



Financial Reporting Council

Financial Reporting Council: 3-Year Plan

2022-25

March 2022

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1. Introduction

This year, in line with our commitment to transparency, the FRC is setting out a three-year plan and budget. This comprises a detailed breakdown of our intended expenditure for 2022-23, alongside a summary of our expected trajectory on overall costs and headcount for the following two years.

2021 was another year of exceptional change for the FRC and all our stakeholders. With the publication of the government's white paper [Restoring trust in audit and corporate governance](#) we moved closer to our aim of becoming ARGA, when our regulatory powers and funding will be placed firmly on a statutory footing. We continue to plan on the assumption that this will happen during the three-year period covered by this plan and so it reflects our latest thinking on the likely impact of that eagerly anticipated change in our status.

During 2021, we have acted swiftly and clearly to address and build on much of the feedback we received in 2020. We have further developed our supervision approach with events and publications designed to support a better understanding of our audit quality expectations, such as our ground-breaking audit culture conference and [What makes a good audit?](#) published in November 2021. We were pleased with the strong response to our call for applicants to our revised Stewardship Code, and we set a high bar with a rigorous review process to determine the successful applicants. Our work with stakeholders continues apace, and during our outreach on the government's white paper we saw record engagement levels with our series of online webinars and roundtables. We have taken the lead on corporate reporting, audit, accounting, actuarial and governance topics throughout the year, including on the critically important issues of climate and ESG reporting. Also, as reported in our [Annual Enforcement Review 2021](#), we saw a significant increase in the number of cases resolved through Constructive Engagement as well as an improvement in the time taken to resolve such matters. Having seen such strong interest in all these areas, our three-year plan will build on our approach so far, during a period in which we envisage further significant legislative and regulatory developments. We will continue to strengthen our corporate services support during the period of growth – from recruitment and training, to finance systems and risk management.

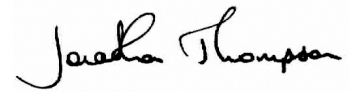
Like every organisation, the FRC has not been immune to change, and we have successfully piloted new, hybrid working in our London offices during the year. This plan reflects our view of the fundamental shift in the way we work and anticipates that many of the changes we have seen since 2020 are here to stay. It also reflects our intention to open a second office location outside London from 2025, in line with the government's levelling-up agenda.

As we set out in last year's plan, the final leg of our journey towards becoming ARGA will require further growth in our headcount and overall costs. In setting out our three-year plan, we have considered carefully how, and when, we need to increase our capacity to adapt to new powers and responsibilities. In 2022/23 we expect our overall costs to increase by £8.3m. We then anticipate similar growth in 2023/24, being the year in which we expect ARGA will be created and the first year of statutory funding, followed by a period of stability and consolidation from 2025 onwards.

In the year that we became formally subject to the Regulators' Code, and in which government published a consultation on reforming the regulatory framework, our three-year plan acknowledges our continued commitment to being an effective and transparent regulator, delivering the best possible outcomes for all our stakeholders whilst staying true to the principles of fairness and proportionality.



