March 2017

Plan & Budget and Levies 2017/18
The Financial Reporting Council (FRC) is the UK’s independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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Section One – Overview

The way companies and investors create and sustain value is central to the role of business in society. High standards of corporate governance and reporting, and good corporate culture, are important for delivering long-term business success and economic growth that benefit wider society.

Our mission is to promote high quality corporate governance and reporting to foster investment. Our aim is to support the public interest both in trustworthy behaviour by directors and professionals and trustworthy information that contribute to informed investment decisions and effective engagement by investors.

In pursuing our mission, we are conscious of the wide range of stakeholders with an interest in standards of corporate governance and reporting in the UK. These include investors, businesses, and the accountancy and actuarial professions. Importantly, they also include the clients of professional accountancy and actuarial advice, creditors, savers, insurance policy holders, pension scheme members, employees, consumers, suppliers, taxpayers and public sector organisations.

We contribute to the UK’s standing as a destination for global capital investment and a centre of excellence for accountancy, audit and actuarial work.

Our priorities for 2017/18 are:

- Comprehensively review and update the UK Corporate Governance Code and promote our work on corporate culture.
- Together with other regulators help stakeholders seize the opportunities and address the challenges of the UK’s exit from the EU.
- Remain influential internationally.
- Enhance the speed and effectiveness of our enforcement role.
- Promote clear and concise corporate reporting.
- Use our role as UK Competent Authority for audit regulation to drive improvements in the quality of audit.
- Establish effective monitoring of actuarial work by the actuarial profession and implement our new Technical Actuarial Standards.
- Use our corporate culture to support our mission and regulatory role, and ensure we are effective and efficient.

We are grateful for the responses we received to the Draft Plan & Budget we issued in December 2016. The responses, which are generally supportive of our proposed priorities, are published on our website at www.frc.org.uk/fcplanandbudget.
In November 2016, HM Government published a Green Paper on Reforming Corporate Governance. It sought views on a number of issues: executive pay; strengthening the employee, customer and wider stakeholder voice; corporate governance in large, privately-held businesses; and whether the current corporate governance framework in the UK is providing the right combination of high standards and low burdens.

We set out our view of the core strengths of the current framework in our evidence to the Business, Energy & Industrial Strategy (BEIS) Select Committee Corporate Governance Inquiry, and in our response to the Green Paper. A key reason why global investors commit their capital to UK listed companies is the trust and confidence the UK Corporate Governance Code engenders, thereby benefiting UK society in the long term through jobs, prosperity and growth as well as providing appropriate returns on their investment. The unitary board, strong shareholder rights and the comply-or-explain approach have delivered success and should not be compromised.

We recognise that demands on the corporate governance framework are expanding, and there have been well-publicised examples of poor corporate behaviour. Better governance needs to be achieved more consistently to help companies take better decisions - for their own long-term benefit and that of the economy overall. We propose reform in four areas:

- The Companies Act places a duty on directors of all companies to promote the success of the company, and in so doing have regard to a range of other factors, such as long-term consequences, the environment, employees, suppliers and customers. This duty must be reinvigorated. Companies should be required to report more effectively on how they have discharged it; and the FRC should have powers to test the quality of reporting on this and other aspects of governance.
- The role, remit and judgement of the remuneration committee should be extended to cover pay policies throughout the organisation. Remuneration policy and payments should have a much clearer link to delivery of strategy, focusing on outcomes which deliver long-term company performance.
- Large private companies must be more accountable to their stakeholders and society given their significance to the public interest and the privilege and benefits of limited liability status. The FRC is well placed to introduce corporate governance principles for such companies.
- The regulatory framework is fragmented, with gaps in enforcement. We wish our powers to be extended to enable us to investigate and prosecute all directors for financial reporting breaches and associated issues of integrity, rather than only accountants and actuaries.

In February 2017 we announced plans for a fundamental review of the UK Corporate Governance Code. This will take account of work done by the FRC and others on corporate culture and succession
planning, and the issues raised in the Government’s Green Paper and the BEIS Select Committee inquiry. The review will build on the Code’s globally recognised strengths while considering the appropriate balance between its principles and provisions and the growing demands on the corporate governance framework and the need to improve standards. We are anxious at the same time to simplify and shorten the Code.

We have proposed that corporate governance reporting is brought within the ambit of our powers to monitor corporate reports; and in line with that proposal are developing plans on how this can be achieved.

