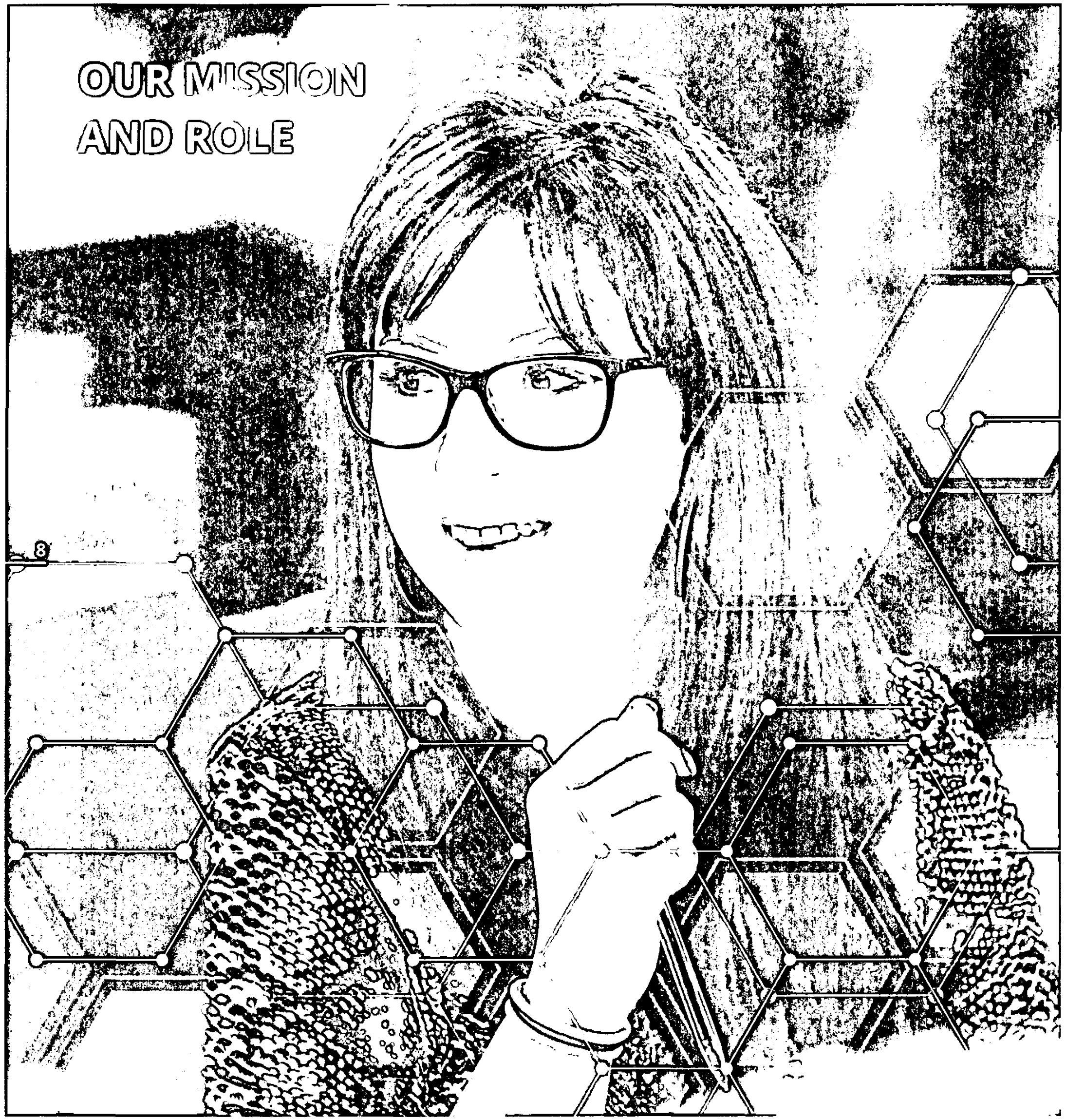
Acting in the interests of our customers and levy paying stakeholders

Pillar: PROTECT

Clarity
Crystal Mark for Plain English

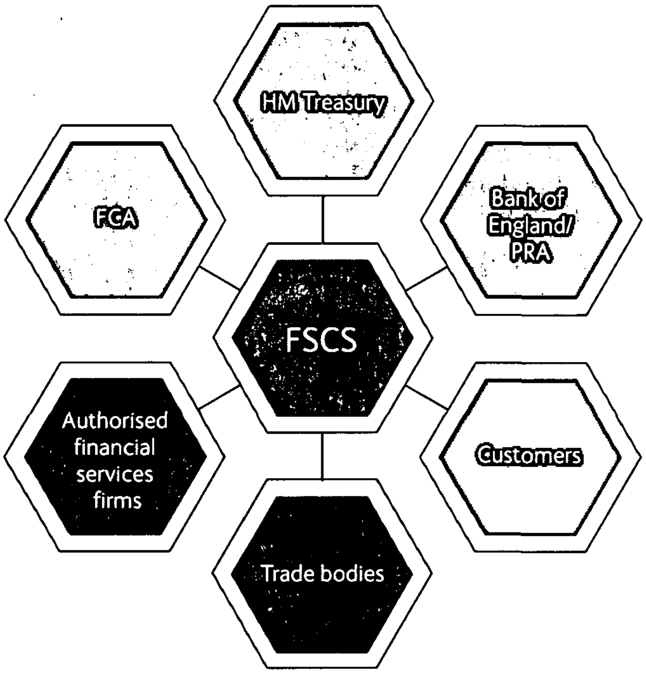
The Plain English Campaign recognised the FSCS website's clear and simple language with its Crystal Mark – Improving customer experience, particularly for those who are vulnerable

Pillar: PROMOTE


OUR MISSION
AND ROLE

The mission of the Financial Services Compensation Scheme (FSCS) is to provide a trusted compensation service for consumers which raises public confidence in the financial services industry.

Relationship with our stakeholders



Our role

We are here to protect customers of authorised financial services firms. We pay compensation to consumers if the firm they have done business with is unable, or likely to be unable, to pay claims against it. The technical term for this is the firm being 'in default'.

We are a non-profit-making independent body that Parliament set up under the Financial Services and Markets Act 2000 (FSMA). It is completely free to make a compensation claim directly to us, which means that the customer receives the total amount of any compensation 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 Bank of England's Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) powers to make rules that govern our work. This includes our powers to pay compensation to eligible customers and to raise levies from the industry to fund those compensation payments. FSCS has a memorandum of understanding (MoU) with both the PRA and the FCA.

What we protect

We protect deposits, insurance policies, investments, insurance broking, mortgage advice, pensions, payment protection insurance (PPI) and debt management. For more information on what we cover, see www.fscs.org.uk/what-we-cover.

How we are governed

We are independent, but accountable to the FCA, the PRA and HM Treasury. We are a private company limited by guarantee, with a Board of Directors appointed to run us independently of the UK regulators. However, we work closely with regulatory authorities to make sure that we can respond effectively to any failures. Further details of how we are governed are in the Corporate Governance Report, which can be found starting on page 26.

We evaluate future risks and have developed detailed contingency plans so that we are prepared for a variety of events.

Our compensation limits

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

Recoveries

After we have paid a claim, we must act to recover money if it is reasonably possible and cost-effective. We claim from the estates of failed firms as part of the insolvency process and against professional indemnity insurers. We may also seek to recover money from other third parties who contributed to customers' losses. Our recoveries reduce the costs for levy payers.

01 CHAIRMAN'S STATEMENT

During the two years that I have been Chairman of FSCS, I have been consistently impressed by how this organisation puts people at the heart of everything it does.

This has been especially notable during the coronavirus pandemic, which has had a profound effect on everyone all over the world. Our staff have shown great resilience during these difficult times and even though we are all located in different households throughout the UK, we have continued to work together united as a team, to deliver an uninterrupted service to our customers.

All our staff are dedicated to our mission to provide a trusted compensation service which raises public confidence in the financial services industry.

To support our mission, at the start of this year we launched our new four-pillar strategy, *FSCS into the 2020s: Protecting the future.* We are already making good progress against each pillar.

- **Prepare** – FSCS must be able to protect consumers in a crisis or in the event of major failures to maintain public confidence and financial stability.
- **Protect** – FSCS is known and trusted for protection that puts people back on track through outstanding customer experience.
- **Promote** – the full range of FSCS protection is known about and trusted.
- **Prevent** – FSCS collaborates with our regulatory and industry stakeholders to prevent future failure and to reduce compensation costs.

Prepare

We have continued to improve how we respond when financial services firms fail. For example, as well as testing the customer records of deposit takers, to ensure that we are able to compensate their customers should they fail, we have continued to offer them the chance to self-verify their records

> We are more prepared than ever to serve our customers when they need us most.

and saw the uptake of this double in 2019/20. This helps us pay compensation within seven days of a bank, building society or credit union failing. We have also conducted exercises internally, and with other financial regulators, to anticipate how we should respond to major failures, should one occur.

Perhaps the biggest test of all since the start of the year has been the coronavirus pandemic, which has stretched resources both for us and in wider society. However, the work we carried out as part of our Prepare pillar meant we could ensure that our staff were able to easily and effectively continue their work from home.

Our ongoing programme will make sure that we are more prepared than ever to serve our customers when they need us most.

Protect

The main part of our service is assessing claims in a fair and efficient way, putting our customers back on track. Throughout the year, we, and our partner Capita, have increasingly been able to resolve issues for customers quickly, accurately and with empathy. We make sure we listen to our customers to understand how we can improve our service – for example, by making our written communication shorter and easier to read.

We achieved much for our stakeholders this year. Our Chief Executive, Caroline Rainbird, explains more about this in her review.

Promote

We exist to help encourage trust and confidence in the financial services sector. So it is vital that people are aware of us, and the protection we offer, to help them make more informed financial decisions. To conserve our levy payers' funds we have focused on high-visibility, low-cost campaigns on social media and other platforms to spread our message.

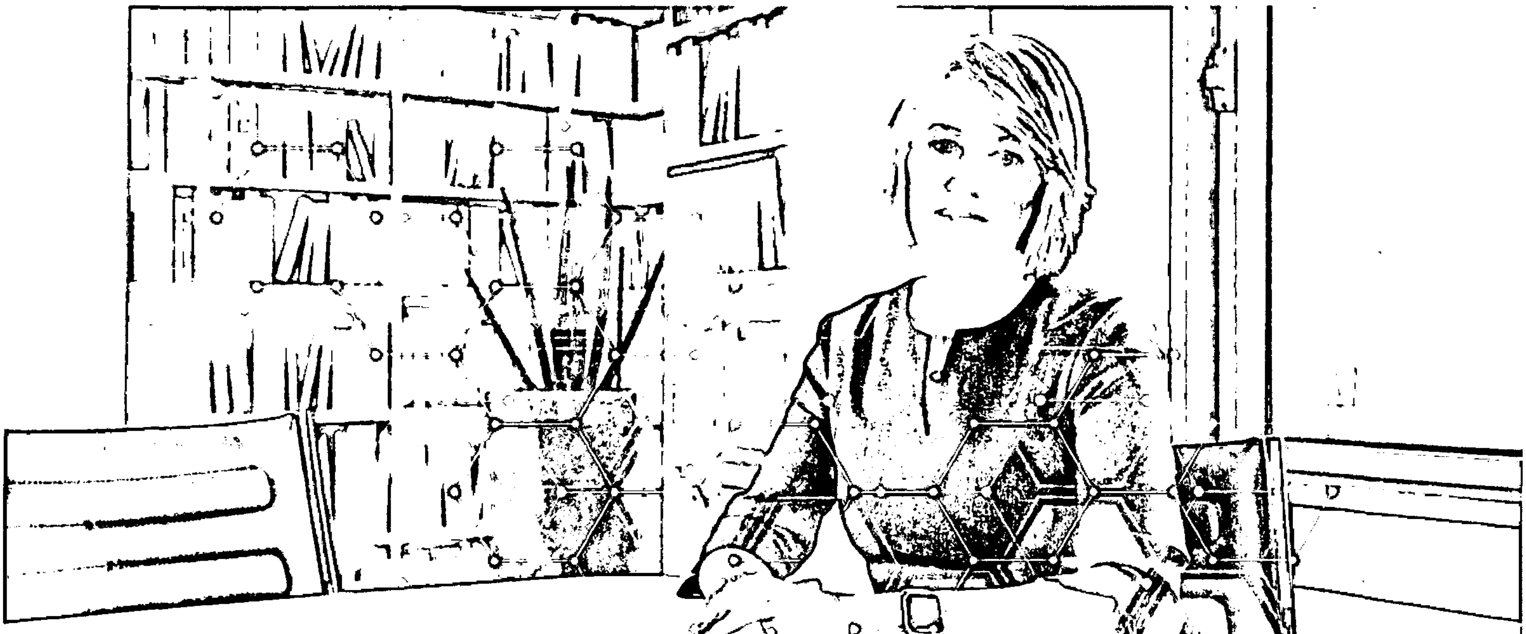
We have worked with the industry to share our badge with their customers. Our logo is now displayed in many banking apps, providing regular reassurance to millions of customers across the UK. We are discussing something similar with the life and pensions sector, as we are keen to build on this with our partners across all sectors.

Prevent

Preventing future failures helps to protect consumers and reduce future compensation costs for the industry, and we share information with our regulatory counterparts to help to further our Prevent work. For example, our claims handlers have picked up incidences of Claims Management Companies that appear to be run by managers of failed companies. These people are potentially profiting through mis-selling to their customers and then again through representing these same customers when making compensation claims to us. We have passed information on these cases to the Financial Conduct Authority's supervision and enforcement teams to investigate. We have also started talking more with the industry about how we protect consumers and trends or emerging risks that might affect us in the future.

On behalf of the Board, I want to thank Caroline Rainbird for her first year of inspiring leadership as she plots a course through the choppy financial waters ahead. Last summer, as the new Chief Executive of FSCS, she went before the Treasury Select Committee at the House of Commons. Her testimony demonstrated the complexity of the task we face and she continues to navigate these waters admirably. Caroline has tirelessly promoted FSCS within the industry, in government and across the media. She recognises the complex financial issues we face as a nation, while reminding us that behind the statistics are the vulnerable people who we work to help here at FSCS.

Marshall Bailey
Chairman,
Financial Services Compensation Scheme



02

CHIEF EXECUTIVE'S REVIEW

I am delighted to introduce my first Annual Report as FSCS Chief Executive.

It is now just over a year since I joined FSCS and I want to pay tribute to the hard work of my team, and all those who work at FSCS, for making sure that we put customers at the heart of everything we do. Their dedication and commitment have been, and continue to be, particularly evident during the coronavirus pandemic, a most difficult and troubling time for us all.

It is a privilege to lead an organisation that not only makes a real difference to the lives of hundreds of thousands of people each year, helping put lives back on track, but also has a positive effect on how the general public sees the UK's financial services sector.

We are here to help to protect people's money. We provide a free and independent service for consumers, who we encourage to come to us directly to make claims so that they receive their compensation in full.

As well as consumers, levy payers and the regulatory family are also key stakeholders – and we care equally about each of them. Through our strategy for the 2020s and in collaboration with our regulatory counterparts, we aim to improve outcomes for all stakeholders.

In 2019/20 we helped 258,119 customers and dealt with a total of 137 failures of financial services firms. By getting people back on track financially, we made a positive difference to their lives. As we reflect on the year just gone, we are pleased and proud of what we have been able to achieve.

We are very aware that without levy payers' funding and support we would not be able to help our customers. It is crucial that we continue to work with the industry to help to reduce compensation costs, avoid financial harm to consumers and maintain confidence in the UK financial services sector.

"

We are here to help to protect people's money. We provide a free and independent service for consumers.

Over the past year I have met firms and trade bodies to hear their views on FSCS and how we are funded. I have listened to the industry's concerns about the rising trends in compensation costs and recognise the burden this has, especially on small businesses and Independent Financial Advisers. The overall levy increase is due to an ever-growing number of claims against Self-Invested Personal Pension (SIPP) operators, which continues the rising trend of pensions-related claims. Our work in the Prevent pillar is aimed at reducing instances of firm failure, to reduce the levy across the industry. The Annual Report and Class Statements, published separately, gives more detail on the levy income and compensation expense for each class of activity we cover.

Not all our funding comes from the levy. We also have a statutory duty to pursue recoveries, and, in 2019/20, we recovered approximately £50m from the estates of failed financial services firms. This is being used to reduce future levies or being returned to the industry.

London Capital & Finance (LCF) has been one of the most significant cases for FSCS in the months before and since my appointment as Chief Executive, not only in terms of the number of those affected but also in its complexity. After LCF entered administration in January 2019, we carried out a thorough factual and legal analysis. To help our ongoing investigation, we developed an online questionnaire for LCF's customers to capture further details of the services LCF provided to them. At the point of writing, we have received more than 7,000 responses. We also obtained thousands of telephone recordings and a vast number of emails. In all, we collected over one million pieces of evidence.

We have reached four conclusions so far in the review process. First, we determined that LCF has carried out some regulated arranging and that FSCS could therefore protect bondholders who switched from existing stocks and shares Individual Savings Accounts (ISAs) to LCF mini-bonds. We paid 162 bondholders compensation in 2019/20. The second was that, unfortunately, we were unable to protect the bondholders who dealt with LCF before 7 June 2016, because LCF was not fully authorised to carry out financial services business before that date. Third, we consider that LCF did not carry out a regulated activity in issuing its own mini-bonds and, therefore, that this was not something that FSCS can protect.