Sir Jan du Plessis
Chair



Sir Jonathan Thompson
Chief Executive Officer

March 2022

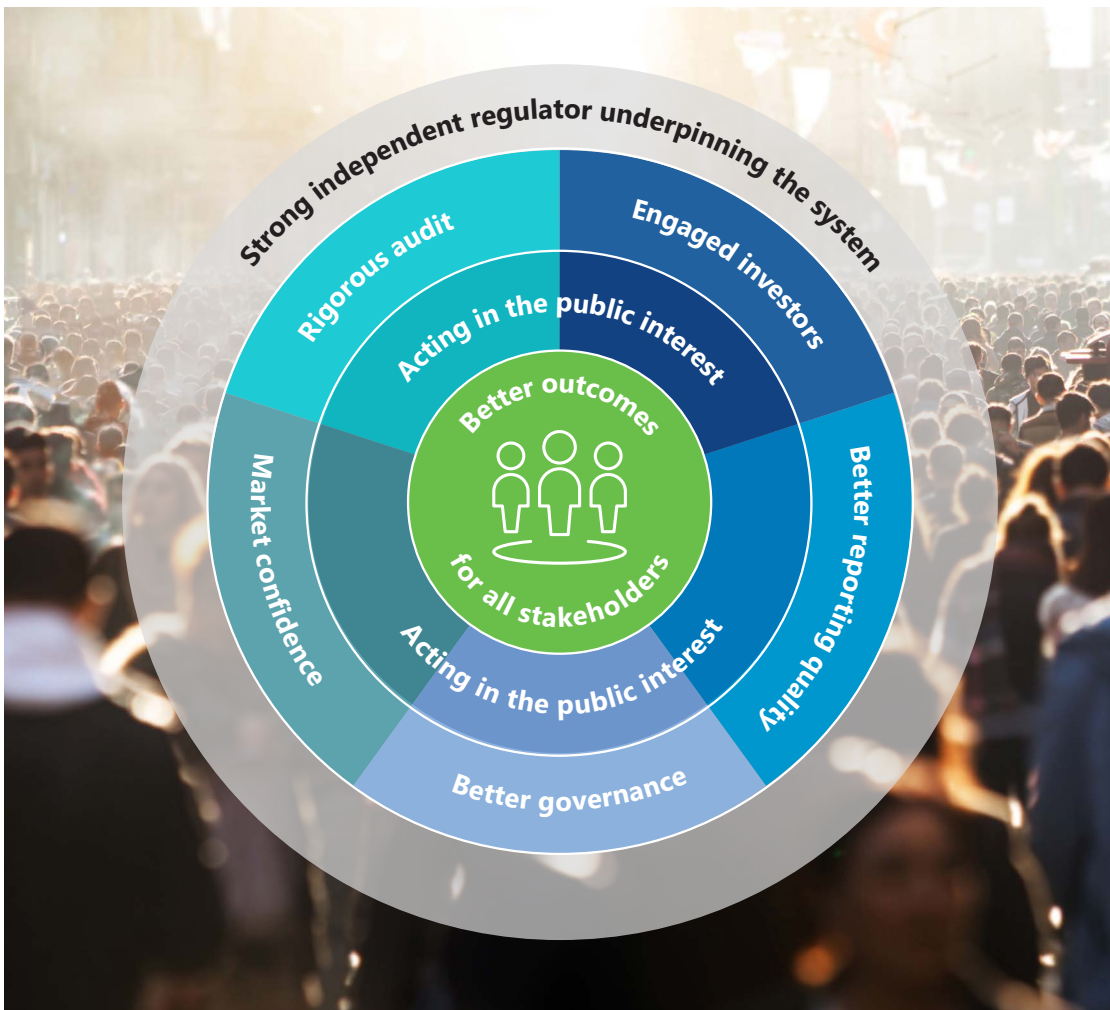
2. Transitioning from the FRC to ARGA

The purpose of the FRC is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them.

The government's white paper consulted on proposals for ARGA to have a new statutory general objective to act in the public interest, supported by two operational objectives to promote audit quality and competition. These objectives are intended to be underpinned with a clear set of regulatory principles. It will be for ARGA to set its strategy in the way it feels will best meet the overarching purpose and objectives, taking the government's remit letter into account. In this three-year plan, we will demonstrate how our resources will be deployed effectively, to meet our existing and new regulatory responsibilities.

The FRC's Board and executive believe strongly in the important contribution our activities make towards improved outcomes for all stakeholders in our ecosystem; greater transparency, increased trust in UK markets and lower cost of capital for companies. This is important for stakeholders large and small, across the country, from employees and pension holders to institutional investors and large corporate organisations.

Building trust brings better outcomes for all stakeholders:



Building better outcomes for all stakeholders

3. What kind of regulator are we?

The FRC's updated purpose statement has now been in place for two years and this was reflected in the government's proposed statutory purpose for ARGAs. Feedback on last year's plan suggested stakeholders would value a clearer understanding of what kind of regulator ARGAs will be, and how we will use the various regulatory and other tools available to us in pursuit of achieving our core objectives. Our objectives remain the same for 2022-25, however we have adapted our audit market objective slightly to recognise ARGAs's expected competition objective, and choice, both of which are important elements of a resilient audit market.

-  Set high standards in corporate governance and stewardship, corporate reporting, auditing, and actuarial work and assess the effectiveness of the application of those standards, enforcing them proportionately where it is in the public interest.
-  Promote improvements and innovation in the areas for which we are responsible, exploring good practice with a wide range of stakeholders.
-  Influence international standards and share best practice through membership of a range of global and regional bodies and incorporate appropriate standards into the UK regulatory framework.
-  Create a more resilient audit market through greater competition and choice
-  Transform the organisation into a new robust, independent, and high-performing regulator, acting in the public interest.

From April 2021 onwards, the FRC became formally subject to the Regulators' Code, and we have spent time as an organisation discussing not only what this means for us as a regulator now, but in the future. The scope of our remit is broad, and with our regulatory powers comes a responsibility not only to apply those powers fairly and proportionately but also to provide clear and effective guidance to all those we regulate and support them to improve and meet our expectations over time.

We have identified four 'faces', each of which reflects a different approach, utilising a mix of hard regulatory and softer influencing levers appropriate to our objectives. We intend to further develop our regulatory approach over time, balancing each of these options as best suits our view of emerging regulatory risks, market conditions and any relevant legislation or other directions from government.



Regulation in the public interest

We intend to further develop our regulatory approach over time

At the time our 2021/22 plan was published, government had recently published its white paper consultation and we assumed a further two-year transition period to the creation of ARGA in 2023. Although a firm legislative timetable has yet to be announced, this remains our high-level planning assumption. Our transformation programme has worked hard alongside colleagues across government to support the development of policy. We anticipate that this significant investment of FRC time and resources will become more visible over the next year as we begin to scale up operationally to deliver our new statutory functions and support stakeholders with their new corporate reporting, corporate governance and audit obligations. We also anticipate taking on the role of systems leader in local audit which will require additional capacity in our Regulatory Standards and Supervision divisions.