Across all our work we will continue to engage in an open and informed way through regular meetings and public events, and have established a Stakeholder Panel to extend our engagement. We will consider survey evidence of stakeholders’ perceptions of key aspects of corporate governance and reporting in the UK and of our own effectiveness. We will also seek to keep abreast of changes in the commercial environment which affect our stakeholders – issues such as cyber-security and the impact of big data.

Section Two of this Plan sets out the projects and activities we will implement in 2017/18. We will work closely with fellow regulators and with HM Government, and represent UK interests in the EU and internationally.

Section Three sets out our budget. Our overall funding requirement for 2017/18 will be £36.0m. Our core costs will increase by 6.3% compared to our budget for 2016/17. Staff pay will increase by 1.5% on average. Staff costs, which represent over two-thirds of our operating costs, will increase by 7.5%. This increase primarily reflects recruitment to discharge our new responsibilities as Competent Authority for audit regulation, and provide additional resource for our work on corporate governance and enforcement. The increased costs are mitigated by efficiency savings in other areas. Our funding requirement includes an addition of £0.7m to our general reserves, which currently amount to around 20% of our operating costs.

As set out in Section Four, we will fund our work in 2017/18 through a 2.5% increase in levies on the professional bodies and an overall 5% increase in the levies on preparers - ranging from 2.5% increase for those with a market capitalisation below £1bn up to 9.5% for market capitalisations greater than £1bn. The highest levy will rise to approximately £66,000 for a company with a market capitalisation of around £100 billion.

Sir Winfried Bischoff
Chairman

Stephen Haddrill
Chief Executive Officer
Section Two - Priorities for 2017/18

This section sets out the projects and activities we will deliver in 2017/18.

We include in the work programme a set of indicators, quantified where possible, that help underpin our assessment of the state of key aspects of corporate governance and reporting in the UK. Some of these are activity measures, others relate to outcomes which are influenced by a range of factors, including the impact of the UK regulatory framework.

We will take these indicators, and other evidence, into account in publishing our annual assessments of the state of corporate governance and investor stewardship, corporate reporting and auditing in the UK, and our consideration of the risks to the public interest associated with actuarial work.

### Promoting high quality corporate governance and effective investor stewardship

The FRC is responsible for the UK Corporate Governance Code. The Code is based on the underlying principles of good governance including the exercise of judgement, accountability, transparency, probity and a focus on the sustainable success of an entity over the long-term. It includes a clear principle that boards should provide annual reports and accounts that present a fair, balanced and understandable assessment of the company’s position and prospects.

In January 2017, we published the latest annual review of the application of the Code by UK listed companies and our assessment of the quality of explanations where companies had chosen not to meet particular provisions.

During 2017/18, we will:

- Undertake a fundamental review of the Code and its associated guidance to take account of the growing demands on the corporate governance framework and the need to maintain appropriate balance between its principles and provisions; and to reflect the work on corporate culture and succession planning, and
- Follow-up our 2016 Corporate Culture report by monitoring progress on the issues identified in the report – including whether we are seeing an increase in the quality of companies’ reporting on values, behaviour and culture.

### Indicators:

The Government’s response to our proposals for changes to the UK Corporate Governance Code, and the views of stakeholders on current effectiveness and the need for change.
The proportion of listed companies providing a clear, broad and longer term view of risk management, internal control and viability in line with the changes to the Code introduced in 2014.

Measures of diversity for the boards of FTSE 350 companies including gender and ethnicity.

The quality of reporting by audit committees on corporate reporting and audit quality matters and on FRC regulatory interventions.

Relevant survey evidence of greater focus on the importance of company culture.

The FRC is also responsible for the UK Stewardship Code. This Code sets out the principles of effective stewardship by institutional investors, which build confidence in the system and give force to the comply-or-explain approach on which the Corporate Governance Code is based - as well as increasing accountability to clients and beneficiaries. The UK Stewardship Code is complementary to the Corporate Governance Code and, like that Code, it should be applied on a comply-or-explain basis.

In November 2016, the FRC published three categories of signatories to the Code according to how well they had reported and displayed their commitment to stewardship. The assessment focussed on the quality of descriptions of signatories’ approach to stewardship and their explanations in accordance with the ‘comply or explain’ basis of the Code. During this exercise we gave feedback to signatories on their reporting, which led most to improve their performance when the final assessment was made.