Finally, our wider investigation concluded that LCF gave misleading advice to some of its 11,600 customers, so they will have valid claims for compensation on this basis. We have begun assessing these case-by-case, although it will take some time to process them all. We are continuing to keep both industry and LCF customers updated on our progress.

Some bondholders disagree with FSCS's analysis on whether LCF carried out a regulated activity in issuing its own mini-bonds and have commenced a judicial review of our decision, which is ongoing. This is a complex legal issue where clarity from the courts will be helpful.

Another important case for us over this period has been that of the British Steel Pension Scheme (BSPS). Earlier this year I attended a BSPS roundtable at Westminster, along with representatives of the Financial Conduct Authority, Financial Ombudsman Service, Money and Pensions Service, The Pensions Ombudsman and The Pensions Regulator. We were all moved by the stories from steelworkers who had lost pension money they had worked so hard for. We understand their frustration and empathise with their suffering.

Before this, we visited Port Talbot and Scunthorpe to meet with scores of steelworkers, to speak to them about their concerns, listen to their stories and talk through their rights to compensation. This case has reinforced and emphasised the value of being directly involved with customers. We are continuing to do all we can to make sure we put back on track those BSPS customers who are eligible for compensation.

We will continue to work with our stakeholders to make sure that we provide a trusted, fair and efficient compensation service. In doing so, we will help to build trust and confidence in the UK's financial services industry.'

Finally, I would like to say farewell and pay tribute to our former Chief Corporate Affairs Officer, Alex Kuczynski, who left FSCS and the Board in April. Alex made an immeasurable contribution not only to the life of FSCS but to the wider regulatory family and beyond. He led our responses to major financial services failures across many sectors, including during the 2008 financial crisis. Internationally, Alex was a highly active and well-regarded contributor to several international stakeholder bodies.

Alex's calm leadership, encyclopaedic knowledge and selfless dedication have contributed to us being able to deliver a service for customers for 20 years. His reassuring daily presence, warmth and humour will be sorely missed by our staff. We wish him all the best for an equally impressive future.

My time in the post so far has been both enjoyable and challenging. I look forward to working closely with my colleagues and our stakeholders to make sure that FSCS provides a trusted, fair and efficient compensation service. In doing so, we will help to build trust in the UK's financial services industry.

Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme

> I look forward to working closely with my colleagues and our stakeholders to make sure that FSCS provides a trusted, fair and efficient compensation service.

03 STRATEGIC AND PERFORMANCE REPORT

Performance

FSCS protects a broad range of financial products and services.

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

For deposits, return of insurance premiums and assets held with investment firms, we use records from the failed firm to return money to eligible customers automatically. Customers with other kinds of product will need to make a claim so we can assess if they are eligible for compensation and the amount of any compensation they are due.

We aim to make the process simple for all our customers. We want to help people and their families get their lives back on track. And we want to help businesses keep going so that they can support their staff, suppliers and other stakeholders.

In 2019/20, we helped 258,119 customers, who had suffered losses from 874 different firms, including some of the 137 which failed this year. We expect to continue to receive claims against a failed firm for longer than just the year of the failure. This is because it can take some time for a customer to realise they can make a claim.

> We want to help people and their families get their lives back on track. And we want to help businesses keep going.

Our service was financed by levies from 49,105 regulated financial services firms, which was reduced through recoveries of £50 million from the estates of 88 firms.

We've worked with our partner, Capita, to reduce the time it takes from submitting a claim to receiving a decision. We've done this without sacrificing quality, which scored 97 per cent this year, based on a monthly review of a sample of claims. We check claims for anything that could have a negative impact on the customer – for example, mistakes with decisions, amounts of compensation or timescales given. We have managed to reduce costs while doing this, with like-for-like claims-handling costs decreasing 8 per cent from 2018/19 to 2019/20.

We have also continued to automatically compensate eligible depositors in failed credit unions within seven days, where the credit union was able to provide the right information.

Customers who claimed from us did so online in 98 per cent of cases. Where customers used the telephone lines, we answered 74 per cent of calls within 60 seconds. We continue to see around 80 per cent of customers satisfied with the service we provide.

Understandably, some customers ask us to reconsider our decision, or make a complaint about how we handled their claim. This year we received 695 complaints about how we handled claims, and 1,478 customers asked us to review our decision on their claim.

We aim to respond to these customers within 20 working days and we met this target in 87 per cent of cases, with an average response time of 14 working days.

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 have referred six complaints to the independent investigator. The Annual Report of the Independent Investigator can be found on page 24.

Customers who are still unhappy with the final decision on a claim may seek a judicial review.

UK withdrawal from the European Union

As a business, we have been busy preparing for the UK's withdrawal from the European Union.

While the UK continues to be bound by EU obligations during the withdrawal transition period, the UK financial system will continue to be regulated in accordance with its existing obligations. We will continue to protect depositors, policyholders, investors and others.

We have worked closely with HM Treasury, the Bank of England and its Prudential Regulation Authority, and the Financial Conduct Authority (FCA) on the implications of EU withdrawal for FSCS and consumers. The impact of EU withdrawal on the framework for financial regulation in the UK, and FSCS protection, will depend, in part, on the relationship that the UK agrees with the EU during the current transition period. Any changes affecting FSCS will be communicated to all stakeholders and we will work with the UK authorities to ensure clear and consistent messages.

FSCS and Credit Unions

We are acutely aware of the invaluable role credit unions play in helping some of our most vulnerable people by providing them with access to affordable credit facilities.

More than two million people in the UK use credit unions. The government's first financial inclusion report, published in March 2019, makes it clear how important local credit unions are to their communities. As social and community lenders, they teach their members to be more responsible with their money and learn to budget and save.

Should savers need to borrow money, their credit union may be able to lend, helping to remove the temptation of turning to higher-cost credit, such as a payday lender.

There are currently over 400 credit unions in the UK, with total assets of £3.6bn. If a credit union fails and is unable to pay back its customers' savings, we step in to make sure that its customers get their money back automatically, without needing to make a claim to us. We provide the same £85,000 protection for each credit union member as we do for bank and building society customers.

The Bank of England's Prudential Regulation Authority governs credit unions and ensures that we are made aware of any potential credit union failure so that we are fully prepared to help its customers before it fails.

During 2019/20, we declared six credit unions had failed across the UK: Parkhead Credit Union in Glasgow; Braniel Credit Union in Belfast; East London Credit Union; Solent Credit Union in Southampton; Mercat Cross and The Bruce Credit Union in Stirling; and North Airdrie Credit Union in Lanarkshire.

The total cost of these failures was just over £5m. We used each credit union's records to compensate over 10,000 customers. Those with up to £1,000 were sent a letter to collect cash over the counter at their local Post Office, while anyone with more than £1,000 received a cheque.

Where possible, we compensate credit union customers automatically within seven days or less. This minimises any uncertainty and inconvenience and reassures customers that their money will be returned to them as soon as possible.

Caroline Rainbird, FSCS Chief Executive, stresses why this is so important: "Credit union customers need to know their money is safe, and we are ready to help them to get back on track. No one has to worry or do anything. That's FSCS's job."

Protected

Strategy

Our mission: providing a trusted compensation service for consumers which raises public confidence in the financial services industry

Achieving our mission through our strategy: protecting the future
year 1 review – laying the foundations to achieve our ambitions

PREPARE

Our ambition...

FSCS must be able to protect consumers in a crisis or in the event of major failures to maintain public confidence and financial stability

Year 1 headline:

We continue to be well prepared for firm failures and continually makes improvements through robust testing and exercising, enhancing processes and developing a more pro-active approach.

Other year 1 highlights:

- **We have increased the number of people we can compensate in deposit failures –** we can now automatically trace customers where the deposit taker didn't have their address.
- **We now provide an improved experience for deposit takers –** through an automated Single Customer View assurance process.
- **We now proactively contact customers of failed firms –** we reach out to some customers to advise they may have a claim.

Some key focus areas for year 2:

- We will research and develop alternative payment methods for deposits payouts so that customers can choose how to receive their compensation.
- We will improve our transfer and storage of firm customer data to enable a faster response to failures.

PROTECT

Our ambition...

FSCS is known and trusted for protection that puts people back on track through outstanding customer experience

Year 1 headline:

We increased the volume of claims we process and customer satisfaction remains steady at about 80 per cent. We started numerous process improvement initiatives, which are already delivering tangible benefits for our customers.

Other year 1 highlights:

- **Our production increased significantly** despite the increasing number of complex claims.
- **Our service design programme has delivered enhanced customer communications** across all channels, improving efficiency and customer experience. The Plain English Campaign recognised our website's clear and simple language with its Crystal Mark.

Some key focus areas for year 2:

- We will implement our new end-to-end customer journeys across deposits, non-deposits and insurance to deliver an outstanding experience for our customers.
- We will continue to ramp up our continuous improvement delivery to drive process efficiencies and improved customer experience.

PROMOTE

Our ambition...

The full range of FSCS protection is known about and trusted

Year 1 headline:

A strong year of progress. We have reached more people and raised awareness and understanding across consumers and our key stakeholders.

Other year 1 highlights:

- **We saw significant campaign success –** consumer awareness of FSCS or a protection scheme increased by 4 per cent to 80 per cent.
- **FSCS is seen as a mark of trust –** 81 per cent of those aware of FSCS feel more confident in their financial decision-making knowing that we exist.
- **We are now reaching more people through banking apps –** 12 banks and building societies display FSCS information on their apps.
- **The number of people using our website has risen from** 790,000 to 2.1 million, meaning many more people understand what we do.

Some key focus areas for year 2:

- We will continue to target specific consumer segments to increase awareness for those who need our protection most.
- We will maintain deposit awareness as well as focusing on investments and pensions cover.
- We will target FSCS badge adoption within life and pension providers so that consumers can make choices knowing they are protected.

PREVENT

Our ambition...

FSCS collaborates with our regulatory and industry stakeholders to prevent future failure and to reduce compensation costs

Year 1 headline:

Significant progress with the regulators and government taking a keen interest in our results, data and experience. FSCS insights led to a number of firms withdrawing their applications following the FCA raising phoenixing concerns.

Other year 1 highlights:

- **Phoenixing –** well over 100 separate cases have been identified, leading to them being referred to the FCA. At least seven firms withdrew their applications after phoenixing concerns were raised with them.
- **Permanent Regulatory Family Senior Group** established, made up of the Chairs and CEOs from each regulatory partner, to set the strategic direction of each organisation. This is supported by a working group that puts the strategies into action.

Some key focus areas for year 2:

- We are establishing an FSCS/Pension Protection Fund Chair and CEO working group to collaborate and share more effectively in this critical area.
- We will actively contribute to government's and the FCA's regulatory framework review and further initiatives.

Our people

Prepare: Our people in action

We understand that to deliver on our ambitious strategy for the 2020s we need colleagues with the right blend of skills, experience, knowledge and attitude.

45 colleagues joined us during the year enabling us to strengthen our internal capability across several areas including digital, marketing and technical claims.

This was made possible by re-tendering our master vendor for recruitment which continued to add significant value to FSCS. We also successfully implemented the first phases of our new organisational design.

Protect: Our people in action

We developed our people to deliver outstanding end-to-end service in a customer-centric culture through 156 learning events during 2019/20.

We completed our workplace transformation to enable new work spaces for concentration, collaboration and creativity. This investment improved employee engagement by 11 per cent. Our approach to driving employee engagement was recognised with award wins in both the Financial Innovation Awards and the Investors in People Awards.

Promote: Our people in action

We continue to promote an inclusive workplace where we all succeed.

FSCS was recognised in the Top 50 Most Inclusive Employers in the UK, 2019. We were also recognised with wins in the Financial Adviser Diversity in Finance Awards and the Personnel Today Awards.

[illegible] in action

We have continued to develop our talent pipeline through the launch of our new enterprise leadership 360 development survey. This runs alongside tailored support to our high potential cohort – many of whom we promoted to more senior roles during the year.

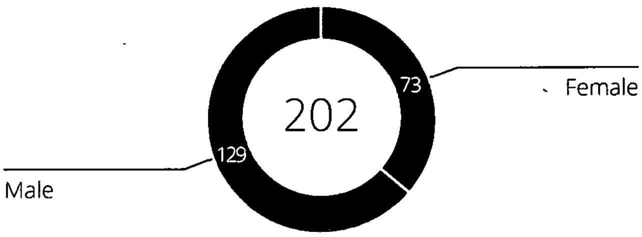
We have developed career pathways and increased secondments and opportunities to collaborate across the regulatory family including our first senior secondment from the FCA.

Diversity and Inclusion

FSCS is a diverse and inclusive workplace where everyone can succeed in achieving his or her personal and professional goals.

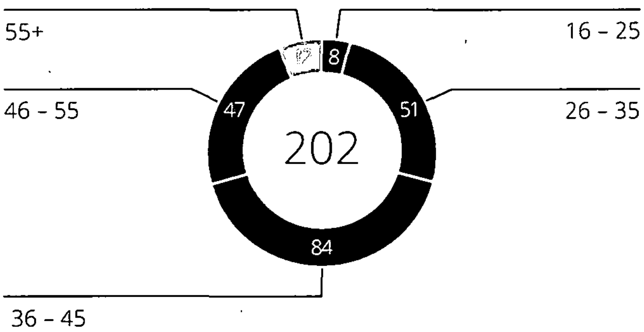
An environment where everyone is treated with dignity and respect, where productivity and customer experience improve because our workforce truly embraces the benefits that diversity and inclusivity can bring.

FSCS employee numbers by gender determination

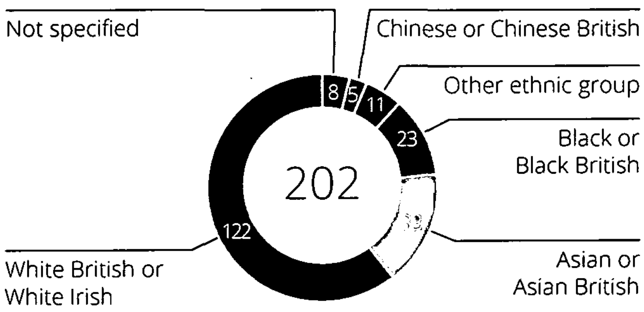


Our ambition is to create a better gender balance across FSCS, and the gender pay gap, which describes the difference between the average pay for men and women, provides valuable insight into the actions needed to achieve this. While not subject to the legislation, we choose to publish our gender pay gap data which shows that we are continuing to narrow this difference. The headline gender pay gap (between the basic pay for all women in the organisation against the basic pay for all men) as at March 2020 is 6.5 per cent in favour of males using mean pay as the basis for comparison and 1 per cent using median pay (March 2019: 10 per cent and 4.8 per cent).

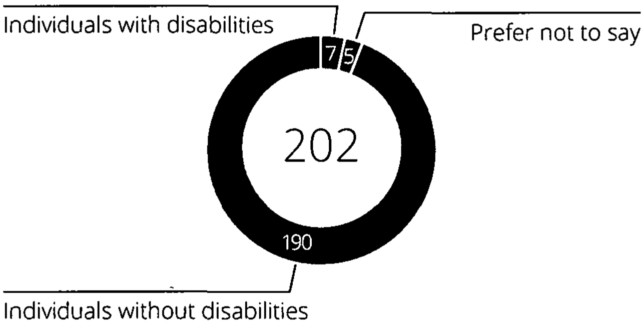
FSCS employee numbers by age band



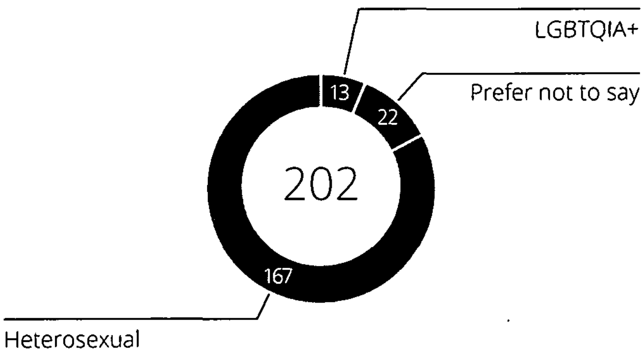
FSCS employee numbers by ethnic identity



FSCS employee numbers by individuals with disabilities



FSCS employee numbers by sexual identity



Financial Review

Our financial strategy supports us to deliver an efficient and effective compensation service that helps to build consumers' confidence and contributes to the UK's financial stability.

Compensation payments to customers are funded through levies, as well as through recovering money from the estates of financial firms that have failed. Our aim is to demonstrate value for money by controlling costs effectively.

Business planning and budgets

We have an annual business-planning cycle and we prepare forecasts quarterly. Following a public consultation, the Prudential Regulation Committee of the Bank of England and the Financial Conduct Authority (FCA) Board approve our annual budget and then we publish the budget for the industry.

We present our plan and budget to stakeholders in the financial services industry as part of an annual stakeholder event. This also gives stakeholders an idea of expected claims and compensation costs.