Overall, we expect our headcount to increase in 2022/23 from the current budgeted number of 417 at March 2022, to 486 at March 2023. We expect similar growth again in 2023/24 to build up capacity and capability in newly established or growing teams who will be exercising the new powers we will gain in 2023. In line with our indications last year, we would then expect smaller growth in 2024/25. The allocation of our planned headcount growth for 2022/23 is described in more detail at section 7, below.

Over the next three-years, and as we transition to ARGA, our stakeholders can expect to see regular reporting on how we have applied the principles of the Regulators' Code, and our assessment of the effectiveness of our regulatory activities.

+16.5%
The number of people we employ will increase by 16.5% to 486 by March 2023



4. The operational impact of change

The FRC's business model is built around our four divisions, each of which delivers on specific divisional objectives which are aligned with our Purpose. More details of the work of each division can be found in our [Annual Report & Accounts 2021](#).

Over the three-year period of this plan, each division will adapt in size and focus to meet new or expanded regulatory responsibilities. Our plan also incorporates change to accommodate increased volumes of specific activities, such as Enforcement cases, which we expect to rise in future years due to a combination of our increased remit and other external factors such as economic stresses on companies. Our high-level assumptions on key divisional priorities for the next three years are shown below:

Regulatory Standards 	Supervision 
<ul style="list-style-type: none"> • New responsibilities: Local audit, competition policy, actuarial monitoring regime, new audit and corporate reporting guidance, audit sandbox and UKEB due process oversight. • Increased focus: Non-financial reporting standards, environmental and climate reporting, actuarial support for AQR inspections, Stewardship Code applications, revisions to the UK Corporate Governance Code and Wates Principles, targeted stakeholder outreach (on behalf of whole FRC), refresh of the FRC website 	<ul style="list-style-type: none"> • New responsibilities: PIE auditor registration from Summer 2022, ISQM1 implementation, mutual recognition of overseas qualifications resulting from EU Exit, monitoring of mandatory climate risk disclosures from 2022, audit committee oversight, statutory oversight of accountants and actuaries and implementation of market opening measures. • Increased focus: Forward-looking supervision of audit firms, local audit, audit firm culture and audit quality indicators, further development of constructive engagement activities.
Enforcement 	Corporate Services 
<ul style="list-style-type: none"> • New responsibilities: Embedding of, and training in, new Enforcement policies to reflect significant AEP revisions, design and delivery of changes to support effective implementation of the Enforcement aspects of regulatory reform. • Increased focus: Liaison and information sharing across divisions, Supervisor liaison to support Constructive Engagement activities, recruitment to accommodate transformation and anticipated increase in investigations, know-how collation, management and sharing, input from experienced accounting and audit professional at earlier stages, case team and operational resourcing. 	<ul style="list-style-type: none"> • New responsibilities: A statutory funding model, delivering on information management and medium-term IT strategy, enhanced internal and external reporting, set up of a second office location. • Increased focus: Workforce planning and recruitment, succession planning and Learning & Development enhancements, supplier management, market insights, data analysis and corporate contact history reporting, FRC research programme, BCP planning and testing, risk, controls, and assurance activities.

A business model delivering now and looking to the future

i) 2022/23 priorities and deliverables

To maintain the quality and effectiveness of our existing work and discharge our statutory duties whilst scaling towards our optimal size as ARGA we will focus our priorities in 2022/23 on those areas where we anticipate either an increased volume of work to meet our statutory obligations or where investment in new capacity is justified:

A. Regulatory Standards and Codes

- I. Development and maintenance of standards and codes, including the periodic review of FRS 102, adoption of ISA (UK) 500 and ISA (UK) 600, and post-implementation review and revision of technical actuarial standards
- II. Alignment of our Corporate Governance & Stewardship monitoring and evaluation programme
- III. International influencing of auditing and ethical standards, and significant contribution to non-financial reporting developments in the UK and internationally
- IV. Preparation for ARGAs local audit systems leader role
- V. Activities focused on improvements and innovation to support high quality reporting and audit quality including establishment of a new 'Audit Sandbox'
- VI. Promoting the use of technology throughout our policy areas
- VII. Supporting FRC's objectives and activities through increased stakeholder engagement with impact and influence, including an overhaul of planned publications focused on collective impact

B. Supervision

- I. Deliver a full programme of high-quality AQR inspections, CRR reviews and professional oversight visits and publish associated reporting, including thematic reviews
- II. Carry out ISQC inspection work and prepare for ISQM1
- III. Increase supervision of audit firm culture
- IV. Assess audit firms' adoption of operational separation principles
- V. Implement PIE audit registration decision-making
- VI. Increase intensity of forward-looking supervision of audit firms, with more 'joined up' regulation of firms' actions on quality
- VII. Negotiate mutual recognition agreements resulting from EU Exit
- VIII. Perform equivalence and adequacy assessments



25%
increase in
resource for
Regulatory
Standards in
response to the
White Paper



10%
increase in
Supervision
resource,
driving
improvement

C. Enforcement

- I. Fair, robust, and timely case closures or conclusion through focus of investigations, prioritisation, training, and recruitment
- II. Upskilling and training to respond to changes in AEP from January 2022 and implement future powers arising from regulatory reform
- III. Publication of the Annual Enforcement Review, driving improved behaviours through messaging case outcomes