During 2017/18, we will:

- De-list signatories that fall in tier 3 unless they have taken action to improve their reporting.
- In the light of the Government consultation on Corporate Governance Reform, consider what further actions are necessary to ensure asset owners and managers are meeting their responsibilities as stewards and in driving good corporate governance.

**Indicators:**

Survey evidence of the extent to which asset owners are satisfied with the standard of reporting from asset managers.

FRC assessment of compliance by UK Stewardship Code signatories.

Survey evidence of the extent and effectiveness of companies’ engagement with investors.
Enhancing the speed and effectiveness of our enforcement role

The FRC is responsible for the investigation and the prosecution of misconduct affecting the UK public interest by accountants and actuaries and, as UK Competent Authority for audit, for breaches of relevant requirements in the audits of public interest entities (PIEs).

During 2016/17, the FRC successfully concluded some important cases involving audits by the large accounting firms and has continued to reduce the length of time of investigation. Our enforcement team has expanded since 2013, reflecting the importance we attach to our enforcement role. We plan further to expand the team in 2017/18, to help further accelerate case handling and deal with the significant number of new complex cases.

We have recently also reviewed and will update our procedures to ensure that we undertake investigations and prosecutions as speedily as possible. We will also be reviewing the effectiveness of our sanctions in 2017.

Promoting clear and concise corporate reporting

Our goal is to deliver a framework for corporate reporting that fosters and supports continuous improvement in the quality of reporting by those we regulate. We believe that corporate reports should be clear and concise and provide investors and other stakeholders with information they can understand and rely on.

In October 2016 the FRC published its first annual Review of Corporate Reporting, for 2015/16. We reviewed 192 annual and interim reports and accounts as part of our 2015/16 monitoring activities. A third of those reviews resulted in substantive queries being raised. Almost all the companies were able to resolve these queries, reflecting the generally positive responses of companies. All our queries resulted in improvement in the quality of companies’ reporting.

In October 2016, the FRC’s Financial Reporting Lab published a report on Business Model Reporting which provides valuable insight for companies on the importance of business model information to investors, and the type of information they are seeking. This report forms part of the FRC’s Clear & Concise reporting initiative that promotes transparent and accessible reporting.

We will continue our work to influence the development of International Financial Reporting Standards (IFRS). The UK’s exit from the EU could have significant implications for the adoption of IFRS. The FRC continues to support the application of a single set of high quality global financial reporting standards for all listed companies. Investors have told us they want comparability when reading company accounts. The extent to which the framework for accounting and reporting will need to
change will depend to a large degree on the outcome of the UK Government’s negotiations with the EU.

During 2017/18, we will:

- Produce our second annual assessment of the quality of corporate reporting in the UK.
- Focus corporate reporting review work on the following priority sectors: Property, Travel & Leisure, and Support services.
- Conduct thematic studies in the following areas:
  - Disclosures of judgements and estimates
  - Pension disclosures
  - Alternative performance measures.
- Monitor companies’ disclosures relating to:
  - New accounting standard disclosures (IAS 8)
  - Principal Risks and Uncertainties: Effect of decision to leave the EU and low interest rate environment on risk disclosures.
- Focus the work of the Financial Reporting Lab on:
  - Improving the reporting of Principal Risks and Viability statements
  - The Digital Future: Data project
  - Further initiatives to support Clear & Concise reporting.
- Influence the development and endorsement of IFRS.
- Update our Guidance on the Strategic Report.
- Continue to evaluate the impact of the new UK GAAP and specifically conduct a triennial review of FRS 102.

**Indicators:**

Evidence from our corporate reporting reviews, including the quality of reporting by (a) large public companies and (b) smaller listed and AIM quoted companies.

Our assessment of the impact of the Lab’s initiatives on corporate reporting.

Our views on the development and impact of international standards.

The outcome of our thematic reviews.

Evidence on the quality of reporting from surveys by market commentators.
Audit underpins public confidence in corporate governance and reporting. Our vision for audit is that it is trusted to provide reliable assurance on the public reporting of financial information and, in doing so, promotes good governance and facilitates the efficient allocation of capital.

The FRC’s strategy is to promote continuous improvement in audit quality, and we do this through our engagement with investors, preparers, auditors, audit committee chairs, the professional bodies and other regulators. Our aim is that by the end of the FRC’s 2016/19 strategy period at least 90% of FTSE 350 audits will require no more than limited improvements as assessed by our monitoring programme.