Annual Reporting

We also publish our Annual Report and Class Statements, in a separate document, for our levy payers, trade bodies and financial services regulators. The Class Statements summarise the source and application of funds from our levy payers by class, so that they can follow levies set from the beginning to the end of the financial year. You can find our 2019/2020 statements on our website at www.fscs.org.uk/news/fscs-news/annual-report/.

Our accounts are consolidated into HM Treasury's Annual Report and Accounts. Through interim and final accounts consolidation processes, we provide HM Treasury with appropriate reassurance on the operation of systems, controls and processes that underpin the production of our accounts within relevant levels of materiality – that is, within relevant financial thresholds – which represent a true and fair view.

Summary of financial performance

During the year, we experienced unforeseen volumes of more complex claims related to Self-Invested Personal Pensions (SIPPs) and pensions. This resulted in supplementary levies being raised to cover increased compensation costs in the Life Distribution and Investment Intermediation class. Our total levy income for the year was £576m.

Compensation costs

Compensation costs for the year were £527m, an increase of £79m from 2018/19 (£448m). This figure includes provisions for future compensation payments in relation to firms that have already failed. The main reason for this higher figure is a £75m increase in the costs for the Life Distribution and Investment Intermediation class, of which £56m is provisions for the return of assets and cash to customers of SVS Securities plc and Reyker Securities plc, which failed during the year.

£576m
Levy income

£527m
Compensation costs

There was an increase of £56m in the Investment Provision class, due to the failures of SIPP platforms, offset by a £24m reduction in the Deposits class, as 2018/19 included £22m for the failure of the Dial-A-Cab credit union.

For more information on compensation costs by levy funding class, see the Class Statements (pages 10 to 13). This information was previously published in both the Class Statements and the Annual Report and Accounts.

Recoveries

We continue to seek recoveries where it is reasonably possible and cost-effective to do so to reduce the levy. We recovered £50m in the year to offset levies or return to industry. In addition, we recovered over £2m on behalf of customers whose claims exceeded our compensation limits, and we passed this to them. Under IFRS, some of these recoveries were recognised as income in prior years and so the recoveries recognised in 2019/20 income is £24m.

For more information on recoveries, see the Class Statements (page 14).

Administrative expenses

As a result of unforeseen volumes of more complex claims related to SIPPs and pensions, we incurred £4.2m of additional claims processing costs. Through savings and efficiencies, we absorbed all of these costs within our budget and did not require utilisation of the unlevied reserve, which is in place to cover costs in relation to unforeseen increases in claims volumes.

Balance sheet

Our assets are mainly cash and recoveries receivable, which we recognise in line with our accounting policy for recoveries. Our liabilities are mainly levies we have collected but have not yet recognised as income, and so are owed back to the levy payer, and provisions for compensation we estimate we are obliged to pay under our rules as at the year-end.

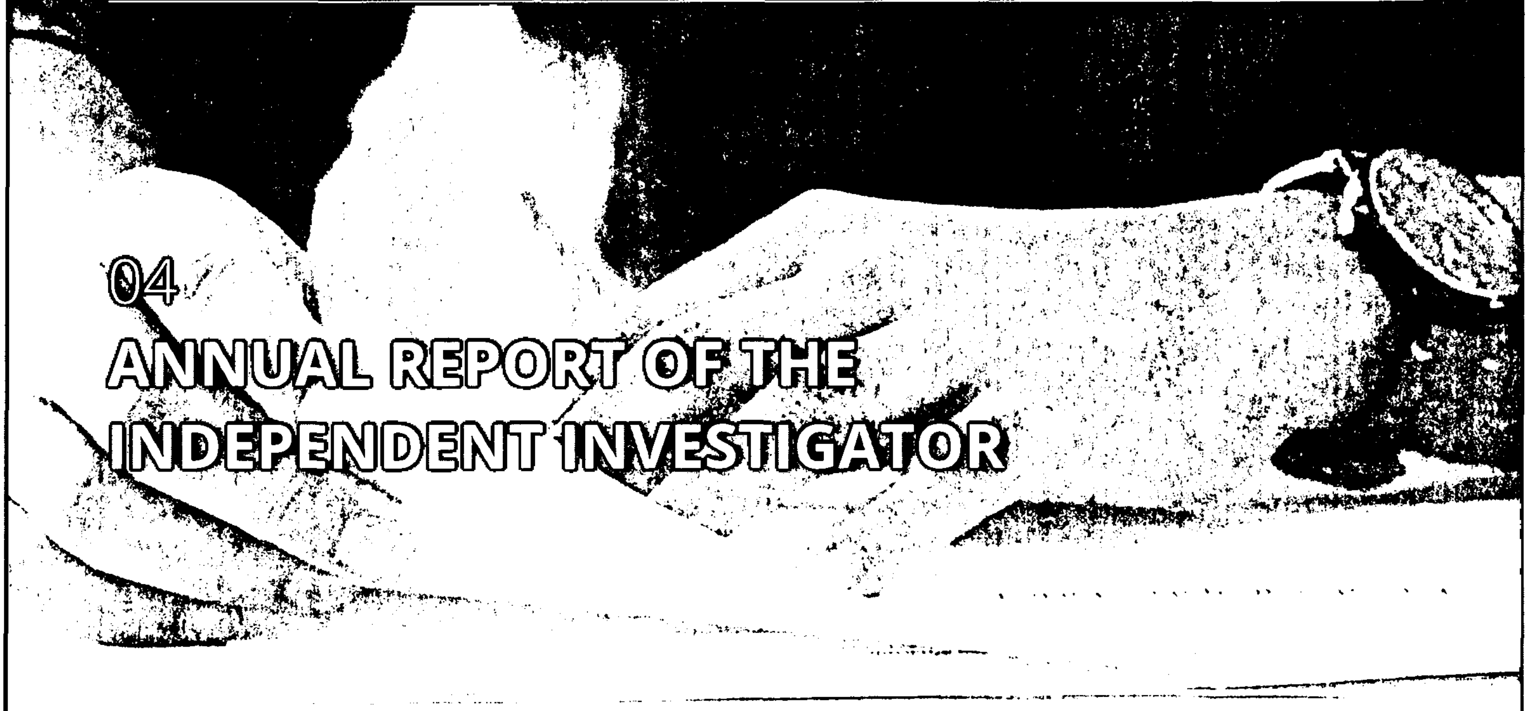
Approval of the Strategic and Performance Report

This was approved by the Board on19 May 2020 and signed on its behalf by:

Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme
22 June 2020

£50m
Recoveries made

£73m
Management expenses



04 ANNUAL REPORT OF THE INDEPENDENT INVESTIGATOR

April 2019 to March 2020

This is my first full year serving as Independent Investigator to 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, six cases were referred to me, of which I accepted five and declined one as raising issues outside of the purview of either FSCS or the Independent Investigator. I fully upheld two of the complaints and partially upheld one. I found the remaining two to have been managed appropriately by the organisation. Although the number of complaints which 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 directors of FSCS.

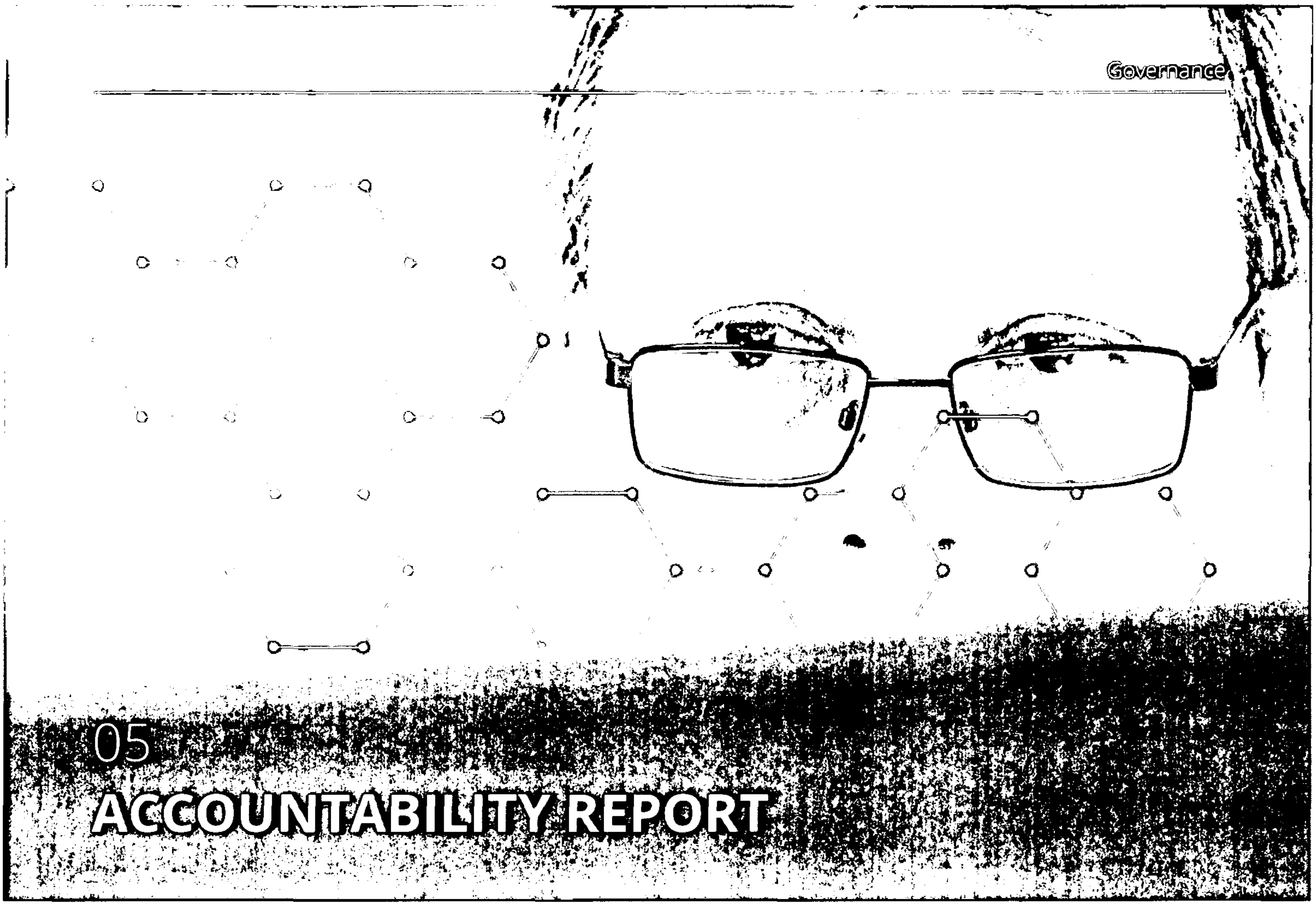
The majority of referrals centre on claims for compensation that have been unsuccessful, although it is important to emphasise that my remit extends to dissatisfaction with the way FSCS has handled any matter, including claims, queries or complaints. I have had examples of most of these during the year.

During the year, I met with the Chief Operating Officer and the Head of Complaints to review progress on addressing my report recommendations. I was pleased that specific initiatives had been implemented to improve ownership of cases and the clarity and customisation of written communications. My observations regarding access to call recordings and their associated retention period have been accepted but full resolution is contingent on longer technical developments. It is important to acknowledge that there can be a considerable lag between a referral to me and the benefit of improved processes being apparent. I would hope to see the benefits of effective early claim triage and improved complainant communication reflected in the coming year's referrals.

During the year I had the opportunity to visit the claims handling operation, managed by Capita, and see, at first hand, the scale and complexity of a high volume processing centre.

In March 2020, I was invited to discuss my overall findings and any emerging thematic concerns with the Board. I consider there to be a very good level of support for the independent review scheme from senior management and the Board. In addition, I have found a high degree of openness and transparency in discussing the issues arising from referrals.

Caroline Trewhitt
Independent Investigator



05 ACCOUNTABILITY REPORT

Statement of Accounting Officer's Responsibilities

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

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the finances for which the Accounting Officer is answerable, for keeping proper records and safeguarding the assets of the Financial Services Compensation Scheme, are set out in Managing Public Money, published by HM Treasury.

In preparing the accounts, the Accounting Officer is required to have regard for the requirements and principles of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for what is fair, balanced and understandable.

As shown under Board changes, between 4 May and 12 May 2019, no Chief Executive was in place. FSCS's Chief Operating Officer, Jimmy Barber, was the Accounting Officer during this period.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that FSCS's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Corporate Governance Report

FSCS is under no obligation to follow the UK Corporate Governance Code (the Code). However, the Board is committed to meeting high standards of corporate governance and this report sets out how we are governed in line with the Principles of the revised Code issued in July 2018. The Board considers that FSCS complied throughout the year with the Code as far as is appropriate.

This section explains how FSCS has applied the Principles of the Code and where it has departed from some of the Code's Provisions. As FSCS has no shareholders, the Provisions that relate to shares and shareholders have been disregarded except where they also relate to the wider stakeholder environment.

The Board

The FSCS Board currently consists of nine directors, seven of whom are non-executive directors, including the Chairman. The biographies of the directors are set out on pages 39 to 41.

The appointment and removal of Board members is made by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). The appointment, reappointment and removal of both the Chairman and the Chief Executive are also approved by HM Treasury. Therefore, Code Provision 13, which refers to the non-executive directors having a prime role in appointing and removing executive directors, does not strictly apply, although they do have a key role in the joint FSCS/FCA/PRA process. All appointments and reappointments of directors are for periods of no more than three years. FSCS, working with the FCA and PRA, has chosen not to subject all directors to an annual re-election process, as set out in Code Provision 18. The appointment process is overseen by the Nomination and Governance Committee and is described on page 34.

The Board considers all the non-executive directors to be independent, within the meaning set out in Provision 10 of the Code, and all directors are also subject to a conflicts of interest

Board changes:

Name	Position	Date of appointment	Expiry of term / resignation
Richard Parkin	Non-executive director	1 July 2019	30 June 2022
Marian Glen	Non-executive director	1 February 2013	31 January 2020
Mark Adams	Non-executive director	1 June 2015	*Resigned* 23 April 2020
Caroline Rainbird	Chief Executive (executive director)	13 May 2019	12 May 2022
Mark Neale	Chief Executive (executive director)	4 May 2010	*Resigned* 3 May 2019
Kathryn Sherratt	Chief Financial Officer (executive director)	15 December 2015	*Resigned* 23 May 2019
Alex Kuczynski	Chief Corporate Affairs Officer (executive director)	1 February 2010	*Resigned* 9 April 2020

Further details of terms of appointment are given on page 37.

policy in line with the Companies Act and the company's Articles of Association to prevent any potential interference with the independence of their judgement on Board matters.

Deputy Chairman and Senior Independent Director

Charles McKenna is FSCS's Deputy Chairman and Senior Independent Director (SID), and has occupied these roles since 1 July 2017. The SID acts as a sounding board to the Chairman and is available to other directors when necessary, should concerns arise.

Board diversity and appointments

FSCS actively seeks diversity on the Board and ensures that this is considered as part of the recruitment process. Board appointments continue to be based on merit and objective criteria, taking into account the skills and experience the individual can bring to the Board, and seek to promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Accordingly, FSCS has not set specific measurable objectives for how it applies its Board diversity approach.

The process for appointing and reappointing directors is described in the Nomination and Governance Committee section on page 34.

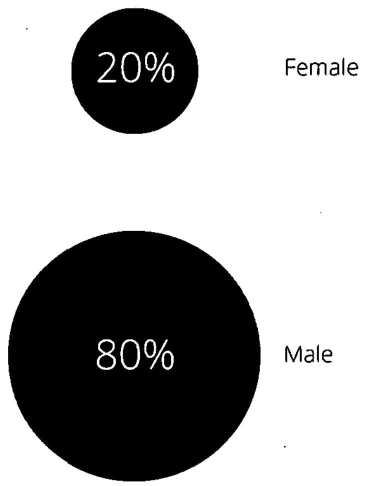
Operation of the Board

The Board has a formal schedule of matters reserved for its decision, which includes:

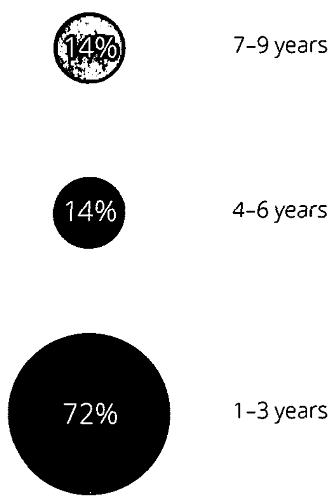
- setting FSCS's strategy;
- setting policy;
- overseeing FSCS's operations and reviewing the Scheme's performance;
- approving the Plan and Budget;
- approving levies above specified limits; and
- responsibility for the risk management and internal control systems.

> The Board is committed to meeting high standards of corporate governance.

FSCS Board – as at 31 March 2020



Length of tenure of non-executive directors



Certain matters are delegated to committees of the Board and these are described in each committee's Terms of Reference, available on FSCS's website, and summarised in this report, starting on page 32.

The Board met eight times during the year and held two strategy days, at which the strategic direction of FSCS was reviewed. It also holds informal interim updates on current issues and developments by telephone or other conference facility in most months where there is no Board meeting. During the year there were four of these calls.

The Board believes that it receives and has timely access to the relevant information needed to make appropriate decisions. Directors review this on an ongoing basis to ensure that the Board continues to receive sufficient, accurate, timely and clear information.

