



PROFESSIONAL STANDARDS’ FINANCIAL PLANNING: 2025 BUDGET PRINCIPLES

EXECUTIVE SUMMARY

- The purpose of this paper is to propose for approval the principles and key assumptions for the Professional Standards’ Department (PSD) 2025 budget including the approach to fee and levy setting.
- The main principles are:
 - Target self-financing for regulatory, practice assurance and anti-money laundering supervision i.e., fees set at a level to cover costs.
 - [Redacted]
 - Probate fee proposals are subject to consultation and application for approval to the Legal Services Board.
 - Budget or fee proposals will carefully consider risks and mitigations including to avoid any adverse equality impacts.
- [Redacted]
- Our work as a regulator is part of ICAEW’s commitment to act in the public interest, and therefore provide consumer protection. Funding and resource allowing, PSD to plan for projects which enhance scope, effectiveness, and operational efficiency.
 - Levies will reflect the funding required by oversight bodies. There is no planned change in the levy approach or mechanism.
 - PSD’s budget reflects the cost of member conduct and quality assurance of member continuing professional development.

Main assumptions

- Assuming this meets the regulatory self-financing principle, 3% core regulatory fee increase.
- Further fee increases related to falling registration volumes, wage inflation higher than budget 2024, the increase in PA quality assurance resource and to meet new ICAEW reporting requirements. Such fee increases may be higher for larger firms.
- ICAEW overhead allocation to remain as per budget 2024 [Redacted]

- Resource costs, based on a phased full complement of staff and assumed 3% salary increase from March 2025.
- Direct costs subject to 4% inflationary increase.
- Probate fee increases should recognise previous consultation responses which indicate that smaller firms are under financial pressure i.e., a smaller increase for smaller firm.
- Conduct blended staff cost recovery rate per hour will increase by wage inflation every other year. Therefore in 2025 by +5% seen in 2024 salary increases.
- Professional indemnity insurance; Policy team to develop a scale (small, medium and large firm) charge for dispensation related work for implementation from 1 January 2025.

Levies in detail

- Financial Reporting Council (FRC); 'FRC and conduct levy' and 'AQR, LPA, AFS and AMS levy' increases are to be as indicated by the CCAB cost sharing mechanism and the FRC finance team, considering the actual spend position for the 2023/24 year versus budget.
- Insolvency Service levy requirement (an increase is expected of 25%+).
- Probate levy, subject to LSB approval i.e., funding the building of the compensation scheme cash balance, levy unchanged from previous years.
- [Redacted]
- Investment business compensation scheme costs, passed on by levy to DPB registered firms, unchanged.

APPROVAL

IRB are asked to approve:

- The principles, assumptions and levies.

[Redacted]

GENERAL OVERVIEW OF PSD FINANCES

- PSD financial planning - budget - and results include a wide range of activities;
 - a) Regulatory work by statutory appointment including the granting and withdrawal of licences and the monitoring of the quality of regulated work relating to the following services:
 - Audit, authorised by the Financial Reporting Council
 - Insolvency, authorised by the Insolvency Service

- AML supervision, authorised by Office for Professional Body Anti-Money Laundering Supervision
 - Legal services, authorised by the Legal Services Board
 - Investment business advice, authorised by the Financial Conduct Authority
 - b) Practice Assurance – the ICAEW scheme to monitor and improve the quality of firms’ operations
 - c) Member and firm conduct related complaints and investigations leading to disciplinary investigations
 - d) Commercial operations including work carried out under contract e.g., QAD supervision and outsourcing contracts, CIPFA outsourcing contract, products sold under licence e.g., PSD educational drama films.
 - e) Costs related to the monitoring of ICAEW member continuing professional development.
- Financial planning for PSD’s regulatory functions is carried out on a self-financing basis i.e., regulatory fees are increased to ensure that they, along with other estimated income, will cover all associated commitments and costs of operation: A target set by ICAEW Board.
 - Financial planning also includes longer term consideration for a range of elements such as risk and opportunity related to regulatory and statutory change and trends in registrations volumes.
 - PSD income is largely generated through registration fees.
[Redacted]
 - [Redacted]
 - PSD operates the DPB (investment business) and RLS (reserve legal services) compensation schemes. Both are considered adequately funded [Redacted]
 - Financial forecasting estimates no change in the overhead charge which will be levied by ICAEW for shared services. ICAEW’s policy is to share overhead costs on a headcount basis.
[Redacted]
 - PSD financial planning contends with the need to levy firms and practising certificate (PC) holders for the funds required for the operation of oversight regulators. The standard oversight body funding model being that the supervised pay the costs of the supervisors, even where they are government or public bodies. PSD must therefore levy, for example, for contributions to the cost of operations of the FRC and OPBAS and must also levy insolvency practitioners for the cost of supporting Insolvency Service operations including the Complaints Gateway.
 - [Redacted]

BUDGETING FOR PSD INCOME

- The main sources of PSD income as per estimated budget 2025:
 - a) Regulatory registration fees
 - Audit registration fees [Redacted]
 - Insolvency practitioner fees [Redacted]
 - Probate licence fees [Redacted]
 - Investment business licence fees [Redacted]

- Affiliates including new application fees [Redacted]
 - b) Regulatory fees – ad hoc including AML supervisory contracts [Redacted]
 - c) Practice Assurance scheme fees [Redacted]
 - d) Licensed Practitioner Scheme fees [Redacted]
 - e) Estimate based on trend, fines, penalties, and cost orders [Redacted] (but will fluctuate)
 - f) Commercial income from QAD outsourcing work [Redacted]
 - g) Commercial income from QAD products [Redacted]
 - h) Commercial income from PSD educational drama films [Redacted]
- A component of fee increase consideration relates to the trend in falling volumes of Audit, DPB and PA registrations.
 - The full and detailed budget will be prepared by the PSD finance team and overseen by the PSD Finance Director.