In June 2016, the FRC was designated the Competent Authority for audit in the UK under legislation implementing the EU Audit Regulation and Directive 2014 (ARD). As the Competent Authority we are responsible for the regulation and oversight of statutory audit in the UK. The regulatory tasks falling under this responsibility are either carried out by the FRC or, where permitted, are delegated to the Recognised Supervisory Bodies (RSBs). Accordingly, in 2017/18 the work of the RSBs, as well as the Recognised Qualifying Bodies (RQBs), will continue to be integral to achieving our strategic objective.

We published our first report on Developments in Audit in June 2016, and issued an interim update in February 2017.

During 2017/18 we will:

- Fulfil our responsibilities as the Competent Authority for audit in the UK, exercising the regulatory tasks retained by the FRC and overseeing the regulatory tasks delegated to the RSBs through regular monitoring visits to the RSBs combined with ongoing liaison and reporting under the terms of the delegation agreements.
- Publish our next report on Developments in Audit, for 2016/17.
- Undertake a programme of work to monitor and report upon the quality of firms’ audit work, with detailed work including reviewing around 155 individual audit engagements and reviews of firms’ wider arrangements in support of audit quality. In 2017/18:
  - Priority sectors will be Property, Travel & Leisure, Financial Services, and Support Services; and
  - Areas of focus will be changes in auditor appointment, audit of pension balances and disclosures, and impact of currency fluctuations - which have been selected based on the level of tendering activity, the low interest rate environment and the devaluation of sterling following the Brexit vote respectively.
Conduct thematic reviews in the following areas:

- Auditors’ responsibilities for areas of the annual report beyond the financial statements, including the audit of directors’ remuneration, and auditors’ reporting by exception on other matters such as risk management and viability statements;
- Audit firm culture and governance, following the 2016 report on Corporate Culture; and
- Materiality – to provide an update and explain developments in the last four years since our previous thematic review in this area.

Promote justifiable confidence in audit through our work with the audit profession and with preparers and audit committee chairs. We plan to pilot an ‘audit lab’ project to further continuous improvement.

Work with the Department of Communities and Local Government (DCLG) to ensure successful implementation of the new Local Audit regime. We will commence oversight of the responsibilities of the newly recognised RSBs and RQBs for regulating auditors of local bodies in England, under the Local Audit and Accountability Act (LAAA), including introducing monitoring of the audit of major public bodies.

Continue to register non-EU auditors of non-EU issuers listed on regulated UK exchanges in compliance with the requirements of the EU Statutory Audit Directive 2006. Continue to undertake inspections of those registered non-EU audit firms from countries where the European Commission has determined that the system of auditor oversight is not “Equivalent” or “Transitional” to that required within the EU.

Oversee the RQBs’ compliance with the requirements of Schedule 11 of the Companies Act 2006 in respect of recognition of professional qualifications for statutory audit through annual monitoring visits to the RQBs and ongoing liaison.

Influence the work of the International Auditing and Assurance Standards Board (IAASB) and other standard-setting bodies.

Use our role in international bodies, including the International Forum of Independent Audit Regulators (IFIAR) and Committee of European Auditing Oversight Bodies (CEAOB), to help drive improvement in audit quality across global audit firm networks.

Continue to revise and update standards and guidance material to reflect international developments, feedback from stakeholders, including estimates and non-compliance with laws and regulations, and in response to findings from our inspection and monitoring work.

Support consideration of how the transformative use of data analytics and technology can improve the effectiveness and efficiency of audit.
**Indicators:**

The findings from the FRC’s annual audit quality review activities.

Progress towards our aim that by the end of the strategy period at least 90% of FTSE 350 audits will require no more than limited improvements, as assessed by our monitoring programme.

A survey of audit committee chairs’ views of audit quality.

Assessment of data from the monitoring of audit quality by the RSBs in respect of audits that are not within the audit monitoring scope of the FRC.

Survey evidence of the impact of auditor retendering; of enhanced and extended auditor and audit committee reporting; and of increased transparency of the results of the FRC’s audit quality inspections.

Pilot an ‘audit-lab’ report.

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**Promoting high quality actuarial work**

Actuarial work is central to many financial decisions in insurance and pensions and is an important element in other areas requiring the evaluation of risk and financial returns. High-quality actuarial work promotes well-informed decision-making and mitigates risks to users and the public. The FRC sets technical actuarial standards (TASs) and oversees the regulatory activities of the Institute and Faculty of Actuaries (IFoA).