D. Corporate Services

- I. Develop a statutory funding model for ARGAs
- II. Develop and implement an integrated information management strategy, including a medium-term IT strategy and enhanced data analytics and reporting
- III. Enhance cybersecurity risk management
- IV. Appropriate workforce planning, aligned with our business planning cycle and designed to incentivise, reward, and retain key skills
- V. Strengthen our support infrastructure, including in finance and procurement systems, internal controls, and IT
- VI. Legal support for regulatory reform and legal and operational support for the UKEB

ii) Our Governance

Over the past two years, the FRC's governance structure has evolved to become more streamlined and executive-led, in accordance with the recommendations of Sir John Kingman's [Independent Review of the FRC](#). We expect this to be fully implemented in 2022 with the appointment of a permanent Chair and additional non-executive directors.

As the body responsible for maintaining and monitoring compliance with the UK Corporate Governance Code, it is our intention to continue to report against the Code whilst also taking into consideration the provisions of relevant public sector governance codes. Details of our current governance arrangements and our corporate governance statement can be found in the Governance and transparency section of our [Annual Report & Accounts 2021](#).



13%

increase in
Enforcement
resource
reflecting
increased
caseload



Proportionate
growth in
building a fit
for purpose
regulator

5. Risks and challenges

Our [Annual Report & Accounts 2021](#) describes our principal risks and the work we have done during the year to improve our risk management framework and to identify and manage risks that may prevent us from delivering our strategy.

In developing our three-year plan, we have considered the likelihood of our risk mitigations failing to adequately manage the regulatory risks we have identified, both in terms of risks with a short time horizon such as delays to regulatory reform and longer-term, new or emerging risks such as the risk that our regulatory interventions are insufficient to create improved outcomes. To assess these risks, we have by necessity relied on a set of high-level assumptions on government's plans to legislate, and the timing and scope of implementation. Many of these factors are however, outside of our direct control.




We carefully monitor our own operational risks, which could impact on our overall effectiveness, for example our ability to recruit and retain adequate numbers of professionally qualified staff. Market conditions and public sector pay arrangements have the potential to impact our recruitment plans. We are also mindful of the need to maintain appropriate information security and data sharing arrangements, to ensure that our policies, procedures, and processes are as effective as possible whilst being fair, transparent and proportionate in their application.

**Effectively
managing a
changing risk
environment**



6. Key outputs

Last year, we set out several KPIs against which we intended to report at the end of the year. The FRC's Executive Committee regularly receives detailed management information which underpins each of the published KPIs. Our 2021 performance at the half year against some of the key measures is shown below, and going forward we will show the performance trend of each:

Category	Measure	Target	Performance (HY)
Supervision and Monitoring 	Number of Audit Quality Review (AQR) reports completed	140-150	78
	Number of Corporate Reporting Review (CRR) reports completed	240-260	181
	Complaints against professional bodies for auditors, accountants and actuaries investigated and responded to within 6 weeks	76%	83%
	Constructive engagement cases concluded within 12 months	100%	100%
Enforcement 	Enforcement case investigations concluded, settled or closed within two-year target*	100%	20%
Financial and operational performance 	Operating costs against budget (excluding UKEB)	43.1m	18.9m
	Recruitment against budget (excluding UKEB)	396	339
	FRC complaints responded to within service level agreement timeframe	100%	100%
	Research projects undertaken	13	8

We can quantify internal productivity measures like the number of AQR inspections or CRR reviews carried out, or our timeliness in respect of Enforcement casework. However, we recognise that outcomes such as better audit quality, improved corporate reporting or the impact of our international influencing activities are not easily represented, even with proxy measures.

Over the three-year period of this plan, we expect to gather more data on the impact of our regulatory activities, and therefore to better determine which measures correlate closely to improved outcomes and can be accurately and consistently measured and reported on to give our stakeholders a good understanding of our effectiveness. For example, we will continue our work on **audit culture** and **audit quality indicators**, which we believe are essential components of understanding how audit quality is improving over time. When we become ARGA, some of our new statutory functions will never have been carried out before, and it will take time for us to build a picture of the emerging regulatory landscape and set a baseline for what good looks like.

* The Enforcement KPI is a period of two years between commencement of an investigation and service of either the Proposed Formal Complaint (PFC) or Investigation Report (IR) (or closure or settlement if sooner).

Delivering against measurable outputs



Case study: Strategy in Action

The FRC ESG and Climate Group

The FRC's ESG and Climate Group is an example of the way we are seeking to use joined up ways of working to better deliver on our strategic goals. It utilises cross-FRC collaboration to deliver a multi-faceted work plan. We will use the data gathered from this work to inform our policymaking, mature our understanding of the regulatory landscape, and baseline appropriate measures of improvement. It will help us to create a platform for international influencing and a co-ordinated approach to working with other regulators who also have a role to play in this important area.