The Company Secretary, appointed by the Board, attends all Board and committee meetings and is responsible for ensuring that Board procedures are followed and that appropriate records are kept as well as advising on all governance matters. Directors, supported by the Company Secretary, ensure that they have the processes, information, time and resources they need to function effectively and efficiently.

Strategy review

During the year, the Board developed a new FSCS strategy – *FSCS into the 2020s: Protecting the future* – framed around four pillars: Prepare, Protect, Prevent and Promote. This was further explored through a series of internal briefings and external stakeholder events and is described on pages 18 to 20.

Induction and training

New directors are involved in a comprehensive induction process designed to enable them to quickly become familiar with FSCS. Their induction includes meeting existing Board members and staff across several key business areas, receiving detailed briefings and visits to outsourced claims handlers.

Directors are also offered training as part of their continuing professional development. They take up opportunities to refresh their knowledge and skills so they can stay up to date on specific FSCS issues, their duties as directors, and industry and regulatory changes. External speakers, including senior officials from the FCA and PRA, are also invited to discuss relevant matters with the Board from time to time outside of formal Board and committee meetings.

Annual director appraisal

The Chairman carried out annual performance reviews with each of the non-executive directors and the Chief Executive individually. These reviews include feedback from other directors, offered as part of a structured annual review process using a questionnaire, and from the Chairman's regular discussions with directors outside of formal meetings. The Deputy Chairman carried out the Chairman's performance review on behalf of the Board, after having also had a discussion with other Board members on the Chairman's performance. The Chief Executive carried out the annual performance reviews of the other executive directors.

Board effectiveness review

The Board carries out a formal and rigorous evaluation of its own performance, and that of its committees, on an annual basis. These evaluations are externally facilitated every three years. The last external evaluation was carried out in 2017 and the next one is due to be carried out in late 2020.

In December 2019, the Board conducted its annual review of its own effectiveness and that of its committees using an online feedback form containing detailed questions on how the Board works together and its balance of skills, experience, independence, company knowledge and diversity. To supplement the annual review,. the Chairman maintained regular contact with directors outside formal Board and committee meetings to obtain views on Board performance. He also met the non-executive directors from time to time without the executive directors present.

The key points raised in the review were discussed by the Board in December 2019, which included seeking opportunities to develop further the Board's informal discussion time outside formal Board meetings through a series of organised events – both as a whole and with senior officials from regulatory and industry bodies. Other initiatives included developing an approach for enhancing the Board's engagement with the FSCS workforce, which is described below. It was accepted that there were no fundamental shortcomings in the operation of the Board, although these and other initiatives should help to improve the Board's visibility and its overall efficiency and effectiveness.

Corporate culture and the Board's engagement with the FSCS workforce

The Board is responsible for FSCS's culture and for setting and defining the company's values and standards. The Board has been considering more closely the culture of the organisation over the last three years, reinforcing the importance of a healthy culture and making sure that it is part of its ongoing agenda rather than looking at it in isolation. It has helped to embed a healthy corporate culture, stimulating directors' thinking around the role of the Board in shaping, monitoring and overseeing culture, following various discussions at Board and Nomination and Governance Committee meetings as well as at its strategy days.

Furthermore, the Board, on the recommendation of the Remuneration and Human Resources Committee, has put in place a number of measures to develop and enhance its engagement with FSCS's workforce. It was decided that the Chairman of the Remuneration and Human Resources Committee would be the designated non-executive director leading on the Board's workforce engagement – with the Committee overseeing and receiving reports on such engagement, including on matters relating to workforce policies and practices and their alignment with FSCS's mission and strategy – and would report to the Committee and the Board as appropriate. Further initiatives include putting in place a programme of activities and opportunities for the Board to meet and engage with FSCS's people in different ways, providing a quarterly engagement update as a standing item on the Committee's agenda and developing a revised engagement mechanism within the workforce.

Taking account of the interests of stakeholders

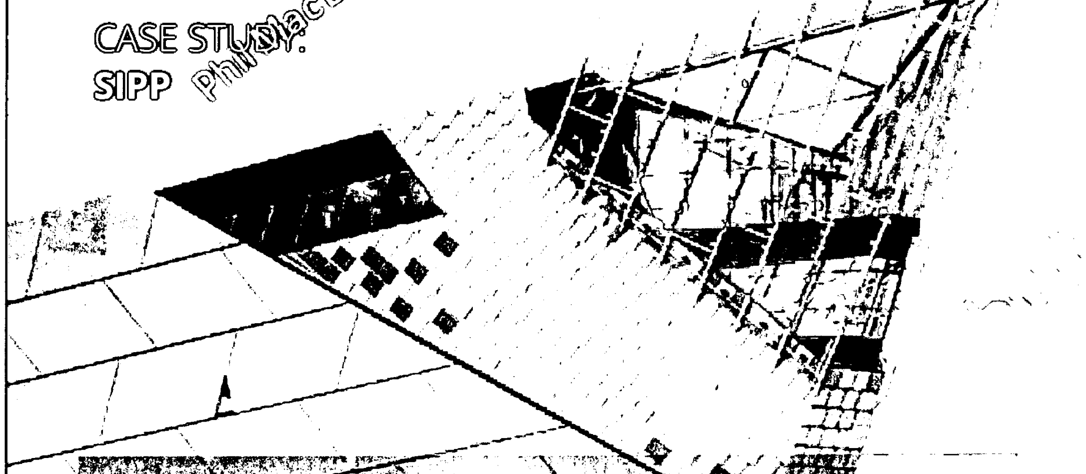
Directors have a duty, under Section 172 of the Companies Act 2006, to promote the success of the company, taking into account the views of the company's stakeholders. The Board considers, in its discussions and decision-making, matters such as: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; and the desirability of maintaining a reputation for high standards of business conduct.

The following section outlines how the Board has considered the interests of FSCS's key stakeholders and its other stakeholders in its discussions and decision-making:

- **Customers** – as our customers are at the heart of everything that FSCS does, directors always consider the implications for customers of any decisions, both in terms of the quality of service that FSCS provides and while recognising FSCS's statutory role in processing claims for compensation in accordance with the rules in an efficient, timely and customer-friendly manner.
- **Levy payers** – as FSCS's costs are funded by levies, the interests of levy payers are taken into account when preparing levies and planning any communications regarding indicative or actual levies. Feedback from levy payers is also taken into account by the Board on levy-related issues, and when significant changes in compensation forecasts may result in additional or interim levies. The potential impact on levy payers is also considered when discussing larger business failures that might result in significant levies. Directors are also mindful that there are expectations around FSCS being cost-effective in its operations, and also have regard to FSCS's obligation to pursue recoveries that are likely to be both reasonably possible and cost-effective to pursue.

- **Regulators** – directors ensure that there is a regular and close dialogue with the FCA and PRA on matters of mutual interest. While FSCS is operationally independent from the regulators, it is accountable to them as well as to the Bank of England and HM Treasury, so there is regular reporting on both FSCS's operations and on specific matters considered by the Board. Where the Executive is aware of certain views expressed by these parties, directors are advised accordingly so that they can be considered when making decisions. The Board also seeks to ensure that FSCS fulfils its obligations in running the compensation scheme efficiently and cost-effectively, in accordance with statute and the rules, and reports to the regulators on its proposed budget.
- **Partners and suppliers** – the Board ensures that FSCS operates to high standards of business conduct, with appropriate policies, governance and procedures in place for procurement and contract management, together with values and standards expected when dealing with third parties. During the year, the Board also approved the publishing of a Modern Slavery Statement on a voluntary basis, which is available on the FSCS website, www.fscs.org.uk/about-us/modern-slavery/.
- **FSCS's people** – directors consider the potential impact of their decisions on employees, including issues relating to morale and resourcing, and ensure that workplace policies and practices are fair and reasonable. New arrangements have been agreed to enhance the Board's engagement with the workforce – described in the section above – so that, among other things, the views of the workforce on certain matters can feed directly into Board and committee discussions.

CASE STUDY:
SIPP



> When Brian Cox learnt his Self-Invested Personal Pension (SIPP) was worthless after the company he had trusted his personal pension to mis-invested it, he went through months of anguish, believing all hope of retirement had gone.

Brian, a 62-year-old factory worker from Hull, said, "When I found out that my pension had gone I was in total shock. I thought it had been transferred into a low-risk SIPP, but the company I used had then moved it into high-risk products and gambled my money away.

"I'd never have agreed to that as I just wanted something that paid out a little bit above the rate of inflation. Within 10 months of transferring my personal pension into a SIPP, the company had gone bust and the shares were worthless.

"It was hard to deal with as £27,500 is a lot of money to me.

"I knew of FSCS as their logo is in my local bank so I immediately got in contact with them but didn't hold out much hope of getting any money back.

"I can't thank FSCS enough as they compensated me for the full amount. If FSCS can't help you, then I don't know who can. Making the claim through FSCS was straightforward as you fill in your details on FSCS's website and include the financial documents they need.

"The claim took a while as they had to do some investigations, but when I got the letter from FSCS in September 2019 to say they would repay the full amount I'd lost, it was worth the wait. They were able to reimburse me as I was given unsuitable advice to transfer my pension and the firm that did the transfer had put my money at risk through their actions.

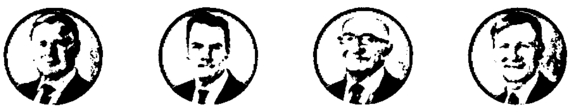
"The process couldn't have been easier. If FSCS hadn't been able to pay me compensation, and thankfully they gave back the full amount, I would have taken this worry to my grave."

FSCS Protected

Committees of the Board

Audit Committee

Committee members as at 31 March 2020



Mark Adams (Chairman)

Steven Cooper

Charles McKenna

Patrick Neville

Roles and responsibilities

The roles and responsibilities are set out in the Terms of Reference for the Committee. Its key responsibilities are to review the financial reporting process, the system of internal control, audit process and the company's process for monitoring compliance with laws and regulations.

The Board is satisfied that at least one member has recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to FSCS's role.

The Committee met four times during the year and reported to the Board after each meeting.

The Chief Executive, together with other executive directors, the Acting Chief Financial Officer, internal auditors and external auditors, attended most meetings by invitation.

Code Provision 31 suggests that directors make a viability statement, explaining how they have assessed the company's prospects, over what period and why that period is appropriate. However, the Audit Committee has previously considered this matter and concluded, given the nature of FSCS and the way it is funded, that it is not appropriate for FSCS to produce such a viability statement. A description of FSCS's going concern basis of accounting is given in the Directors' Report on page 51.

What the Committee has done

Governance

During the year, the Committee:

- reviewed the internal control arrangements and received assurance reports;
- held discussions with both internal and external audit without the Executive;
- reviewed the Scheme's health and safety compliance and environmental performance;
- reviewed the application of the Whistleblowing Policy;
- received reports on data protection;
- considered reports on fraud and money laundering;
- reviewed directors' expenses;
- reviewed FSCS's corporate insurances;
- considered reports on quality assurance reviews;
- reviewed its Terms of Reference; and
- carried out a review of the effectiveness of the Committee.

Financial reporting

The Committee:

- considered the significant accounting judgements and estimates made in connection with the financial statements, together with the appropriateness of the accounting policies;
- considered the appropriateness of the going concern basis of accounting;
- reviewed the Annual Report and Class Statements; and
- reviewed the statements in the Annual Report and Accounts and made recommendations to the Board, following which the Board concluded that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable, and provided sufficient information to enable the company's performance, business model and strategy to be assessed.

Internal audit

The Committee:

- set and reviewed the internal audit plan;
- considered the results of internal audit reports and the action plans to address audit recommendations;
- reviewed and approved the Internal Audit Policy and Internal Audit Charter; and
- carried out its annual review of the internal audit function.

The internal auditors had separate discussions with the Chairman of the Audit Committee.

External audit

The Committee:

- reviewed the external audit function and process, including the performance of the external auditors.

The external auditors performed no non-audit services during the year.

As described in the Directors' Report on page 51, the Comptroller and Auditor General is the statutory auditor of FSCS, as required under the Financial Services Act 2012. As a result, the Audit Committee does not consider matters relating to the appointment and removal of auditors, the length of tenure of the auditor or any retendering plans, as envisaged under Code Provision 26.

The Board carried out an annual review of the effectiveness of the risk management and internal control systems, and a full report on FSCS's risk and control arrangements is given on pages 46 to 48.

Nomination and Governance Committee

Committee members as at 31 March 2020


Marshall Bailey (Chairman)


Helen Parker


Charles McKenna


Caroline Rainbird

Roles and responsibilities

The roles and responsibilities are set out in the Terms of Reference for the Committee. Its main responsibilities include Board composition and succession planning, reviewing membership of the Board committees, liaising with the PRA and FCA on appointments/reappointments of Board members, and overseeing the Board's governance arrangements and other corporate governance issues.

The process for appointing and reappointing directors involves:

- the Committee discussing Board composition (including mix of skills and experience, diversity and Board size) – a description of FSCS's approach to Board diversity and appointments is given on page 27;
- engaging with the FCA and PRA on the process;
- appointing an external search consultancy for new appointments; and
- using a selection panel of FCA, PRA and FSCS representatives to make proposals for FCA and PRA approval (and HM Treasury, in the case of the Chairman and Chief Executive).

The Committee met twice during the year and reported to the Board after each meeting. Additional discussions regarding appointments and reappointments of directors were also held outside of formal meetings.

What the Committee has done

The Committee:

- reviewed the composition of the FSCS Board and directors' terms of appointment in the light of expiring appointments of directors in 2020 and 2021, and made proposals for the recruitment and reappointment of non-executive directors and for the recruitment of a new Chief Financial Officer;
- reviewed and endorsed the current approach towards Board diversity, which is described on page 27;
- reviewed and made recommendations to the Board for changes to the memberships of certain committees of the Board;
- considered executive director succession planning;
- reviewed its Terms of Reference; and
- carried out a review of the effectiveness of the Committee.

FSCS used open advertising and an external search consultancy for Board appointments made during the year. Odgers Berndtson was engaged as external search consultancy for the recruitment of the new Chief Executive and a new non-executive director. Odgers Berndtson has no other connection with FSCS.

Remuneration and Human Resources Committee

Committee members as at 31 March 2020

Helen Parker (Chairman)

Marshall Bailey

Steven Cooper

Richard Parkin

Roles and responsibilities

The roles and responsibilities are set out in the Terms of Reference for the Committee. Its main responsibilities include executive director remuneration, FSCS's broader remuneration policy, employee benefit structures, the ongoing development and execution of the People Strategy, monitoring corporate responsibility and overseeing diversity and inclusion.

The Committee met four times during the year and reported to the Board after each meeting.

The Chief Executive and Chief People Officer attended most meetings by invitation.

What the Committee has done

During the year, the Committee:

- made recommendations to the Board for the approval of the Chief Executive's remuneration package and determined the remuneration packages of other executive directors, having taken into account comments from the Chief Executive – in the case of executive directors, performance and market data provided by external consultants are taken into account and remuneration incorporates a performance-related element;
- made recommendations to the Board on the proposed salary budget in the light of market conditions in the UK economy and relevant external research and forecasts;
- reviewed FSCS's performance as part of its determination of the size of the bonus pool;
- reviewed succession planning and talent management;
- reviewed executive priorities;
- considered the Scheme's approach to diversity and inclusion and corporate social responsibility;
- reviewed the revised People Strategy;
- received reports on exit interviews;
- reviewed and revised the Scheme's Remuneration Policy;
- considered the latest internal People Survey;
- reviewed the Redundancy Policy;
- considered arrangements for developing the Board's engagement with the workforce – this is described on page 29;
- reviewed its Terms of Reference; and
- carried out a review of the effectiveness of the Committee.

FSCS engaged Twentysix Consulting as remuneration consultants. Twentysix Consulting has no other connection with FSCS.

A report on directors' remuneration is given in the Directors' Remuneration Report on pages 42 to 45.

Claims Decisions Committee

Roles and responsibilities

The Claims Decisions Committee meets on an ad hoc basis to consider marginal or unusual claims and difficult claims issues referred to it by the Executive. It consists of three directors: the Chief Executive (or another executive director) and any two non-executive directors. The non-executive directors are selected at the time the Committee meeting is convened.

There were no meetings of the Committee held during the year.

Risk Committee

Committee members as at 31 March 2020

Charles McKenna (Chairman)

Mark Adams

Patrick Neville

Richard Parkin

Roles and responsibilities

The roles and responsibilities are set out in the Terms of Reference for the Committee. Its key responsibilities are to review FSCS's risk management approach, its approach to risk tolerance and its mitigation of those risks. It also reviews FSCS's contingency planning arrangements and disaster recovery plans.

The Committee met four times during the year and reported to the Board after each meeting.

The Chief Executive, together with other executive directors, the Acting Chief Financial Officer, the Head of Organisational Risk and Resilience (and formerly the Chief Risk Officer) and internal auditors attended most meetings by invitation.

What the Committee has done

During the year, the Committee:

- considered the implementation of the revised Risk Management Framework;
- reviewed FSCS's risk profile (a standing item for each meeting);
- considered FSCS's risk tolerances and risk appetite;
- reviewed the Risk Management Policy;
- reviewed the Scheme's resilience profile, which included contingency planning arrangements for large business failures in the financial services industry and disaster recovery arrangements;
- reviewed its Terms of Reference; and
- carried out a review of the effectiveness of the Committee.