The Joint Forum on Actuarial Regulation (JFAR) was established in 2013 by the FRC, the IFoA, the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Pensions Regulator (tPR) to coordinate the identification of, and response to, public interest risks to which actuarial work is relevant.

The FRC began a consultation on a revision to the overall framework for the TASs in November 2014. In May 2016, we published a near final draft of the Framework and TAS 100, a new generic TAS applying to all technical actuarial work, and exposure drafts of the revised specific TASs. We published the new framework and related standards in December 2016, with an effective date of 1 July 2017.

During 2016, we have worked with the JFAR and published a DB and DC scheme transfer survey on its behalf. We published the JFAR’s annual update to the Risk Perspective in December 2016. It
included observations on TAS compliance arising from a review of a small sample of general insurance reserving reports, which we completed on behalf of JFAR.

In October 2016 the FRC published a revised version of Actuarial Standard Technical Memorandum 1 (AS TM1) which sets out the basis on which annual statutory money purchase illustrations (SMPIs) should be determined. It included two amendments following changes by the IFoA Continuous Mortality Investigation (CMI) concerning the mortality tables specified in AS TM1. The changes to AS TM1 were the same as those made by the Financial Conduct Authority (FCA) for point of sale and in-force business projections in PS16/12: Pension reforms – feedback on CP15/30 and final rules and guidance.

During 2017/18, we will:

- Influence the IFoA’s development of an effective monitoring framework in relation to actuaries’ work.
- Take forward and implement enhanced procedures for oversight of the IFoA in respect of their regulation of the actuarial profession.
- Promote the new framework of Technical Actuarial Standards and influence the development of international model standards.
- Continue to work with the JFAR in assessing areas of public interest where actuarial work is central.

**Indicators:**

Feedback on the new TASs and the updated JFAR Risk Perspective.

The quality of the monitoring proposals that are agreed by the IFoA.

The impact that our oversight procedures have on the actuarial profession.

**Ensuring that the FRC is effective and efficient, and has a corporate culture that supports our mission and regulatory role.**

Delivering our regulatory role in a challenging environment while ensuring that we are effective and efficient requires a strong focus on our own corporate culture. We have considered carefully the lessons from our work with partner organisations on the importance of corporate culture and lessons from our surveys of how external stakeholders, and our people, see the FRC.
With the support of colleagues across the organisation we are making sure our culture is fit for purpose. Our culture should support our mission and regulatory approach; enable us to demonstrate a high degree of openness and accountability in our interactions with our stakeholders; and closely align the way in which we manage and reward performance with our values.

We believe we have the right values: showing respect; reaching out; joining-up; seeking evidence; and being decisive. They were developed in consultation with the whole of the FRC executive team. We will do more to embed and integrate them and to assess and measure the behaviours we are seeking. We want in particular to enhance our speed of response and engagement with stakeholders and internally, whilst at the same time remaining committed to being evidence-driven, fair and firm.

We will continue to invest in our people. Their skills and experience underpin the quality of our work and ensure that we can work constructively with our fellow regulators, with those we regulate, and with those who represent the wider public interest.
Section Three – Budget 2017/18

As explained in the Overview, this Section sets out how much we plan to spend and how much we will request from each of our funding groups in 2017/18.

Our Budget (Table 1) sets out our planned expenditure on each area of our regulatory activities. The costs of our governance and legal functions and our overheads are allocated pro rata.