We are using

a centralised, co-ordinated ESG and Climate strategy:

To position the FRC as a leader in the debate, ensure we have clear and consistent stakeholder messaging, ensure all our ESG and climate-related activities link back to our overall purpose, and seek maximum impact from our activities.

So that we

achieve a set of four desired outcomes, linked to our objectives:

- Improved corporate governance of ESG and climate-related matters;
- Enhanced consistency and comparability of corporate reporting;
- Enhanced confidence in the disclosures of ESG and climate information, and
- Improved investor engagement on ESG and climate-related matters

CLIMATE GROUP






Examples of ESG and Climate Group output so far this year:

- Published the FRC ESG Climate Group 'Statement of Intent'
- Built Phase 1 of an ESG Climate Knowledge Hub
- Established a group of Subject Matter Champions

7. How we will grow to meet our existing and new obligations

In our 2021/22 plan, we highlighted that to deliver on our stated strategy and move further towards an operating model that will support the scope and remit of ARGA would require an increase in headcount. We also indicated that, due to the uncertainty of timing for legislation we would defer significant further growth in Supervision and Enforcement until at least 2022/23. During 2021, we further developed our view of the operational impact of each of the policy proposals consulted on in the government's white paper, should they be taken forward into legislation. We have also considered the non-legislative elements the FRC could choose to take forward without any further government intervention. Whilst it remains difficult to accurately forecast precise resourcing requirements in the absence of detailed legislative proposals, we have based our proposed headcount increases on these planning assumptions. Our plan also takes into account the importance of resilient organisational infrastructure and includes an increase in IT and finance expenditure to reflect this.

Overall, the combined budgeted cost of the FRC and the UK Endorsement Board (below) will increase by 16.1% to £59.8m (2021/22: £51.5m). The number of people we employ will increase by 16.5% to 486 by March 2023 (budgeted March 2022 headcount: 417). Headcount changes by division reflect the objectives and priorities outlined in section 4, above:

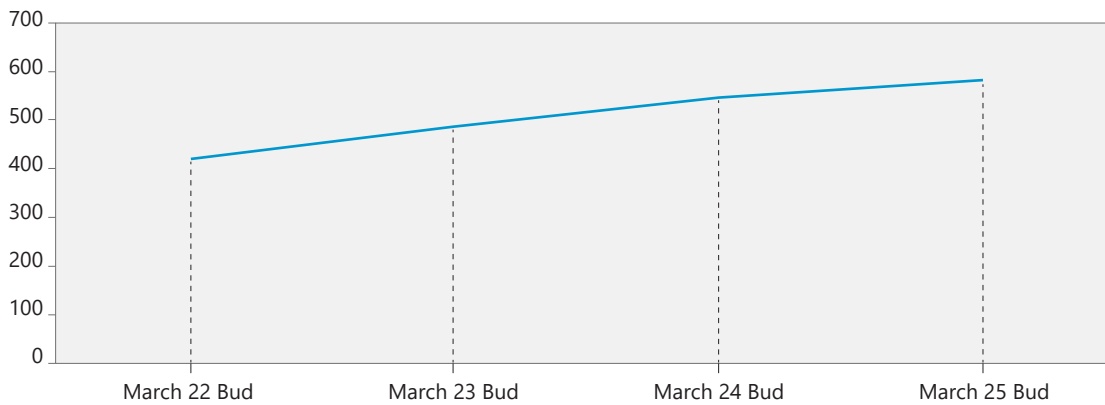
Division	March-22	March-23
 Regulatory Standards	76	95
 Supervision	165	182
 Enforcement	76	86
 Corporate Services	79	94
Total FRC	396	457
 UK Endorsement Board	21	29
Total	417	486

In year two of our plan, we anticipate adding further gradual headcount increases across our regulatory teams, with the largest increase being in teams who will take on new statutory responsibilities from 2023, such as accountancy oversight. We also anticipate an increase in Enforcement case volumes over the coming years, due to a combination of our increased remit, including existing voluntary Schemes being placed on a statutory footing, and the current economic stresses on companies.

In year three of our plan, we expect growth to stabilise or stop in many teams, with headcount additions being confined primarily to those teams whose requirement to scale and meet new obligations naturally lags the implementation of legislative or regulatory changes.

Proportionate growth to meet new duties

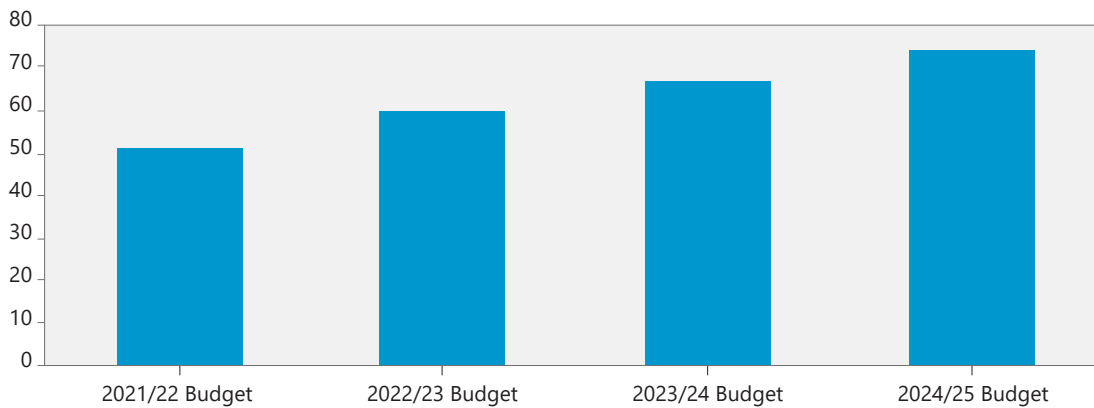
FRC headcount increase (March 22 – March 25)