A report on FSCS's risk and control framework is given on pages 46 to 48, which includes a description of the Board's assessment, through the mechanisms described, of the company's principal and emerging risks.

Attendance at meetings and appointment terms

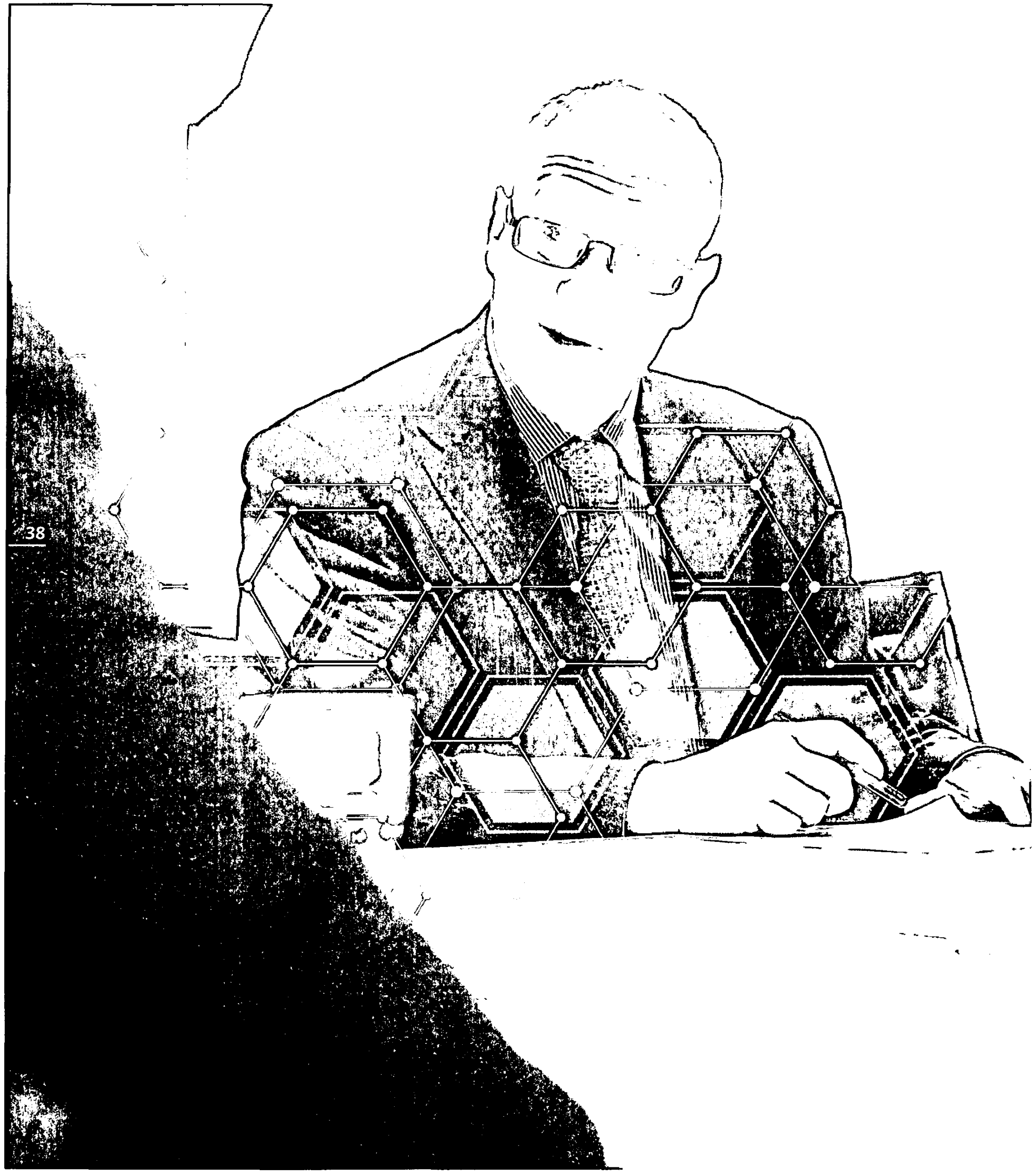
	Board	Audit Committee[1]	Remuneration and Human Resources Committee[1]	Nomination and Governance Committee[1]	Risk Committee[1]	Claims Decisions Committee[1]	Appointment date	Expiry of term/ Resignation
No. of meetings held	**8**	**4**	**4**	**2**	**4**	**0**		
Non-executive directors:								
Mark Adams	8	4	–	–	4	–	1 Jun 2015	*Resigned* 23 Apr 2020
Marshall Bailey	8	–	4	2	–	–	1 Apr 2018	31 Mar 2021
Steven Cooper	8	3	4	–	–	–	1 Jul 2017	30 Jun 2020
Marian Glen[2]	5	–	3	2	–	–	1 Feb 2013	31 Jan 2020
Charles McKenna	8	4	–	2	4	–	1 Feb 2013	31 Jan 2021
Patrick Neville	8	4	–	–	4	–	1 Jul 2017	30 Jun 2020
Helen Parker	8	–	4	–	4	–	1 Jul 2017	30 Jun 2020
Richard Parkin[3]	6	–	1	–	3	–	1 Jul 2019	30 Jun 2022
Executive directors:								
Jimmy Barber	8	–	–	–	–	–	4 Jan 2016	3 Jan 2022
Alex Kuczynski	8	–	–	–	–	–	1 Feb 2010	*Resigned* 9 Apr 2020
Caroline Rainbird	8	–	–	2	–	–	13 May 2019	12 May 2022
Kathryn Sherratt[4]	1	–	–	–	–	–	15 Dec 2015	*Resigned* 23 May 2019

1 Attendance shown only for committee members.

2 Marian Glen left the Board on 31 January 2020. She was eligible to attend six Board meetings, three Remuneration and Human Resources Committee meetings and two Nomination and Governance Committee meetings.

3 Richard Parkin joined the Board on 1 July 2019. He was eligible to attend six Board meetings, one Remuneration and Human Resources Committee meeting and three Risk Committee meetings.

4 Kathryn Sherratt left the Board on 23 May 2019. She was eligible to attend one Board meeting.



The Board of Directors

Executive directors

Caroline Rainbird
(Chief Executive, with effect from 13 May 2019)
Caroline brings a wealth of global experience from a career spanning 30 years within the financial services sector encompassing senior regulatory, strategic, commercial, operational, investment banking, and client-led roles.

Between 2009 and 2017 Caroline held senior positions at Royal Bank of Scotland (RBS) working most recently as Managing Director of Regulatory Affairs and prior to this Director of RBS's Corporate Services Division. Caroline was responsible for defining and delivering the bank's strategic and proactive engagement and profile with its global regulators, advising the Board and Executive on its regulatory engagement and compliance, as well as monitoring bank-wide upstream regulatory risks and delivering mandatory regulatory change programmes. She also brings extensive experience in operations, service delivery, financial performance and risk.

From 1995 to 2009 Caroline worked at ABN AMRO, undertaking a number of leadership and transactional roles within Group Shared Services, Finance, Change Management and Structured Finance.

Jimmy Barber
(Chief Operating Officer)
Jimmy joined FSCS in early January 2016 from the RSA Insurance Group where he worked as the Operations Development Director and (before this) as the Commercial Operations Director. Before the RSA, Jimmy held major operational roles at Capital One and at Ladbrokes.

Since joining FSCS Jimmy has led our Operations, Technology, Change, Data and Analytics and Digital teams to transform how FSCS serves its customers. This has resulted in a more efficient service that meets customer needs in this fast-moving digital age.

Non-executive directors

Marshall Bailey OBE
(Chairman)
Marshall has substantial experience in leading complex international committees and boards. His background spans a range of sectors, including banking and capital markets, government regulation and public policy, and he has taken a particular interest in working with codes of conduct.

Marshall is Chairman of LCH Group Holdings Limited and an independent director of London Stock Exchange Group plc. He is the non-executive Chairman of CIBC World Markets in London and a member of the Audit Committee for the London branch.

Additionally, he represents the Public Investment Fund of Saudi Arabia on the Board of the National Commercial Bank in Jeddah. He volunteers on the Board of the CFA Society of the UK, as well as the East End Community Foundation in Tower Hamlets.

Steven Cooper
Steven is the Chief Executive of C. Hoare & Co, having most recently been Chief Executive at Barclaycard Business Solutions, managing the Payments Division for Barclaycard globally. Within his 30 years in the banking industry, Steven has been Chief Executive of Personal Banking at Barclays for both UK and Europe, where he gained a wealth of experience in the rapidly changing landscape of consumer banking with digital technology and data. He has also led UK Business Banking and businesses for Barclays in Africa, India and offshore locations. Steven is currently a non-executive director of Robert Walters plc and sits on a number of advisory boards, including being a Commissioner for the Social Mobility Commission, and is also an alumnus of Harvard Business School.

Charles McKenna
(Deputy Chairman and Senior Independent Director)
Charles has a background in law and spent more than 30 years with law firm Allen & Overy, including 22 years as a Partner specialising in corporate, financial services and regulatory law. He has an extensive understanding of international business activity and challenges, including strategy development, corporate governance, risk management, corporate finance, restructuring and insolvency, joint ventures and other commercial arrangements.

Charles also has a wealth of experience and expertise in the financial services sector where he has advised banks, investment managers and brokers, financial institutions and regulatory bodies. In the 1980s, he was involved in the formation of the Securities Association, the first UK self-regulating organisation, which included advising on its constitution and rulebook. He served for three years on the Board of Hart Citizens Advice Bureau.

Patrick Neville

Patrick is a Chartered Accountant and has had an extensive career in financial services, operating in leadership roles across banking, asset management and insurance. Formerly Chief Financial Officer at Aviva Investors, Patrick was also Finance Operations Director for Aviva's UK Life and General Insurance businesses and spent 16 years with Royal Bank of Scotland, latterly as Finance Director of the Cards and Direct Finance business.

He brings to the Board a strong track record in the delivery of large-scale change and a deep understanding of the implementation and operation of risk and control frameworks in financial services. Patrick is also non-executive Chair of PATAC Limited, an investment trust administration company, and a director of Decisioning Blueprints Ltd.

Helen Parker

Helen brings an in-depth understanding of consumer research, policy and communications across a range of essential markets. She was Deputy Chief Executive of *Which?*, Europe's largest independent consumer organisation, and, before that, served as its Director of Policy, Editorial Director, and Editor of *Which?*.

Her non-executive experience now includes being a committee member of Healthwatch England, the independent consumer champion for users of health and social care. She serves on the Independent Governance Committee of Aegon, responsible for challenging the company on the value for money delivered to its millions of workplace pension customers. And she is a member of the independent Challenge Group established by the energy regulator Ofgem as part of its price control process for UK energy networks.

She previously served as a non-executive director of the *Fundraising Standards Board*, then the regulator of UK charity fundraising, and as a Council member of Consumers International, the world federation of consumer rights groups with 200 member organisations in 100 countries.

Richard Parkin

Richard is an independent management consultant specialising in pensions and retirement. He works with pension providers, asset managers and other organisations, helping them with strategy, policy and proposition development and management. Richard's main area of interest is in developing better retirement solutions to help consumers get the most from their retirement savings.

He has 30 years' experience in the pensions sector, most recently at Fidelity International where he held a variety of senior roles including Head of Retirement and Head of Pensions Policy. He also has extensive knowledge of investment-linked insurance, having launched and led Fidelity's insurance business in Ireland and been an executive director of its UK insurance company. Prior to Fidelity, Richard held senior product development roles at UBS Global Asset Management and was a pension consultant with what is now Willis Towers Watson.

He is a well-known industry figure having chaired the Association of British Insurers' Retirement Working Group and, more recently, led a working group on retirement for the Investment Association.

Directors' Remuneration Report

Certain parts of this report are subject to audit, and these are marked in the relevant sections.

Annual report on remuneration

Non-executive directors' fees are reviewed and set by the FCA and the PRA. FSCS is responsible for setting the remuneration for executive directors. The Remuneration and Human Resources 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 the other executive directors are determined by the Remuneration and Human Resources Committee. A fuller description of the work of the Remuneration and Human Resources Committee is given on page 35.

Directors' remuneration table for 2019/20

Audited section	2019/20					
	Fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000	Fees and salary[1] £'000
Non-executive						
Mark Adams	**25–30**	**3.7**	**-**	**-**	**30–35**	25–30
Marshall Bailey	**75–80**	**0.1**	**-**	**-**	**75–80**	75–80
Steven Cooper	**20–25**	**-**	**-**	**-**	**20–25**	20–25
Marian Glen[5]	**20–25**	**5.3**	**-**	**-**	**25–30**	25–30
Charles McKenna	**25–30**	**-**	**-**	**-**	**25–30**	25–30
Patrick Neville	**20–25**	**4.9**	**-**	**-**	**25–30**	20–25
Helen Parker	**25–30**	**0.7**	**-**	**-**	**25–30**	20–25
Richard Parkin[5]	**15–20**	**-**	**-**	**-**	**15–20**	-
Executive						
Jimmy Barber	**315–320**	**2.6**	**50–55**	**39**	**410–415**	235–240
Alex Kuczynski	**610–615[1]**	**2.5**	**-**	**22**	**635–640[1]**	225–230
Mark Neale[5]	**30–35**	**-**	**-**	**2**	**30–35**	260–265
Kathryn Sherratt[5]	**35–40**	**0.2**	**-**	**3**	**35–40**	185–190
Caroline Rainbird[5]	**235–240**	**0.7**	**40–45**	**14**	**290–295**	-
Highest paid director's banded total remuneration[5] (£'000)					**310–315**	
Median total remuneration for FSCS staff[6] (£)					**57,748**	
Remuneration ratio[6]					**5.4**	

2018/19			
Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000
2.5	–	–	30–35
–	–	–	75–80
–	–	–	20–25
6.2	–	–	35–40
–	–	–	25–30
5.3	–	–	25–30
1.0	–	–	25–30
–	–	–	–
2.2	45–50	31	320–325
2.1	25–30	20	275–280
0.0	35–40	23	325–330
0.8	25–30	16	230–235
–	–	–	–
			300–305
			55,227
			5.5

Notes:

1 The Chairman and other non-executive directors are paid fees, and executive directors are paid salaries. Executive directors do not receive fees or any additional remuneration in respect of their roles as directors. Salaries and fees are stated for the financial year in respect of which they are earned and relate to each director's period of appointment. For executive directors, the figures in the 'Fees and salary' column constitute basic salary, non-taxable benefits, other benefits paid through PAYE, compensation for loss of office (for Alex Kuczynski, as outlined below under 'Compensation for loss of office') and any additional payments or special allowances as may be agreed from time to time. More details on directors' salaries and fees are given in the relevant section below.

2 'Taxable benefits' represent the gross value of benefits, whether cash or non-cash, that are chargeable to UK income tax. A description is given below under 'Other benefits'. The figures in this column include certain employee benefits taken up by executive directors and any taxable expenses directly and properly incurred by directors in the performance of FSCS duties. For the Board as a whole, these taxable expenses amounted to £14,800 in 2019/20 (2018/19: £15,000) (to the nearest £100). The majority of these additional taxable expenses relate to non-executive directors' travel to FSCS, and any associated subsistence, for attending Board and committee meetings, and include the associated income tax and National Insurance liability, which is met by FSCS in accordance with HM Revenue & Customs guidelines.

3 'Performance-related bonus' is stated for the financial year in respect of which it is earned. More details on the bonus framework are given in the relevant section below.

4 'Pension' is shown as the amounts paid by the employer to defined contribution pension schemes and cash in lieu of pension. Other details are given below under 'Directors' pension entitlements'.

5 Marian Glen left the Board on 31 January 2020. Richard Parkin joined the Board on 1 July 2019. Mark Neale left the Board on 3 May 2019. Kathryn Sherratt left the Board on 23 May 2019. Caroline Rainbird joined the Board on 13 May 2019.

6 This section of the table shows the relationship between the remuneration of the highest paid director and the median remuneration of the organisation's workforce. The banded remuneration of the highest paid director in 2019/20 was £310,000–£315,000 (2018/19: £300,000–£305,000). This was 5.4 times (2018/19: 5.5 times) the median remuneration of the workforce, which was £57,699 (2018/19: £55,227). For this purpose, total remuneration includes basic salary, bonus and taxable benefits. It does not include pension contributions or cash in lieu of pension, and, to maintain consistency of comparability, it does not include payments for compensation for loss of office or any one-off or special non-recurring additional payments. Details of the remuneration of the highest paid director are given in note 10 to the financial statements.

Directors' remuneration framework

Directors' fees and salaries

Non-executive directors

The current non-executive director fees, including those of the Chairman, were set in April 2011 and have not changed since.

The fees paid or payable to the Chairman in 2019/20 were set at £75,000 per annum (2018/19: £75,000), and fees paid or payable to other independent non-executive directors were set at £24,500 per annum (2018/19: £24,500). Additional fees paid or payable to the chairmen of the Audit Committee, Risk Committee and Remuneration and Human Resources Committee were set at £5,000 per annum (2018/19: £5,000). The Chairman of the Board was also the Chairman of the Nomination and Governance Committee but does not receive an additional fee for this role. Similarly, an additional fee is not payable to the Deputy Chairman and Senior Independent Director for these roles.