<table>
<thead>
<tr>
<th>Table 1: Budget – Regulatory activities</th>
<th>2016/17 Budget £m</th>
<th>2016/17 Outturn £m</th>
<th>2017/18 Budget £m</th>
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<tbody>
<tr>
<td><strong>Corporate Governance &amp; Reporting</strong></td>
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<td>Corporate Governance</td>
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<td>Corporate Reporting Review</td>
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<tr>
<td>Increase/ (decrease) in CRR fund</td>
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<tr>
<td>Central costs</td>
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<td>1.4</td>
<td>1.8</td>
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<tr>
<td><strong>Audit and Assurance Regulation</strong></td>
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<td>Audit Quality Review</td>
<td>7.3</td>
<td>8.8</td>
<td>7.7</td>
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<td>Audit &amp; Assurance Standards</td>
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<td>1.7</td>
<td>1.9</td>
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<td>Professional Oversight</td>
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<td>1.6</td>
<td>1.9</td>
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<tr>
<td>Central Costs</td>
<td>1.8</td>
<td>1.4</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Actuarial Standards &amp; Regulation</strong></td>
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<tr>
<td>Technical actuarial standards</td>
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<td>1.9</td>
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<td>Professional oversight</td>
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<tr>
<td>Actuarial case costs</td>
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<td>0.3</td>
<td>0.5</td>
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<tr>
<td>Increase/(decrease) in case costs Fund</td>
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<td>0</td>
<td>0</td>
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<td><strong>Enforcement</strong></td>
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<tr>
<td>Enforcement core costs</td>
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<td>Audit and accountancy case costs</td>
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<td><strong>Total</strong></td>
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<td>35.3</td>
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<td>Increase/(Decrease) in reserves</td>
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<tr>
<td><strong>Overall total</strong></td>
<td>34.6</td>
<td>33.3</td>
<td>36.0</td>
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The following table analyses our budget by type of expenditure:

<table>
<thead>
<tr>
<th>Table 2: Budget - Expenditure type</th>
<th>2016/17 Budget</th>
<th>2016/17 Outturn</th>
<th>Proposed 2017/18 Budget</th>
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<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
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<tr>
<td>Staff costs</td>
<td>20.0</td>
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<td>Non-Executive Directors Fees</td>
<td>1.5</td>
<td>1.5</td>
<td>1.6</td>
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<tr>
<td>Facility costs</td>
<td>1.9</td>
<td>1.9</td>
<td>2.0</td>
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<tr>
<td>IT &amp; Website</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
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<td>Recruitment</td>
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<td>0.5</td>
<td>0.2</td>
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<tr>
<td>Training</td>
<td>0.4</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Legal / professional / audit</td>
<td>1.0</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Research</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Actuarial case costs</td>
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<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>All others</td>
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<td>1.0</td>
<td>1.3</td>
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<tr>
<td>Total</td>
<td>28.5</td>
<td>27.3</td>
<td>30.3</td>
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<tr>
<td>Audit/ and accountancy case costs</td>
<td>5.0</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Total</td>
<td>33.5</td>
<td>31.3</td>
<td>35.3</td>
</tr>
</tbody>
</table>

Our budget for 2017/18 takes account of our enhanced responsibilities as Competent Authority for audit. We have made provision for some additional work in relation to corporate governance and to enhance the effectiveness of our monitoring and enforcement work. The 7.5% increase in staff costs in 2017/18 compared with our budget for 2016/17 largely reflects: (a) the recruitment of additional staff necessary to fulfil our obligations as the Competent Authority in the UK for audit; (b) our ongoing efforts to accelerate the speed of investigations in our enforcement activities; and (c) the reform of the UK's corporate governance framework following publication of the Government's Green Paper and BEIS Select Committee Inquiry.

We will spend £2.2m less that we budgeted for in 2016/17. Of this, £1.0m is because we have spent less than originally forecast on accountancy and actuarial cases; and £1.2m results from efficiency savings.

Subject to the need to deliver our statutory responsibilities and other regulatory objectives, we aim to achieve further efficiency savings of £0.5m in 2017/18. We have successfully made use of on-line recruitment in 2016/17 in order to limit the amount we would otherwise have required to pay and will continue to apply this approach. We will aim to support staff in their professional development to the same degree as at present but more efficiently. And we will further invest in our IT capability with a view to more flexible and efficient working arrangements - as well as enhanced cyber-security.
During 2016/17, we have revised the allocation of our central overheads to take account of our new responsibilities as Competent Authority for audit. We will apply the same principle in allocating our overheads in 2017/18. This will increase the amount we charge the recognised supervisory bodies for our audit quality review activities; and reduce, by the same amount, the general contribution from those bodies.

**Reserves**

Given the voluntary nature of much of our funding, and our role as Competent Authority for audit regulation, we believe that we need to maintain an appropriate level of general reserves to ensure that we can deliver our regulatory responsibilities effectively. There is a reserve power in company legislation for the Government to introduce a statutory levy, but this would require Government action and time to put in place.

Our current aim remains to establish reserves equivalent to six months operating costs; but we will keep this target under review and will consult each year on the level of our reserves. We propose to add £0.7m to our general reserves in 2017/18.