16.5%
increase in
headcount

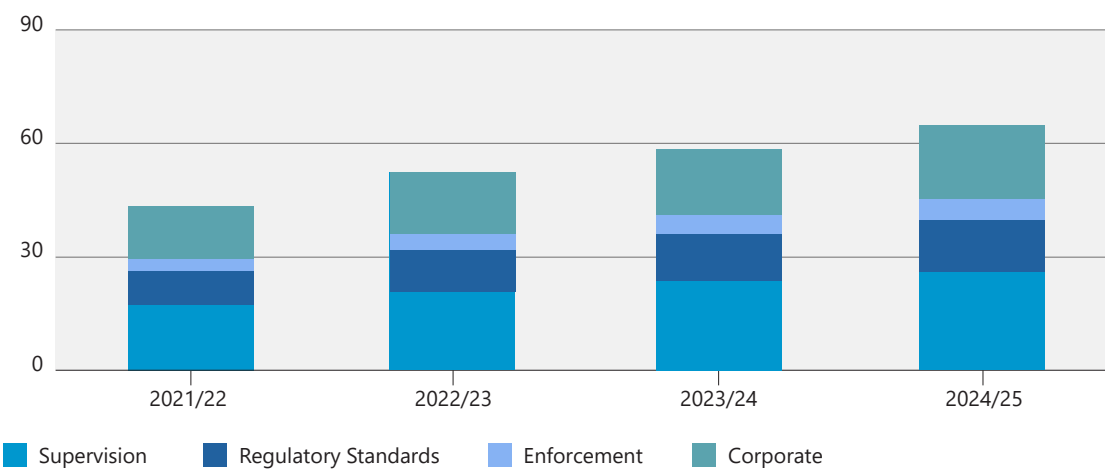
The trajectory of expenditure associated with years 2 and three of the plan is shown in the figures below:

FRC Expenditure



16%
increase
in budget
(incl UKEB)

Expenditure by division (excl case costs & UKEB)



i) Our People

Last year we reported on the organisational challenges we experienced as a result of the global pandemic. We were pleased that, not only did our people meet those challenges with admirable determination, but we maintained momentum in our planned recruitment activity, including new and replacement hires. 2021/22 has continued to present us with new and complex issues to grapple with, such as the introduction of hybrid working. From September 2021, we have been piloting a four-day fortnight office-based working approach, with flexibility for teams to adapt their working patterns around their operational requirements and reflecting the differing personal and professional needs of our employees. Despite some delays in recruitment during the year, we expect to achieve close to our budgeted headcount for 2021/22 of 417, and at 31 March 2022 our headcount stood at 395, an increase of 68 against our March 2021 headcount.

**Excellent,
motivated
people are
our strength**



In October 2021, we relaunched the FRC's Values with a refreshed set of behaviours. This work was informed by a wide-ranging exercise that sought views from all colleagues. Having considered how well our existing values continued to align to our purpose, we focused on communicating the refreshed behaviours, as our colleagues told us it was important to them to be able to identify not just what the FRC sets out to achieve, but how it should be done in a way which stays true to our values and purpose. We are working to embed the behaviours across the FRC.

Our planned growth over the next three years will involve building capacity in areas not yet fully served by our existing skillsets, including deeper expertise in narrative reporting, local audit, actuarial regulation, and competition policy as well as in support functions such as data analytics. Our workforce planning will accommodate the need for these skills, whilst offering growth and development opportunities for our existing employees wherever possible. Throughout 2021, our many employee forums and peer-to-peer groups have helped us not only make the FRC a great place to work, but also to understand where we can do more to promote diversity and inclusion and improved wellbeing for the benefit of all our colleagues.

8. Statutory funding plans

Whilst we had hoped to consult on a new statutory funding model in 2021/22, we acknowledge that this is best undertaken once draft legislation has been announced and stakeholders are able to engage in an informed debate on a new funding model. Subject to government's legislative timetable, we intend to publish a detailed funding consultation in 2022. Our aim for ARGAs statutory funding is to create a fairer, more transparent model in which costs are allocated proportionately across those parties who benefit from each of our regulatory activities. Subject to consultation, this may expand the range of ARGAs funding to groups who have not previously contributed, as well as reset the basis on which funding is calculated.

9. UK Endorsement Board

The UK Endorsement Board (UKEB) was set up by the government in 2021 as an independent body, to adopt International Financial Reporting Standards (IFRS) for use in the UK, and to lead the UK's participation in and contribution to the development of a single set of international accounting standards. The UKEB is accountable to the Secretary of State for its technical decision-making and subject to FRC oversight in respect of its governance and due process. Further information can be found on the [UKEB website](#).