Executive directors

The Remuneration and Human Resources Committee has applied certain principles when reviewing executive remuneration.

First, as with the organisation more generally, the growth in the salaries of individual executive directors should be set with regard to external comparators. For this purpose, FSCS regards the median salary for equivalent roles as the appropriate benchmark. This is to ensure that, broadly, FSCS matches market rates in order to motivate and retain, but not necessarily to pay significantly more or less generously than the market.

Second, the salaries of executive directors are subject to the same starting salary and salary progression procedural guidance as for other staff. Pay growth for the coming year was taken as 2 per cent. In some circumstances, FSCS may allow salaries to increase faster than the annual inflationary increase to reflect specific market pressures or recruitment challenges for in-demand roles, or where the loss of critical people jeopardises FSCS performance.

Salaries for executive directors were subject to an independent market pay review carried out across the organisation by external consultants for salaries in 2020/21. These benchmarking exercises are usually carried out every other year, so in alternate years, the last time being for 2019/20 salaries, benchmarks and salaries are generally increased in line with the overall uplift in the salary bill as agreed by the Remuneration and Human Resources Committee and the Board.

The salaries of executive directors were reviewed and determined in line with the above principles and by reference to the performance assessments and benchmark data.

Performance-related bonus

Audited section

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

The key principle underpinning the bonus system is that bonuses should be non-consolidated performance awards reflecting the contribution of the executive director concerned to the performance of FSCS as a whole. Objectives are set for each executive director and include an element of strategic objectives 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. The maximum bonus award is 20 per cent of salary.

Executive directors' bonuses may be clawed back by the company where control failures or misreporting of performance information come to light after the award of bonuses which, had they been known when the bonuses were awarded, would have materially affected bonus decisions.

Directors' pension entitlements

Audited section

During the year, one director (2018/19: one) had a prospective entitlement to a defined benefit pension as well as accruing retirement benefits under the money purchase pension scheme. Four additional directors (2018/19: three) also accrued retirement benefits during the year under the money purchase pension scheme only. The non-executive directors are not entitled to a pension funded by FSCS.

Alex Kuczynski

Accrued pension at 31 March 2020 £'000	Real increase in pension £'000	CETV at 31 March 2019 £'000	CETV at 31 March 2020 £'000	Real increase in CETV £'000
34	0	1,297	1,411	92

The executive directors in post during the year were members of the defined contribution (money purchase) pension scheme, on the same terms as for other employees. A new contribution structure was put in place with effect from April 2019. Employees make a minimum contribution of 1 per cent of basic salary, with FSCS making a further minimum contribution of either 9 per cent (for employees with less than three years of service) or 11 per cent (for employees with at least three years of service). This increases on a rising scale by 1 per cent for every additional 1 per cent that the employee makes, up to a maximum FSCS contribution of 13 per cent or 15 per cent depending on the above length of service.

The defined benefit (final salary) pension scheme closed to future accrual on 30 June 2011. Defined benefit pension entitlements accrued for Alex Kuczynski as a result of participation in the defined benefit pension scheme from his date of joining the pension scheme to the date of the pension scheme closing to future accrual on 30 June 2011. The accrued pension is the pension that the member is entitled to receive when he reaches pension age, albeit that this increases in line with the pension scheme's rules between 31 March 2020 and his normal retirement date (age 60). Mr Kuczynski may elect to retire earlier than his normal retirement date but the pension will be subject to an actuarial reduction. Due to the nature of these defined benefit pension rights being different from retirement benefits accruing in a defined contribution scheme, further details are given in the table above.

Compensation for loss of office

Audited section

Alex Kuczynski left FSCS under redundancy terms on 9 April 2020. He received a gross settlement payment from FSCS of £380,228, which is included in the 'fees and salary' figure in the Directors' remuneration table on pages 42 to 43.

Other benefits

Executive directors are entitled to receive other benefits, some of which are taxable benefits and some of which are paid through salary sacrifice. Salary sacrifice applies a system where FSCS pays for the benefit pre-salary and the employee's salary is reduced by the same amount, with the employee then paying tax only on the salary received. Other benefits include: private medical cover; dental insurance; a 'virtual GP' facility; gym subsidies; life assurance; critical illness cover; health screening; travel insurance; flu vaccinations; annual professional subscriptions; and access to the employee assistance programme helpline. Taxable benefits are reflected in the Directors' remuneration table on pages 42 to 43.

Remuneration for executive directors holding other non-executive positions

Executive directors may hold positions in other organisations as non-executive directors, and decisions on whether the remuneration earned from such appointments may be retained are made on a case-by-case basis.

Definitions

- A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the defined benefit pension scheme benefits accrued by a member at a particular point in time. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement if the member chooses to leave a scheme and transfer their accrued benefits.
- The 'real increase in CETV' reflects the change in CETV using actuarial factors based on market conditions at the start and end of the period. The 'real increase in CETV' is net of the increase in accrued pension due to inflation.

Risk Management Report

Risk Management Framework

Risk monitoring and reporting

- Key risk indicators
- Assurance plan
- Thematic reviews

Risk identification

- Key categorisation and sources
- Horizon scanning
- Event reporting

Risk response

- Risk acceptance and mitigation
- Risk management and prioritisation
- Risk challenge

Risk appetite

- Defined risk appetite statement
- Defined level for risk appetite
- Qualitative risk statements and target risk levels

Risk assessment

- Risk analysation
- Risk evaluation
- Control environment

Our approach to risk management

Risk management is central to the strategic objectives and corporate governance of FSCS. It is recognised that there are risks inherent in the deployment and management of processes, systems and people involved in meeting its objectives, and therefore the objective of risk management is to ensure that risks to FSCS are identified, assessed and controlled to an acceptable level.

In support of this, FSCS operates a risk governance approach based on the 'three lines of defence' model.

FSCS recognises the importance of sound risk management practices and the need to continuously improve these. A refresh of the Risk Management Framework was completed during 2019/20.

As part of the second line, the Risk function maintains a level of independence from the first line, reporting both to a member of the Executive Team and to the Board's Risk Committee. The Risk function maintains a central Risk Register, which is derived from relevant extracts of business/functional risk registers maintained by the first line. The function also provides a risk profile to the Executive Team and the Board's Risk Committee every quarter.

Risk management and controls

The Board is responsible for setting the risk appetite that FSCS is prepared to accept in achieving its strategic objectives, and therefore is responsible for maintaining sound risk management and internal control systems.

Governance structure, accountabilities and delegations: a clear Board and Executive governance structure is in place, which sets accountabilities and delegations.

Policies: FSCS operates a set of overarching policies, with defined responsibility for approval of these policies resting with the Chief Executive, the Board or the relevant Board committee, as defined in each policy. Policy owners are responsible for the maintenance, communication, compliance monitoring (including logging of breaches or exceptions) and for assessing the impact of breaches on the control environment.

Internal audit: FSCS operates an outsourced internal auditing arrangement that provides independent, objective assurance and consulting activity. The function continued to deliver a risk-based audit plan to provide management and the Board with independent assurance over the effectiveness of the risk management and internal control systems, which was considered as a key source of assurance during the year.

Internal audit provided regular, independent third line challenge in the refresh of the Risk Management Framework which will result in improved effectiveness and efficiency of risk management, control and governance processes.

Whistleblowing: whistleblowing arrangements are in place to ensure that concerns can be raised in confidence and investigated appropriately.

Principal risks and risk tolerance

For FSCS to fulfil our mission, to provide a trusted compensation service for customers, which raises public confidence in the financial services industry we need to:

- provide a well-understood service that delivers accurate compensation payments;
- achieve a level of service that meets customers' reasonable expectations and our service standards;
- maintain the security of information;
- be able to respond to major failures or crises; and
- maintain awareness among consumers.

Consequently, these are the principal risk areas underpinning FSCS's Risk Management Framework. The associated risk tolerances identify the level at which FSCS can tolerate a risk materialising and guide first-line management in designing and implementing controls to keep FSCS within these tolerances. Any realisation of risks outside agreed tolerance levels is reported to the Risk Committee and appropriate remedial actions taken. The Risk Committee reports to the Board after each meeting.

FSCS has five principal risks, and like all risks, FSCS adopts a range of controls to mitigate these. The five principal risks and highlights of their controls are as follows:

- FSCS pays the wrong amounts to the wrong people.
  - Claims handlers and reviewers are trained and accredited and follow fully documented processes and procedures. We have an independent quality assurance (QA) function to further review claims. All payments are approved and made at FSCS.
- FSCS provides a poor service that fails to meet service standards and which damages customer confidence and trust.
  - FSCS measures customer satisfaction, and the Board also reviews customer complaints as well as receiving reports from the Independent Investigator which can be found on page 24.
- FSCS does not protect market-sensitive or personal information.
  - FSCS has achieved and maintains an ISO 27001 accredited registration covering the protection of market-sensitive information in the delivery of services. This accredited registration was independently reviewed and recertified in March 2020.
- FSCS cannot respond effectively to a major failure or financial crisis.
  - FSCS's Risk Committee monitors both the likelihood of, and our own preparedness for a wide range of failures of UK firms, which would trigger FSCS protection. FSCS

undertakes regular exercises with its partners to validate its preparedness to implement its continuity plans and works with the financial regulatory authorities on its testing and planning.

- FSCS protection is unknown or not understood.
  - FSCS commissions market research quarterly into levels of awareness of FSCS and/or of our protection. This reached 80 per cent during the year.

Risk tolerance issues

Two issues were identified during 2019/20 that represented breaches of FSCS's risk tolerances:

Claims errors: we breached our tolerance in relation to payment errors, as identified through quality assurance activities. The breaches related to a combination of overpayments and underpayments to customers. Process improvements and enhanced training and guidance have been implemented to address the identified issues. For more information see pages 84 to 85.

Customer satisfaction: for one reporting period customer satisfaction fell below tolerance. This was recovered quickly, with customer satisfaction remaining within tolerance for the remainder of the year.

Coronavirus pandemic

The coronavirus pandemic is an emerging, principal risk for FSCS, both to our ability to operate and to our ability to fund our operations.

Practical experience since the start of the coronavirus lockdown has demonstrated that the company can successfully operate in a remote working environment. The future impact that the coronarivus might have directly or indirectly on FSCS will be closely monitored, with appropriate actions and response strategies applied.

Under legislation, to pay for our costs we may levy the financial services industry or utilise borrowing mechanisms, whether government or commercial, should levy requirements be in excess of the industry's immediate ability to pay. At 31 March 2020, FSCS had collected almost 75 per cent of the £207m payments on account for 2020/21 levies, where the largest 1,000 levy payers pay 50 per cent of their prior year levy in advance. We do not foresee any obstacle to the ability to fund our operations.

Continuous improvement

As part of our approach to continuous improvement, FSCS is moving to develop and refine its approach to risk appetite. This will enable the first line to manage risk within risk appetite parameters, and the Risk team (second line) to provide an objective assessment of the overall risk landscape both in comparison to our risk appetite and the effectiveness of the associated controls. This goes beyond risk tolerance and reflects a maturity in our approach. In support of this, we are adopting a technology approach to enable the consistent capture, management and reporting of risks and controls, to provide the Executive Team and the Board's Risk Committee with enhanced risk and control reporting.

The risk landscape

Our approach to risk management extends beyond the present; we horizon scan the landscape to understand what threats may impact FSCS and therefore become risks for us to manage (emerging risks), we also look for the opportunity in those too.

A tangible example of this in action relates to the coronavirus pandemic. FSCS is exposed to risks in relation to resilience and our people. These risks are within our control and therefore can be managed. Through assessing the wider landscape, we were able to identify the emerging epidemic in China before the UK was directly impacted, and so plan the optimal response for FSCS. The future impact that the coronavirus might have directly or indirectly on FSCS will be closely monitored, with appropriate actions and response strategies applied.

Environmental Reporting

During the year, FSCS used 734,607 kWh of electricity in our office, Beaufort House, including an allocation for the common areas, and our disaster recovery site.

This amounts to 188 tonnes of CO_2, using the Department for Business, Energy & Industrial Strategy's 2019 conversion factors, giving an intensity ratio of 0.007164 tonnes of CO_2 per square foot of office space.

Throughout the year we continued to manage our electricity usage by:

- using the Trend 963 Building Management System to schedule air handling units to be in operation during normal working hours 08:00 – 18:00 Monday to Friday (excluding bank holidays);
- using an LED (light-emitting diodes) system;
- reducing PIR lighting deactivation timescales following periods of inactivity;
- managing a planned preventative maintenance programme on lighting systems and air handling units; and
- leasing energy efficient vending machines that fall into sleep mode following a period of inactivity.

The total energy calculation was calculated in kilowatt-hours (kWh) based on monthly consumption data provided to us by the landlord.

The total energy calculation includes electricity consumption only. Although we use gas at Beaufort House for heating purposes, this is included within our service charge and is the responsibility of the landlord.

Directors' Report for the Year Ended 31 March 2020

The directors of Financial Services Compensation Scheme Limited (FSCS) present their report, together with the audited financial statements of FSCS on pages 59 to 85, for the year ended 31 March 2020.

The directors have chosen to prepare these financial statements in accordance 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 of the company who were in office during the year and up to the date of signing the financial statements, all of whom are independent non-executive directors unless stated, were as follows:

Caroline Rainbird
Chief Executive and Executive Director
(appointed 13 May 2019)

Mark Neale
Chief Executive and Executive Director
(resigned 3 May 2019)

Aleksander (Alex) Kuczynski
Executive Director
(resigned 9 April 2020)

Kathryn Sherratt
Executive Director
(resigned 23 May 2019)

James (Jimmy) Barber
Executive Director

Marshall Bailey
Chairman

Mark Adams
(resigned 23 April 2020)

Steven Cooper

Marian Glen
(retired 31 January 2020)

Charles McKenna

Patrick Neville

Helen Parker

Richard Parkin
(appointed 1 July 2019)

Directors' remuneration

Details of directors' remuneration are shown in the Directors' Remuneration Report and in note 10: Directors' remuneration.

Directors' indemnity and insurance

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

Statement of disclosure of information to auditors

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

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information, and to establish 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 to 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 state of affairs 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 responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and 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 in a position to meet its obligations as they fall due. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis. The directors have explicitly considered the impact on FSCS of the coronavirus pandemic. See page 48 for more details.

Independent auditor

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

Approval of the Accountability Report

The Accountability Report comprises:

- Statement of Accounting Officer's responsibilities
- Corporate Governance Report
- Directors' Remuneration Report
- Risk Management Report
- Directors' Report

This was approved by the Board on 19 May 2020 and signed on its behalf by:

Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme
22 June 2020

06

AUDITOR'S REPORT

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

Opinion on financial statements

I certify that, I have audited the financial statements of Financial Services Compensation Scheme Limited (FSCS) for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and the related notes, including the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of FSCS's affairs as at 31 March 2020 and of the results for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006 and HM Treasury direction issued under the Financial Services and Markets Act 2000.

The regularity framework described in the table below has been applied:

Regularity Framework	
Authorising legislation	Financial Services and Markets Act (FSMA) 2000; Financial Services Act 2012; The Financial Services (Banking Reform) Act 2013
Parliamentary authorities	None
HM Treasury and related authorities	Managing Public Money; FSCS and HMT Framework Document 2012

Opinion on regularity

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

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing FSCS, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to FSCS's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with my knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that FSCS will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements 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 report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of FSCS in accordance with the ethical requirements that are relevant to my audit and 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.

Key audit matter 1

Completeness and valuation of recovery receivables

FSCS recovers funds from the administrators of failed firms' estates to offset compensation that has been paid out to its customers.

In line with accounting standards, an asset must be recognised when FSCS becomes party to contractual provisions. These recoveries are held at fair value through profit and loss. There is however a significant degree of judgement and uncertainty in estimating the value of such expected recoveries. Therefore, I have classified it as a key audit matter.

How the scope of my audit responded to the risk

I tested the design and implementation of controls that FSCS had in place to mitigate these risks. In doing so I applied professional scepticism in the assessment of the adequacy of management's review of their accounting estimates and assumptions used in calculating the recovery of receivables at the year-end.

In addition:

- I tested the completeness of receivables through, for example, an assessment of the receivables not recognised at 31 March 2020.
- I performed an assessment of the policies and processes behind receivables recognition.
- I tested those receivables recorded at 31 March 2020 to supporting information to assess whether they are appropriately valued.

Key observations

Overall the results of my testing on this area was satisfactory.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around levy income, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 32 to 33.

There has been one change in this year's report to the risks identified in my prior year report. The general issuance cut-off key audit matter has been de-recognised. In the prior year the new year end-process operated effectively and materially captured all General Insurance claims at year end. Therefore, this is no longer presented as a key audit matter.

In addition, I have not included the presumed risk of management override of controls as a key audit matter in this report since I have judged this not to have particular significance for the audit of FSCS.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements at £8 million, which is approximately 1.5% of gross expenditure. I chose this benchmark as gross expenditure is the principle consideration for users in assessing the financial performance of FSCS.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in Directors' Remuneration Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £160,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

I have not reported any unadjusted audit differences to the Audit Committee.