We maintain a Conduct Committee case costs fund of £2m and an actuarial case costs fund of £2m. These are both allocated to specific regulatory functions.

The following table illustrates the current level of reserves, the forecast increase during 2016/17, and what we are proposing to raise during 2017/18.

<table>
<thead>
<tr>
<th>Table 3: FRC reserves</th>
<th>Conduct Committee fund</th>
<th>Actuarial case cost fund</th>
<th>General reserve</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£m</strong></td>
<td><strong>£m</strong></td>
<td><strong>£m</strong></td>
<td><strong>£m</strong></td>
<td><strong>£m</strong></td>
</tr>
<tr>
<td>Opening balance (1 April 2016)</td>
<td>2.0</td>
<td>2.0</td>
<td>3.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Addition during 2016/17 (forecast)</td>
<td></td>
<td></td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Balance (end March 2017)</td>
<td>2.0</td>
<td>2.0</td>
<td>5.5</td>
<td>9.5</td>
</tr>
<tr>
<td>Proposed addition during 2017/18</td>
<td></td>
<td></td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Forecast balance (end March 2018)</td>
<td>2.0</td>
<td>2.0</td>
<td>6.2</td>
<td>10.2</td>
</tr>
</tbody>
</table>
Section Four – Levies 2017/18

Sources of Funding

The following table sets out how we have allocated our funding requirement in 2017/18.

<table>
<thead>
<tr>
<th></th>
<th>2016/17 Funding requirement</th>
<th>2016/17 Forecast</th>
<th>2017/18 Funding requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRC total expenditure</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Proposed additions to reserves</td>
<td>33.5</td>
<td>31.3</td>
<td>35.3</td>
</tr>
<tr>
<td>Total funding requirement</td>
<td>34.6</td>
<td>33.3</td>
<td>36.0</td>
</tr>
</tbody>
</table>

**Funded by:**

**Audit and accountancy funding groups**
- RSB contribution to AQR funding: 6.3 6.3 6.5
- Other AQR income: 1.1 0.9 0.8
- Contribution to standards & oversight: 4.1 4.1 4.2
- CIMA: 0.8 0.8 0.8
- Case costs: 5.0 4.0 5.0
- Preparers levy: 14.1 13.6 14.8

**Actuarial funding groups**
- Insurance levy: 1.4 1.6 1.4
- Pension levy: 1.2 1.4 1.4
- IFoA: 0.2 0.2 0.2
- Unspent prior year (forecast): 0.4
- Publications and other income: 0.4 0.5 0.5
- Total: 34.6 33.3 36.0

**Accountancy profession**

The accountancy profession’s contribution (shown as the audit and accountancy funding groups in the above table) is 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 ICAEW, ICAS, ACCA and CAI are Recognised Supervisory Bodies (RSB) for audit under Schedule 10 of the Companies Act 2006. The FRC, as the audit competent authority, delegates certain audit regulatory tasks to each RSB under a Delegation Agreement.
Schedule 10 of the Companies Act 2006 and each Delegation Agreement also places an obligation on a RSB to fund the FRC’s performance of any tasks that have not been delegated where these relate to the regulation of auditors registered with that RSB. This covers the costs of the FRC’s audit review activities, audit enforcement activities and standard-setting procedures.

The activities of our Audit Quality Review team are also funded through the Audit Commission, the National Audit Office and fees levied on Recognised Auditors registered in the Crown Dependencies.

During 2016/17, we are forecasting to spend £0.4m less than budgeted on our audit review activities and will therefore reduce the 2017/18 funding requirement from the accountancy profession by that amount.

**Preparers levy**

The preparers levy is the annual levy we charge to:

- Companies listed on the London Stock Exchange with a Premium or Standard listing.
- UK companies traded on AIM and listed on ISDX (previously known as PLUS) Market group.
- Large private entities with a turnover of £500m or more.
- Global Depository Receipts issuers.
- Government Departments, local authorities and other public sector organisations.

The total amount of the preparers levy for 2017/18 will be £14.8m. In addition to this the FRC will aim to collect the UK contribution to the funding of the International Accounting Standards Board, totalling £0.9m in 2017/18.

The amounts payable by individual organisations under the preparers levy are determined through a minimum levy and further amounts for organisations above a certain size, with the rate per £m declining in five levy bands, aligned with the FCA levy arrangements. The amounts finally charged to individual levy payers are based on their market capitalisation (for listed companies), turnover (for other companies) or annual expenditure (for public sector organisations).