The UKEB has set its budget at a level designed to ensure that it has adequate resource to enable it to fulfil its statutory objectives and deliver on its regulatory strategy. The [UKEB's 2022/23 Regulatory Strategy](#) is available to view on its website. In setting its budget, the UKEB consults with the FRC and follows the FRC's budgeting processes. However, the approval of the UKEB's budget is a matter for the Secretary of State.

The UKEB considers it needs a total of 29 staff next year to undertake its responsibilities, an increase of 8 on its March 2022 budgeted headcount of 21. From 2021 onwards, the FRC was no longer permitted to offset UKEB costs from reserves and the full cost of the UKEB is collected on their behalf through the FRC's funding arrangements. IFRS adoption and influencing, on behalf of the UK, is not an FRC function and therefore, UKEB costs are shown separately in Annex 1, below

Annex 1 – Detailed expenditure and funding 2022/23

Expenditure

During the 2022/23 financial year, we will require a budget of £59.8m (Table 1). This will enable us to build further capacity in our regulatory functions as described above, continue to discharge our professional oversight role following EU Exit and collect funding for the work of the UKEB, as agreed with BEIS.

Table 1: Regulatory activities	2021/22 Budget £m	2022/23 Budget £m	Change £m
Supervision			
Audit Quality Review	9.8	10.4	0.6
Corporate Reporting Review	6.0	6.7	0.7
Audit Firm Supervision	2.0	2.8	0.8
Audit Market Supervision	2.1	2.9	0.8
Professional Oversight			
Professional Oversight	3.9	4.6	0.7
Third Country Auditors – Registration	0.7	0.8	0.1
Enforcement Core Costs	5.0	6.1	1.1
Regulatory Standards			
Corporate Governance and Stewardship	1.7	2.2	0.5
Accounting and Reporting Standards	2.8	2.4	(0.4)
Audit & Assurance Standards	2.5	3.4	0.9
Financial Reporting Lab	1.5	2.0	0.5
Stakeholder Engagement & Corporate Affairs	2.6	2.9	0.3
FRC Taxonomies	0.3	0.3	-
Actuarial			
Standards	2.0	2.6	0.6
Professional oversight	0.2	0.2	-
Total Core Costs	43.1	50.3	7.2
Enforcement Case Costs	5.0	5.0	-
Actuarial Investigation costs	0.4	0.0	(0.4)
Total FRC Costs	48.5	55.3	6.8
UK Endorsement Board	3.0	4.5	1.5
Total	51.5	59.8	8.3

The key areas in which we will increase expenditure in 2022/23 are in: i) Supervision, where we are taking on new obligations in respect of PIE auditor registration as well as preparing for more work on local audit, ii) Regulatory Standards where our actuarial and corporate governance and stewardship teams will increase in size to meet the demands of new activities, and iii) Corporate Services, where our IT, Finance, Legal and ESA teams will grow slightly to support the increased activity in the regulatory divisions.

As always, a key part of achieving our organisational objectives in 2022/23 is ensuring that we have the right number of technically qualified professional staff; and this is where much of the increased cost arises.

Table 2: Expenditure type	2021/22 Budget £m	2022/23 Budget £m	Change £m
Staff costs	34.0	41.1	7.1
Restructuring costs	0.5	0.7	0.2
NED and Committee Member Fees	1.2	1.1	(0.1)
Facility costs	2.4	2.6	0.2
IT & Website	1.5	3.0	1.5
Travel	0.6	0.6	-
Conferences	0.3	0.4	0.1
Recruitment	0.9	0.8	(0.1)
Training	0.3	0.4	0.1
Legal / professional / audit	2.1	1.5	(0.6)
Research	0.5	0.6	0.1
All others (see note)	1.5	1.7	0.2
FRC Taxonomies	0.3	0.3	0.0
Total	46.1	54.8	8.7
Actuarial Investigation Costs	0.4	-	(0.4)
Audit and Accountancy Case Costs	5.0	5.0	-
Total	51.5	59.8	8.3

Table 3: Expenditure by Division	2021/22 Budget £m	2022/23 Budget £m	Change £m
Supervision	17.6	20.0	2.4
Regulatory Standards	9.0	10.9	1.9
Enforcement	3.3	4.1	0.8
Corporate Services*	13.9	16.3	2.4
Sub Total	43.8	51.3	7.5
Case Costs	5.4	5.0	(0.4)
Total FRC	49.2	56.3	7.1
UK Endorsement Board	2.3	3.5	1.2
Total	51.5	59.8	8.3

* Corporate costs are distributed proportionally against the regulatory activities in Table 1 above

Funding

In order to secure the necessary resources from market participants we have set a funding requirement of £59.8m. This represents an increase of £8.3m on last year's funding requirement. Our 2020/21 funding requirement was met in part through a £2.3m contribution from reserves to fund the initial costs of the UKEB. The use of reserves for this purpose was not permitted for 2021/22 and the full cost of the UKEB for 2022/23 will again be collected on the UKEB's behalf by the FRC through the preparers levy. However, to keep a steady and reasonable increase to the preparers levy, we will use £1.6m from our reserves towards funding our budget. We will consider how the remaining reserves may be best utilised in future as we transition to ARGA.