.Responsibilities of the Directors for the financial statements

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

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing FSCS's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit.
I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FSCS's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, 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.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement. It was designed to address the key risks and took account of materiality as set out above. I audited all of FSCS's income from both levies and recoveries, with particular focus on the receivable portion of recoveries as discussed above. I also performed detailed testing giving assurance on materially all expenditure and assets, I considered FSCS's framework of authorities throughout my testing, and ensured controls reviewed and transactions tested were consistent with these. This work gave me the evidence I needed for my opinion on the financial statements as a whole.

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report but does not include the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and 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, 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.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or
- Audit Committee reporting: the section describing the work of the Audit Committee does not appropriately address matters communicated by me to the Audit Committee.

I also have nothing to report in this regard.

The corporate governance statement

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

- the information given in the corporate governance statement, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.

Based on my knowledge and understanding of FSCS and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

Opinion on other matters

Directors' remuneration

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the HM Treasury directions made under the Financial Services Markets Act 2000.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with the Companies Act 2006.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which I report by exception

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

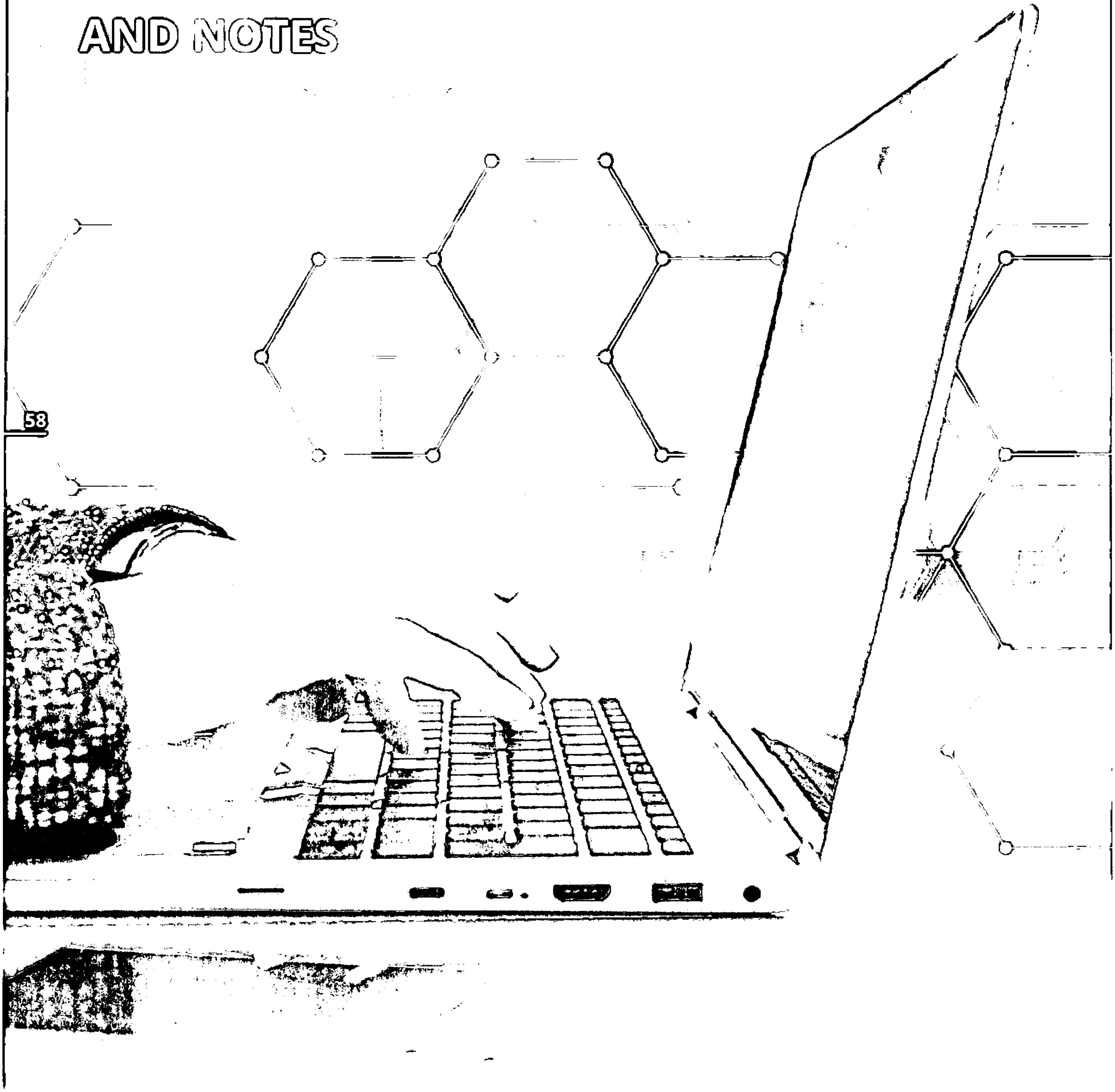
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

I have nothing to report arising from this duty.

Gareth Davies

Gareth Davies
Comptroller and Auditor General
(Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP
25 June 2020

07 FINANCIAL STATEMENTS AND NOTES



Statement of comprehensive income

	Note	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Income:			
Levy income in respect of compensation costs		503,176	432,653
Other levy income		73,203	84,352
Total levy income	*4*	576,379	517,005
Recoveries	*5*	24,246	14,881
Total income		600,625	531,886
Expenditure:			
Compensation costs	*6*	(527,422)	(447,534)
Administrative expenses	*7, 8*	(72,714)	(72,803)
Interest payable	*14*	(41)	(14,211)
Net interest on defined benefit pension scheme	*20*	194	86
Total expenditure		(599,983)	(534,462)
Surplus/(deficit) before tax		**642**	**(2,576)**
Surplus/(deficit) after tax		**642**	**(2,576)**
Other comprehensive income			
Remeasurements on defined benefit pension scheme	*20*	(642)	2,576
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 62 to 85 form part of these financial statements.

Statement of financial position

	Note	As at 31 March 2020 £'000	As at 31 March 2019 £'000
ASSETS			
Non-current assets			
Property, plant and equipment, and leased assets		2,740	843
Other non-current financial assets	*11*	1,921	27,601
Employee benefit assets	*20*	8,000	6,767
		12,661	**35,211**
Current assets			
Trade and other receivables	*11*	100,212	84,302
Cash and cash equivalents	*12*	246,558	129,741
		346,770	**214,043**
Total assets		**359,431**	**249,254**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		**–**	**–**
Non-current liabilities			
Other non-current financial liabilities	*13*	9,921	34,368
Provisions	*15*	774	368
Lease liabilities	*14*	964	–
		11,659	**34,736**
Current liabilities			
Bank overdraft	*12*	2,762	3,089
Trade and other payables	*13*	259,544	155,849
Provisions	*15*	84,462	55,580
Lease liabilities	*14*	1,004	–
		347,772	**214,518**
Total liabilities		**359,431**	**249,254**
Total equity and liabilities		**359,431**	**249,254**

The notes on pages 62 to 85 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 59 to 85 were approved by the Board of Financial Services Compensation Scheme Limited (registered number 3943048) on 19 May 2020 and signed on its behalf on 22 June 2020 by:

Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme

Statement of cash flows

	Note	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Operating activities			
Net cash generated from operations	17	118,953	4,726,201
Net cash flows from operating activities		**118,953**	**4,726,201**
Investing activities			
Purchases of property, plant and equipment		(780)	(314)
Net cash flows used in investing activities		**(780)**	**(314)**
Financing activities			
Decrease in loans		–	(4,677,873)
Drawdown from revolving credit facility		–	50,000
Repayment of revolving credit facility		–	(50,000)
Returns on investments and servicing of finance	14	(1,029)	(113,221)
Net cash flows used in financing activities		**(1,029)**	**(4,791,094)**
Net increase/(decrease) in cash and cash equivalents		117,144	(65,207)
Cash and cash equivalents at 1 April	12	126,652	191,859
Net cash and cash equivalents at 31 March	12	**243,796**	**126,652**

Notes to the financial statements for the year ended 31 March 2020

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 eight 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.

For presentation purposes, the comparatives and the opening balances which were previously shown separately as Life and Pensions Intermediation, and Investment Intermediation classes have been combined and shown as the comparative figures in the Life Distribution and Investment Intermediation class. This affects Notes 6, 7, 11 and 13. In addition, auditor's remuneration for the year ended 31 March 2019 in Note 8 has been restated and is disclosed net of VAT.

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, International Financial Reporting Standards (IFRS) as adopted by the EU 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

Levies for compensation costs

FSCS recognises levies receivable in respect of compensation costs on an accruals basis to match compensation costs net of recoveries recognised as income during the period. 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 received or, if earlier, on receipt of notification in respect of dividends from insolvency practitioners, or when notified and agreed in respect of other recoveries. Where no notification is received or agreed, recoveries are also 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.

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 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. In addition, compensation costs payable under various Orders (referred to as deemed compensation) are 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. 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, legal challenges and costs

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.

e) Interest receivable

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

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.

h) Taxation

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

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:

IFRS 16 'Leases' replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right-of-use (ROU) asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. This change only impacts the properties that FSCS previously accounted for as operating leases and is not considered material to these financial statements.

FSCS implemented IFRS 16 with effect from 1 April 2019, using a modified retrospective approach. The cumulative effect of adopting IFRS 16 is a £562,000 adjustment to the fund balances due to levy payers in respect of base costs as at 1 April 2019, with no restatement of comparative information. At the date of implementation, the value of the ROU assets was £2,527,000 and the lease liability was £2,956,000 for the future lease payments in the statement of financial position. All other leases are of low value and will continue to be expensed as payments are made.

There were no other IFRS or IFRS Interpretations Committee interpretations effective for the first time in the financial year beginning on or after 1 April 2019 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 2019 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. 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 2020 £'000	Year ended 31 March 2019 £'000
Levy income recognised in SoCI		
Levy income in respect of compensation costs	**503,176**	**432,653**
Other levy income:		
Levy income in respect of base costs	21,340	26,244
Levy income in respect of specific costs	53,055	48,169
Levy income in respect of interest payable	41	14,211
Levy income in respect of pension obligations	(1,233)	(4,272)
	73,203	**84,352**
Total levy income	**576,379**	**517,005**

5 Recoveries income

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

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
2008/09 banking failures	561	6,562
Other defaults	23,685	8,319
	24,246	**14,881**

6 Compensation costs

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

Funding class	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Deposits (excluding 2008/09 banking failures)	5,148	29,167
General Insurance Provision	125,667	158,588
General Insurance Distribution	20,756	11,262
Life Distribution and Investment Intermediation	282,026	206,702
Investment Provision	88,105	32,398
Home Finance Intermediation	5,720	9,417
Total compensation costs	**527,422**	**447,534**

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 2020 £'000	Year ended 31 March 2019 £'000
Deposits	12,308	12,736
General Insurance Provision	5,875	4,574
General Insurance Distribution	6,740	5,620
Life and Pensions Provision	22	-
Life Distribution and Investment Intermediation	20,996	22,200
Investment Provision	5,252	2,473
Home Finance Intermediation	1,912	728
Debt Management	(9)	-
Base costs	21,340	26,242
IAS 19 pension adjustments	(1,681)	(1,610)
Other – interest payable	(41)	(161)
Total administrative expenses	**72,714**	**72,803**
Deposits – interest payable	–	14,050
Other – interest payable	41	161
Total administrative expenses and interest payable	**72,755**	**87,014**

8 Administrative expenses

	Note	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Staff costs	9	16,070	15,579
Accommodation and office services		1,721	2,880
IT maintenance costs		3,878	4,188
Outsourced claims-handling costs		17,383	17,875
Consultancy		3,075	2,049
Change, including IT development costs		6,295	8,256
Depreciation		1,408	457
Press and communications		3,188	3,503
Auditor's remuneration:			
Statutory audit of the financial statements		159	151
Other audit services		-	-
Legal and professional fees		6,743	7,135
Bank charges		6,783	6,630
Other		6,011	4,100
		72,714	**72,803**

9 Staff costs

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Wages and salaries, including the executive directors	13,045	12,799
Social security costs	1,599	1,582
Other pension costs	1,426	1,198
	16,070	**15,579**

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 2020	Year ended 31 March 2019
Average number of employees:		
Executive Committee	5	6
Operations	112	103
Non-operations	77	78
	194	**187**

Non-operations includes Corporate Affairs, Finance, People Team and Facilities.

10 Directors' remuneration

As at 31 March 2020, there were seven independent non-executive directors (2019: seven) and three executive directors (2019: four). 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 2020 £'000	Year ended 31 March 2019 £'000
Aggregate remuneration	1,224	1,322
Pension contributions	80	90
	1,304	**1,412**

Retirement benefits during the year accrued to one director (2019: one) under FSCS's defined benefit scheme and five under the money purchase scheme (2019: four).

The highest paid director, the Chief Operating Officer (2019: Chief Executive), received aggregate remuneration of £373,589 (comprising basic salary of £258,406, bonus of £51,681 and other emoluments of £63,502) (2019: £304,371 (comprising basic salary of £264,648, bonus of £39,697 and other emoluments of £26)). Payments of £38,761 have been made for pension (2019: £23,256). The Chief Operating Officer did not receive any additional remuneration in respect of his role as director.

The fees paid to the Chairman are set at £75,000 per annum (2019: £75,000) and the fees paid to the independent non-executive directors, or their employers, are set at £24,500 per annum (2019: £24,500). Additional fees paid to the chairmen of the Audit Committee, Remuneration and Human Resources Committee, and Risk Committee were set at £5,000 per annum (2019: £5,000). In addition, business-related expenses totalling £14,765 (2019: £14,982) were reimbursed to the independent non-executive directors. The Chairman 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 2020 £'000	31 March 2019 £'000
Amounts due from the FCA	*18*	19,112	10,192
Levies receivable:			
Deposits		–	40
General Insurance Provision		813	4,428
General Insurance Distribution		54	554
Life Distribution & Investments Intermediation		1,202	1,255
Investment Provision		5	4,014
Home Finance Intermediation		4	5
Debt Management		–	118
FCA Retail Pool		1	385
In respect of base costs		34	190
Net amounts due from levy payers in the following classes:			
Deposits		–	2,222
General Insurance Provision		–	16,495
General Insurance Distribution		7,903	–
Life Distribution & Investments Intermediation		49,656	26,285
Recoveries receivable in respect of the 2008/09 banking failures	*13*	5,206	9,935
Recoveries receivable in respect of other defaults	*13*	10,807	2,488
Other receivables		813	579
Prepayments		4,602	5,117
		100,212	**84,302**

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

	Note	31 March 2020 £'000	31 March 2019 £'000
Recoveries receivable in respect of the 2008/09 banking failures	*13*	–	18,789
Recoveries receivable in respect of other defaults	*13*	1,921	8,812
		1,921	**27,601**

Total recoveries receivable of £5,206,000 (2019: £28,724,000) relate to the 2008/09 banking defaults, of which £5,206,000 (2019: £9,935,000) is shown within amounts falling due within one year and £nil (2019: £18,789,000) is shown within amounts falling due after more than one year.

Total recoveries receivable in respect of other defaults of £12,728,000 (2019: £11,300,000) relate to funds which FSCS expects to receive from firms declared in default in the Life Distribution and Investment Intermediation 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 2018 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2019 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2020 £'000
Current recoveries receivable:					
2008/09 banking failures	4,684,338	(4,674,403)	9,935	(5,586)	4,349
Other defaults	4,608	(2,120)	2,488	5,826	8,314
Non-current recoveries receivable:					
2008/09 banking failures	21,930	(3,141)	18,789	(18,789)	–
Other defaults	18,164	(9,352)	8,812	(7,008)	1,804
	4,729,040	**(4,689,017)**	**40,024**	**(25,556)**	**14,467**

Balances with other government bodies

Amounts falling due within one year	31 March 2020 £'000	31 March 2019 £'000
Balances with other central government bodies	–	–
Balances with public corporations	19,112	10,192
Sub-total: intra-government balances	**19,112**	**10,192**
Balances with bodies external to government	81,100	74,110
Total receivables	**100,212**	**84,302**

Amounts falling due after more than one year	31 March 2020 £'000	31 March 2019 £'000
Balances with other central government bodies	–	–
Sub-total: intra-government balances	**-**	**-**
Balances with bodies external to government	1,921	27,601
Total receivables	**1,921**	**27,601**

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

As at 31 March 2020, FSCS had bank facilities of £1,500m, comprising a 364-day sterling Revolving Credit Facility of £1,450m expiring on 16 March 2021, and an overdraft facility of £50m. Any drawdown of the Revolving Credit Facility is subject to Board approval.

	31 March 2020 £'000	31 March 2019 £'000
Cash at bank	246,558	129,741
	246,558	**129,741**
Bank overdraft	(2,762)	(3,089)
	243,796	**126,652**

The recast Deposit Guarantee Schemes Directive requires FSCS to have ex-ante funding of 0.8 per cent of the amount of covered deposits of its members (to be built up by 2024). The Government confirmed its intention to use the existing bank levy to meet this funding requirement. FSCS will 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 2020, this facility was not utilised. Any amounts drawn from this facility will be replenished by means of FSCS levies on the Deposits class in subsequent years.