We are increasing the minimum fee and the rates for levy bands one and two by 2.5% for listed and other companies with a market capitalisation/turnover of less than £1bn; and increase the levy rates for bands three, four and five by 9.5%.
Preparers levy rates will be as follows:

<table>
<thead>
<tr>
<th>Minimum fee</th>
<th>Organisation size per £m*</th>
<th>2017/18 Preparers levy rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 100m</td>
<td>£1,070</td>
<td></td>
</tr>
<tr>
<td>100m - 250m</td>
<td>£10.49</td>
<td></td>
</tr>
<tr>
<td>250m - 1,000m</td>
<td>£8.00</td>
<td></td>
</tr>
<tr>
<td>1,000m - 5,000m</td>
<td>£7.74</td>
<td></td>
</tr>
<tr>
<td>5,000m - 25,000m</td>
<td>£0.1260</td>
<td></td>
</tr>
<tr>
<td>&gt; 25,000m</td>
<td>£0.0239</td>
<td></td>
</tr>
</tbody>
</table>

*denotes by market capitalisation for listed companies; and turnover or annual expenditure for other entities

Discounts: Main market companies with a Premium listing pay the full levy; companies with a Standard listing receive a 20% discount. UK AIM traded and ISDX listed companies receive a 50% discount. Private entities with a turnover of more than £500m receive a 50% discount. Public sector organisations receive a 75% discount. The following table gives examples of the levy that will be charged to different types of entity:

<table>
<thead>
<tr>
<th>Organisation</th>
<th>2017/18 levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK AIM company with £100m market cap</td>
<td>£535</td>
</tr>
<tr>
<td>Private company with £750m turnover</td>
<td>£3,322</td>
</tr>
<tr>
<td>Premium listed company: £25bn market cap</td>
<td>£42,124</td>
</tr>
</tbody>
</table>

The levy for Global Depositary Receipt issuers will be £3,450 for companies that have designated the UK as their home competent authority and £2,750 for other issuers. There is no change from 2016/17. The FCA’s Home Competent Authority list is available at [http://www.fsa.gov.uk/ukla/hcaList.do](http://www.fsa.gov.uk/ukla/hcaList.do)
Insurance levy for 2017/18

The insurance levy is charged to insurance companies on the same invoice as the FCA fees. We are setting a levy equivalent to 1.1% of the fees charged by the FCA and PRA for their fee blocks A3 (insurers – general) and A4 (insurers - life).

Pension levy for 2017/18

The FRC pension levy will apply to all Defined Benefit and Defined Contribution schemes with 5,000 members or more at a pension levy rate of £3.12 per 100 members. The levy rate to be applied to individual schemes will be based on latest available data on scheme membership provided by The Pensions Regulator.

Institute and Faculty of Actuaries (IFoA)

When we took on our new responsibilities for actuarial standards and regulation in April 2006 it was agreed that the IFoA will contribute a share equivalent to 10% of the cost of our actuarial activities.

Third Country Auditors – Registration and renewal fees

A third country auditor seeking registration in the UK must pay to the FRC a fee upon application and an annual fee thereafter for renewal of its registration in accordance with the Third Country Auditors (Fees) Instrument 2011. This fee is based upon our anticipated costs to administer the regime. The amounts payable are determined by the anticipated cost of processing applications from each of the three categories of registration; Equivalent, Transitional or Article 45. Audit firms from countries which have not been assessed as having audit oversight, monitoring and discipline regimes equivalent to those of the European member states or regimes which are moving in that direction involve the greatest amount of processing and therefore incur the highest fees.

From 1 April 2017, the fees will increase to the amounts shown in the table below.

<table>
<thead>
<tr>
<th></th>
<th>0-9 relevant clients</th>
<th>10+ relevant clients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>01/01/17</td>
<td></td>
</tr>
<tr>
<td>Equiv/trans</td>
<td>1,136</td>
<td>2,840</td>
</tr>
<tr>
<td>Art 45</td>
<td>2,272</td>
<td>5,680</td>
</tr>
</tbody>
</table>

Other income

The FRC also generates income from its publications, including from electronic rights. The XBRL project is funded by HMRC, the Charity Commission and UK Companies House. We also receive some bank interest on our deposits.
Contact Details

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