ACCOUNTING FOR COMMERCIAL INCOME

- QAD commercial visit and specialist work is completed under contract [Redacted] Direct costs and QAD staff time are charged, leaving a net surplus within the PS budget.
- [Redacted]
- The cost of producing licensed educational films has been charged to the PSD budget in previous years. Therefore, the income is also recognised in PSD.

BUDGETING FOR PSD COSTS

- The starting point for projected costs of regulatory work are the staff and other direct costs which will be required to discharge PSD's statutory, regulatory, and supervisory responsibilities. These costs, in turn, will depend on the requirements of oversight regulators such as the FRC, Insolvency Service, OPBAS and the LSB, all of whom will set minimum or target objectives for an authorised professional body, like ICAEW, to carry out. Further costs will be estimated for interacting with oversight regulators during their visits and in the finalisation of the drafting of their published reports and will also include regular contact and update meetings. These costs have increased significantly in recent years.
- The main regular significant costs for PSD are:
 - a) Staff [Redacted]
 - b) ICAEW overhead charge [Redacted]
 - c) Cost of Committee members and administration [Redacted]
 - d) Travel costs (largely related to QAD review work) [Redacted]
 - e) Legal and professional fees including film production [Redacted]

COST OF MEMBER DISCIPLINE WITHIN PSD

- PSD provides a member and student conduct / discipline service to ICAEW. [Redacted]

- This is a functional component of PSD's budget to manage income and cost but is not part of the regulatory self-financing model i.e., PSD are not required to generate income to absorb this net cost i.e., this is to be funded by member and PC fees.
- [Redacted]
- The PSD budget carries annual overheads. [Redacted]
- [Redacted]

PSD FORECAST RESULT FOR 2024

- PS financial results are expected to be strong and therefore to be ahead of budget.
- [Redacted]
- [Redacted]

Appendix 1

ICAEW'S FINANCES

- PSD is one of the 4 main 'business' departments within ICAEW along with; Education and Training (E&T), Reputation and Influence (R&I) and Belonging and Supporting (B&S). In addition, at ICAEW, staff are employed in the Executive Office, central operations (including central finance, facilities, digital, HR, corporate communications and IT) and international offices.
- ICAEW operates an annual consolidated operational planning and budget process. The budget is usually reviewed during the year e.g., a high level forecast in February, and a more detailed forecast in March and July.
- Other than ICAEW Commercial activities and PSD, the net costs of all other departments and the international offices are financed by what is normally referred to collectively as "member subs". This includes:
 - a) Annual membership subscriptions
 - b) Practising certificate fees for members offering services to the public
 - c) Student admission fees
 - d) Faculty fees for access to specialist materials
- [Redacted]
- [Redacted]
- A consolidated set of ICAEW management accounts is produced each month detailing the income statement, balance sheet and cash-flow, performance and commentary against budget/target or against a forecast, key metrics and more detailed updates from the main areas of the organisation.
- ICAEW reserves are held to secure and support the whole of the operation of ICAEW, including PSD and its regulatory responsibilities.
- The reserves policy is "reserves should be set at a level equivalent to between three and six months of expenditure through the income statement; And cash and investment balances should be at least sufficient to cover between three and six months of annual budgeted/forecast gross cash expenditure". This is to protect the regulatory function from any short-term financial anomalies or, should ICAEW decide to withdraw from an area of regulation, to allow for a properly funded handover period.
- ICAEW 2023 financial results will be available online later this year.

RISKS ARISING FROM PSD'S FINANCIAL INTEGRATION WITHIN ICAEW

- Strategically and operationally there is strength and opportunity by being part of larger organisation. However, there is also the potential to be exposed to risks to significant shortfalls in projected income or significant exceptional costs incurred in any one year by any other department.
- Events which might produce a significantly poor financial forecast for ICAEW, leading to a significant loss, will be considered by the ICAEW Board to determine as to whether any commensurate cost savings would be required to bring the projected loss closer to the agreed budget position. [Redacted]
- However, the ICAEW Board would be cognisant of the activities which PSD is required to carry out to fulfil its statutory obligations and commitments and the reputational and additional financial risk which would be incurred by any shortfall in required activities.

ADVANTAGES OF PSD’S FINANCIAL INTEGRATION WITHIN ICAEW

- While PSD has its own small, expert finance team, it benefits of being able to rely on central finance functions e.g., cash and treasury management, accounts payable, financial accounting, tax and insurance expertise, and internal and external audit.
- PSD also benefits from efficient and cost-effective synergies through sharing services including;
 - a) Property management;
 - b) Human resources
 - c) IT systems
 - d) Brand and corporate communications
 - e) Insurance
 - f) Common billing mechanism e.g. to reach UK PC holders.
 - g) [Redacted]
- Ultimately, PSD benefits from the strong overall reserves position of ICAEW and this allows the ICAEW Board to authorise or underwrite exceptional expenditure such as related to a large scale or long running investigation or investment in multi-year projects/resource and capital investments.
- This is a reflection and acceptance that the reserves are there to support all departments. Also, that PSD can benefit from these reserves reflects the fact that the ICAEW Board has determined to support ICAEW’s continuing role as a regulator and understands by pledging that support that it will be required to fund all necessary actions and steps which PSD considers necessary to discharge its regulatory obligations. The agreement to undertake potential significant costs and risks outside of PSD’s budget is also an implicit recognition that PSD has made substantial contributions to ICAEW’s reserves over recent years by running budget surpluses and ensuring that the pension deficit plan targets were met.

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