13 Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2020 £'000	31 March 2019 £'000
Compensation payable		4,209	3,214
Net amounts held on behalf of levy payers:			
Deposits		16,514	–
General Insurance Provision		18.090	–
General Insurance Distribution		–	3,694
Life and Pensions Provision		163	183
Investment Provision		28,954	18,735
Home Finance Intermediation		6,437	8,845
Debt Management		9	118
FCA retail pool		1	385
Payments on account		149,554	83,243
Social security and other taxes		493	483
Accruals		8,118	10,868
Deferred income in respect of base costs		5,475	6,742
Distribution of surplus owed to customers	*11*	3,350	5,217
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures	*11*	4,349	9,935
Net amounts due to levy payers in respect of recoveries receivable	*11*	8,314	2,488
Other payables		5,514	1,699
		259,544	**155,849**

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

	Note	31 March 2020 £'000	31 March 2019 £'000
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures	*11*	–	18,789
Net amounts due to levy payers in respect of recoveries receivable	*11*	1,804	8,812
Distribution of surplus owed to customers	*11*	117	–
Amounts due to levy payers in respect of pension surplus		8,000	6,767
		9,921	**34,368**

Under revised funding rules, the FCA instructed the largest 1,000 levy payers to make payments on account for FSCS's 2020/21 levy. These firms were invoiced in February, with a due date of 1 April 2020. As at 31 March 2020, invoices totalling £207,253,000 (2019: £135,102,000) were issued, of which £149,500,000 (2019: £83,217,000) was collected, leaving amounts due from levy payers of £57,754,000 (2019: £51,885,000). A balance of £54,000 was carried over from previous years. 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 and in the Class Statements. These funds will be applied to reduce the payments of these firms when the 2020/21 annual levies are invoiced in July 2020, 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.

The £4,349,000 (comprising current amounts due of £4,349,000 and non-current amounts due of £nil) (2019: £28,724,000 (comprising current amounts due of £9,935,000 and non-current amounts due of £18,789,000)) due to levy payers of the Deposits class in respect of the 2008/09 banking failures represents the current fund balance of that class after taking into account the net future recoveries FSCS expects to receive from the estates of those firms declared in default (the timing and final outcome are uncertain). Once the final outcome is known and the recoveries have been received, any excess funds will be repayable to the levy payers, by way of a return or a reduction in future years' levies, in accordance with FSCS's funding rules.

Balances with other government bodies

Amounts falling due within one year	31 March 2020 £'000	31 March 2019 £'000
Balances with other central government bodies	493	483
Sub-total: intra-government balances	**493**	**483**
Balances with bodies external to government	259,050	155,366
Total payables	**259,544**	**155,849**

Amounts falling due after more than one year	31 March 2020 £'000	31 March 2019 £'000
Balances with other central government bodies	–	–
Sub-total: intra-government balances	**–**	**–**
Balances with bodies external to government	9,921	34,368
Total payables	**9,921**	**34,368**

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 lease term is 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 per cent as quoted by the Public Works Loan Board.

Lease liabilities movements	**31 March 2020 £'000**	**31 March 2019 £'000**
Value of discounted future cash flows on ROU assets at implementation	2,956	-
Payments during the year	(1,029)	-
Interest expense on lease liabilities	41	-
Lease liabilities at 31 March	**1,968**	**-**

Lease liabilities fall due as follows	**31 March 2020 £'000**	**31 March 2019 £'000**
Within 1 year	1,004	-
Within 2 to 5 years	915	-
Within 6 to 10 years	49	-
Greater than 10 years	-	-
Lease liabilities at 31 March	**1,968**	**-**

15 Provisions

	As at 31 March 2019 £'000	Change in the year £'000	Utilised in the year £'000	Unwinding of discount £'000	As at 31 March 2020 £'000
Compensation cost	55,284	62,589	(33,933)	-	83,940
Levy provision	296	522	(296)	-	522
Other	368	406	-	-	774
Total provisions	**55,948**	**63,517**	**(34,229)**	-	**85,236**
Current	55,580	63,111	(34,229)	-	84,462
Non-current	368	406	-	-	774
	55,948	**63,517**	**(34,229)**	-	**85,236**

Compensation cost provision

The provision for compensation costs of £83,940,000 (2019: £55,284,000) includes estimates for return of funds, return of premiums and general insurance claims. 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.

Compensation costs include £35,500,000 estimated for SVS Securities plc and £20,000,000 estimated for Reyker Securities plc. The administrators of Reyker Securities plc have indicated that costs could increase to £25,000,000 but £20,000,000 is the most appropriate estimate at this time. 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 and is the best information available to the directors at this time. The overall costs will depend on the nature of the distribution plan and the timing of the return of client assets, which are still under consideration and subject to change. These changes can have a significant impact on the overall cost, so the outcome could be higher. We made a provision of £50,000,000 for Beaufort Asset Clearing Services Limited (BACSL) in 2017/18. We made interim payments totalling £38,200,000 during 2018/19 and a further £9,120,000 during 2019/20. We reviewed the provision in light of the latest progress report from the administrators and increased it by £4,000,000, leaving a provision of £6,680,000 remaining for BACSL. Significant judgements had to be made in arriving at these estimates, such as the nature of the distribution plan for the return of client assets on some estates, which are still under consideration and subject to change. These changes can have a significant impact on the overall cost, so the provision could be different to the final outcome.

Compensation costs include an amount of £10,198,000 (2019: £10,331,000) for other general insurance claims. This is an estimate of unpaid compensation claims that were accepted on or before 31 March 2020. 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 2020. 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 per cent has been applied to the amounts submitted. There are significant judgements that had to be made in arriving at this estimate because 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 £522,000 (2019: £296,000) 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 16 March 2021 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.

As at 31 March 2020	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	14,126	245,418	9,921	–	269,465
Lease liabilities	–	–	1,004	915	49	1,968
Loan interest payable	–	–	–	–	–	–
	–	**14,126**	**246,422**	**10,836**	**49**	**271,433**

As at 31 March 2019	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	13,049	142,800	34,368	–	190,217
Loan interest payable	–	–	–	–	–	–
	–	**13,049**	**142,800**	**34,368**	**–**	**190,217**

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) in respect of the 2008/09 banking failures 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:

	Note	31 March 2020 £'000	31 March 2019 £'000
Surplus on ordinary activities before interest and tax		642	(2,576)
Interest payable		41	14,211
		683	11,635
Depreciation		1,408	457
Loss on disposal		1	21
Decrease/(increase) in receivables	*11*	9,770	4,745,827
Increase/(decrease) in payables	*13*	79,249	2,834
IFRS 16 – lease transition adjustments		429	-
Difference between pension charge and cash contributions		(1,875)	(1,696)
Increase/(decrease) in provisions for liabilities and charges		29,288	(32,877)
Net cash inflow from operating activities	*15*	**118,953**	**4,726,201**

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 £639,976,000 (2019: £614,894,000) during the year, including £49,914,000 raised as a supplementary levy and credit notes issued to the Deposits class totalling £30,000,000 during February 2020. Collections of £640,669,000 (2019: £570,004,000) were received from levy payers. The fee for the agency service was £407,000 (2019: £383,000).

Overall, payments of £659,860,000 (2019: £562,389,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2020 of £10,622,000 (2019: £10,192,000). The FCA also held £8,490,000 of funds on behalf of FSCS, which will be returned to firms in the Deposits class. The total of these two balances amounted to £19,122,000.

During the year, the FCA also implemented FSCS's new class structure and provided advice regarding potential FSCS cover in respect of London Capital Finance plc at a cost of £73,000 and £7,000 respectively.

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 interest of transparency, full disclosure of the transactions with HM Treasury has been made. These transactions with HM Treasury comprise loan drawdowns and repayments, loan interest fees, loan commitment fees and compensation payments on behalf of HM Treasury. There were no such transactions during the year.

The remuneration of key management personnel is set out in the Directors' Remuneration Report on page 42.

19 Contingent liabilities and contingent assets

Compensation costs

As at 31 March 2020 and 31 March 2019, 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 2020 and 31 March 2019, 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.

London Capital & Finance plc (LCF)

LCF was declared in default on 9 January 2020. Since LCF entered administration, FSCS carried out an extensive and complex investigation into how LCF operated. The aim of this was to determine if any of the activities LCF carried out were regulated, as this is the only way its customers could be eligible for FSCS compensation.

FSCS determined that LCF had carried out some regulated arranging activity and that FSCS could therefore protect the 159 bondholders who switched from existing stocks and shares Individual Savings Accounts (ISAs) to LCF mini-bonds. Compensation for these claims were paid in February 2020. FSCS also determined that the bondholders who dealt with LCF before 7 June 2016 were not eligible, because LCF was not fully authorised to carry out financial services business before that date.

FSCS considers that LCF did not carry out a regulated activity in issuing its own mini-bonds and, therefore, such claims would not be eligible under FSCS's compensation rules. Some bondholders disagree with FSCS's analysis on this point and have commenced a judicial review of our decision in relation to LCF ISA mini-bonds. Legal proceedings are ongoing and there is therefore uncertainty regarding the outcome.

FSCS can provide compensation to those who were given misleading advice. FSCS's wider investigation concluded that LCF gave misleading advice to some of its c.11,600 customers, so they may have valid claims for compensation on this basis. We have begun assessing these potential claims on a case-by-case basis, although it will take some time to process them all.

The total value of LCF non-ISA mini-bonds was £129,050,000 and the total value of LCF ISA mini-bonds was £108,157,000, based on the latest administrator's report available. There is significant uncertainty around the number of claims we will receive from these customers, the likelihood of eligible 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 total compensation costs in relation to this default. FSCS would only compensate up to a maximum of £85,000 per eligible customer.

FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost-effective to pursue, which may offset some of the compensation FSCS pays out.

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. Until 31 March 2019, FSCS made contributions of 6 per cent, with incremental increases of 2 per cent after two years' service, and a further 2 per cent after five years. FSCS matched voluntary contributions made by employees up to a further 5 per cent. From 1 April 2019, FSCS makes contributions equal to 9 per cent of the basic annual salary so long as the permanent or fixed-term contract staff pays a minimum employee contribution of 1 per cent. FSCS increases this contribution to 11 per cent after three years' service. If staff choose to increase their employee contribution above 1 per cent the FSCS will match this with an employer's contribution up to a maximum of an additional 4 per cent of their basic annual salary.

Amounts paid by FSCS into the money purchase scheme amounted to £2,022,000, and £nil was outstanding to be paid at 31 March 2020 (2019: £1,479,000 and £141,000 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 2018. 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 2020 % (p.a.)	31 March 2019 % (p.a.)
Discount rate	2.35	2.55
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	2.60	3.10
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	1.85	2.05
RPI inflation assumption	2.60	3.25
CPI inflation assumption	1.85	2.25

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 per cent S2PMA light for males and 100 per cent S2PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation (CMI) mortality projections model 2019, with a 1.25 per cent per annum long-term trend rate for males and 1.25 per cent per annum long-term trend rate for females from 2008 onwards, allowing for an individual member's year of birth.

Key assumptions	**31 March 2020**	**31 March 2019**
Life expectancy at 60 for male aged 60	27.6	27.2
Life expectancy at 60 for female aged 60	28.7	28.2
Life expectancy at 60 for male aged 45	28.6	28.2
Life expectancy at 60 for female aged 45	29.9	29.4

For the 31 March 2020 disclosures, 75 per cent of 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 2020. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2020 disclosures, 80 per cent of male and 75 per cent 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 2020, the Pension Scheme's assets were invested in a diversified portfolio that consisted primarily of equities.

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

As at 31 March 2020	Quoted £'000	Unquoted £'000	Total £'000
Global equities	8,083	-	8,083
Property	-	2,092	2,092
Indexed-linked gilts	5,625	-	5,625
UK corporate bonds	3,518	-	3,518
Diversified growth funds	-	11,327	11,327
Cash and net current assets	463	-	463
Alternative	3,640	-	3,640
Total assets	**21,329**	**13,419**	**34,748**

As at 31 March 2019	Quoted £'000	Unquoted £'000	Total £'000
Global equities	8,590	-	8,590
Property	-	2,247	2,247
Indexed-linked gilts	5,237	-	5,237
UK corporate bonds	3,173	-	3,173
Diversified growth funds	-	12,087	12,087
Cash and net current assets	667	-	667
Alternative	3,311	-	3,311
Total assets	**20,978**	**14,334**	**35,312**

The assets as at 31 March 2020 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 2020 £'000	31 March 2019 £'000
Fair value of assets	34,748	35,312
Present value of obligations	(26,748)	(28,545)
Funded status	**8,000**	**6,767**
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling')	–	–
Net defined benefit asset/(obligation)	**8,000**	**6,767**

Movement in net defined benefit asset/(obligation) over the year	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Net defined benefit asset/(obligation) at beginning of the year	6,767	2,495
Employer contributions	1,920	1,920
Expense recognised in income statement	(45)	(224)
Remeasurement gain/(loss) recognised in other comprehensive income	(642)	2,576
Net defined benefit asset/(obligation) at end of the year	**8,000**	**6,767**

Changes in present value of the defined benefit obligation	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Opening defined benefit obligation	28,545	30,046
Past service cost	–	31
Interest cost	719	772
Distributions	(688)	(691)
Experience (gains)/losses	–	(1,367)
Losses (gains) on curtailments	–	–
Actuarial (gains)/losses	(1,828)	(246)
Closing defined benefit obligation	**26,748**	**28,545**

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		26,748
Discount rate reduced by	0.25%	28,317
Discount rate increased by	0.25%	25,293
Inflation and associated pension increases increased by	0.25%	28,190
Inflation and associated pension increases reduced by	0.25%	25,380
Life expectancy increased by	1 year	27,771

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.

Changes in fair value of the Pension Scheme assets	**Year ended 31 March 2020 £'000**	**Year ended 31 March 2019 £'000**
Opening fair value of assets	35,312	32,541
Contributions paid by employer	1,920	1,920
Interest income	913	858
Return on Scheme assets, excluding interest income	(2,470)	963
Distributions	(688)	(691)
Administration expenses	(239)	(279)
Closing fair value of assets	**34,748**	**35,312**

Expenses recognised in the income statement	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Past service cost	–	31
Administration expenses	239	279
Net interest on the net defined benefit obligation/(asset)	(194)	(86)
Total expense/(income)	**45**	**224**

Remeasurement effects recognised in other comprehensive income	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Return on Pension Scheme assets, excluding interest income	(2,470)	963
Experience (losses) arising on the Pension Scheme liabilities	–	(1,367)
Changes in financial assumptions underlying the present value of the Pension Scheme liabilities	2,192	1,137
Changes in demographic assumptions underlying the present value of the Pension Scheme liabilities	(364)	1,383
Net actuarial losses recognised in the period	**(642)**	**2,576**

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

Expected future benefit payments	
Year ending 31 March 2021	286
Year ending 31 March 2022	451
Year ending 31 March 2023	362
Year ending 31 March 2024	523
Year ending 31 March 2025	439
Five years ending 31 March 2030	3,510

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 23 years.

21 Other disclosures

HM Treasury has issued an Accounts Direction requiring FSCS to disclose the following information:

Sickness absence

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 2020 was 5.4 days per person (2019: 6.4 days per person).

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.

Exit package cost band	Number of compulsory redundancies Year ended 31 March 2020	Number of other departures agreed Year ended 31 March 2020	Total number of exit packages by cost band Year ended 31 March 2020	Number of compulsory redundancies Year ended 31 March 2019	Number of other departures agreed Year ended 31 March 2019	Total number of exit packages by cost band Year ended 31 March 2019
≤ £10,000	–	–	–	–	1	1
£10,001–£25,000	1	2	3	2	2	4
£25,001–£50,000	3	–	3	4	–	4
£50,001–£100,000	2	–	2	–	–	–
£100,001–£150,000	–	–	–	–	–	–
£150,001–£200,000	–	–	–	–	–	–
Over £200,001	1	–	1	–	–	–
Total number of exit packages by type	**7**	**2**	**9**	**6**	**3**	**9**
Total resource cost (£'000)	**624**	**30**	**654**	**195**	**52**	**247**

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.

Special severance payments

There were seven special severance payments made during the year to 31 March 2020 totalling £95,114 (2019: two special severance payments totalling £23,279).

Losses and special payments

Total losses and special payments were £462,135 (2019: £50,688) during the year to 31 March 2020. There were no individual losses or special payments exceeding £300,000. The majority of this is made up of claims overpayments which is further explained below.

During the year, the nature of our claims has become more complex. This rising complexity also brings risks to the accuracy of our compensation service. The average compensation paid in relation to these more complex claims has also increased and, therefore, any error leads to potential increases in any resulting payment error. Our error rates for the year were 0.16 per cent of compensation value.

During the year, FSCS has increased the number of quality assurance (QA) checks performed. These checks did not identify any systemic failings in our controls or claims processes. Through our robust quality checks, we have though made some enhancements to the training and accreditation of our claims processing function, including:

- an academy for new staff;
- accreditation of claims handlers and reviewers – ensuring that all compensated claims are peer reviewed by skilled and knowledgeable staff;
- ensuring all our claims processes and procedures are fully documented with only experienced staff able to amend any documentation; and
- for new defaults requiring amendments to existing established claims processes, set up a model office, to simulate the claims process prior to 'Go Live'.

For 2019/20, QA and other checks of compensation processed by FSCS identified net compensation calculation errors of £450,776, of which there was an outstanding recovery balance of £217,862 as at 31 March 2020.

22 Events after the reporting period

There were no material events after the reporting period. The Board authorised these financial statements for issue on 24 June 2020.

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