We have allocated the funding requirement using our existing funding model as follows:

Table 4: Funding sources	2021/22 Budget £m	2022/23 Budget £m	Change £m
Audit and Accountancy funding groups			
RSB contribution to AQR	9.1	9.7	0.6
RSB contribution to AMS	4.1	2.9	(1.2)
RSB contribution to AFS	-	2.8	2.8
NAO & Crown Dependencies	0.7	0.7	0
CCAB contribution	9.7	11.5	1.8
CIMA	0.8	0.8	-
Contribution to Enforcement case costs	5.0	5.0	-
Subtotal	29.4	33.4	4.0
Companies (Accounts Preparers)			
For the FRC	15.7	15.8	0.1
Towards UKEB	3.0	4.5	1.5
Contribution from reserves	-	1.6	1.6
Sub-total	18.7	21.9	3.2
Actuarial funding groups			
Insurance companies	1.2	1.2	-
Pension schemes	1.2	1.2	-
IFoA	0.2	0.3	0.1
Sub-total	2.6	2.7	0.1
Publications, XBRL and TCA registration fees	0.8	0.8	-
DLUHC	0	1.0	1.0
Total	51.5	59.8	8.3

The audit and accountancy profession's contributions are paid by the Consultative Committee of Accountancy Bodies (CCAB), whose members are ACCA, CAI, CIPFA, ICAEW, and ICAS; and by CIMA which contributes to the FRC's funding requirement under the terms of a separate agreement with the FRC. The contributions reflect the full cost of the oversight and audit and assurance activity, which we consider better aligns with the profession's activities which are the subject of this work.

The FRC raises preparers, pension and insurance levy payments on the basis that the levies are non-statutory and collected on a voluntary basis. Should the system of voluntary payments prove unsustainable the Secretary of State is able to make regulations to put the FRC's levies on a statutory basis. The Companies (Audit, Investigations and Community Enterprise) Act 2004 includes provisions to enable this.

We will increase the amount we request through the preparers levy by 8.5%, which will require an increase of 3% in the rates we apply. As in previous years we will continue to raise £0.9m for the IFRS Foundation alongside our levies.

	Organisation size per £m of market cap*	2022/23 Preparers levy rate
Minimum fee for all companies	Up to 100m	£1,608
Additional fees based on the following levy bands		
1	100m - 250m	£15.81
2	250m - 1,000m	£12.06
3	1,000m - 5,000m	£11.67
4	5,000m - 25,000m	£0.1899
5	> 25,000m	£0.0359

The following table gives an indication of the amounts that will be charged to different types of entities:

Organisation	2022/23 levy
UK AIM company with £100m market cap	£804
Private company with £750m turnover	£5,005
Premium listed company: £10bn market cap	£60,655

Pension levy for 2022/23

The FRC pension levy applies to all Defined Benefit and Defined Contribution schemes with 5,000 members or more. We will raise £1.2m from the pension levy in 2022/23 and we will confirm the levy rate to be applied after receiving the data on scheme membership provided by the Pensions Regulator.

Insurance levy for 2022/23

The insurance levy is allocated to insurance companies as a proportion of the FCA and PRA regulatory fees and requested on the same invoice as the FCA/PRA fees. We will raise £1.2m from the insurance levy in 2022/23 and we will apply the levy rate necessary to secure this as proportion of the FCA/PRA fees.

Annex 2 – Audit regulation: Equivalence and adequacy assessments

Audit regulation involves the principles of 'equivalence' (where another country is deemed to apply a consistent standard of oversight) and 'adequacy' (where another country is deemed adequate for the purposes of sharing information). Equivalence and adequacy decisions were previously made by the European Commission on the UK's behalf. Following EU exit, the UK now makes its own 'equivalence' and 'adequacy' decisions in relation to third country audit regimes. BEIS have asked the FRC to undertake 'equivalence' and 'adequacy' assessments in order for it to make those decisions, and to raise the necessary funds from market participants. In 2022/23 we estimate that the FRC's costs for this work will total £200k. In February 2021, we consulted on our proposals for funding equivalence assessments and the proposed regulations which giving effect to these arrangements. As a result of that [consultation](#) and considering also responses to our annual plan and budget consultation, we exercised our powers conferred by section 1251(2) of the Companies Act 2006 to make the Third Country Auditors (Fees) Instrument 2021, which came into force on 17 June 2021. In that instrument, TCA fees were set at the same levels as were consulted on.

In 2022/23 the fee for each registered TCA will remain as in 2021/22. The fees are shown in the table below.

Annual fee payable by a registered third country auditor			
Number of audit clients	Type of registration as a third country auditor		
	Equivalent registration (Form A)	Transitional registration (Form A)	Full registration (Form B)
0 - 9		£1,221	£2,357
10+		£2,925	£5,765

Further information about our current funding is available on our website at www.frc.org.uk/funding



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