



Business Plan & Budget  
2020/21



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# 1. EXECUTIVE SUMMARY

This document sets out how the Lending Standards Board (LSB) will take forward its mission and strategy **to drive fair customer outcomes within financial services through independent oversight.**

In our Mission & Strategy for the 2020s we set out four strategic priorities for the decade, namely to:

- set **high standards** to reflect what we learn from our oversight work and to respond to the new opportunities and challenges of the market, including the growth of fintech;
- deliver **independent oversight** to provide assurance that standards are being met, to highlight good practice and to ensure weaknesses are remedied;
- ensure **wider reach** by taking a thought leadership role and by disseminating good practice through our publications and events and by expanding our market reach; and
- raise **awareness of the LSB** so that new entrant firms embrace our Standards and so that our findings are increasingly influential both within participating firms and among organisations representing and supporting consumers.

We set out below what activities we shall undertake under each of these headings. In summary, we shall:

- review the current Contingent Reimbursement Model Code for Authorised Push Payments (the CRM Code) which governs the response to push payment scams and update the Standards of Lending Practice for personal customers;

- undertake major thematic oversight reviews of:
  - the use and impact of effective warnings in alerting consumers to payment scams as required under the CRM Code;
  - the four information remedies arising from the FCA's Credit Card Market Study;
  - debt sales governed by the Standards of Lending Practice for business customers;
  - firms' implementation of the Standards of Lending Practice for business customers: Asset Finance;
- undertake firm-specific compliance exercises in roughly a quarter of participating firms;
- consult with firms on how the re-introduction of an annual, light touch self-attestation programme would work. This would be designed to confirm compliance with the various Standards and codes for which firms are registered, and reporting of any material breaches;
- publish reports and hold follow-up events on all our thematic oversight reviews; and
- work with participating firms to raise awareness of the LSB's work and Standards.

We have budgeted spend of £2.8 million to deliver this programme of work. That compares with a forecast spend for 2019/20 of £2.0 million. We explain our costs and how and why they have moved between years in the concluding section of this document.



## 2. THE LSB'S PROGRAMME OF WORK FOR 2020/21

The LSB's Business Plan & Budget was drafted prior to the challenges presented by the COVID-19 pandemic. Although we intend to continue with our programme of work for 2020/21, we may need to adapt the timing of our planned deliverables, and we will continuously review our work to ensure that we are focusing on the right things and adapting our approach where necessary but in line with our Mission and Strategy.

### SETTING HIGH STANDARDS

The LSB seeks to ensure that its Standards of Lending Practice and codes keep pace with the changing financial services market and with rising consumer expectations to ensure fair consumer outcomes. We also see to it that our Standards reflect the findings of our own oversight work.

Against this background, our top priority in 2020/21 will be to undertake a review of the CRM Code governing authorised push payment scams to ensure that the code is delivering fair outcomes for consumers who have fallen victim to a scam. In taking forward the review, we shall invite the challenge of our Advisory Group, chaired by Ruth Evans, which has equal representation from consumers and from the industry. We shall also consult more widely and draw extensively on the findings of our compliance work, including, particularly, our review of the consistency with which firms are applying R2(1)(c), the customer's reasonable basis for believing that the third party they were dealing with was genuine.

### DELIVERING INDEPENDENT OVERSIGHT

Rigorous, independent oversight is the LSB's core competence and contribution to improving outcomes for customers of financial services. To underpin the LSB's oversight in the 2020s, we have commissioned an independent review of our approach which will be published separately on our website. The review makes recommendations about both the cycle of oversight work and the methodology to be employed in order to ensure that the LSB is able to give assurance about compliance with our Standards system-wide and in individual participating firms.

Consistent with the recommendations of the review, the LSB will undertake a programme of both thematic, system-wide reviews and individual firm reviews in 2020/21. We shall also undertake induction reviews of firms seeking to sign up to our Standards and codes. We will look to adopt the methodology recommended by the review and maintain a risk-based approach. We shall also consult with registered firms on how we re-introduce a process for self-attestation with effect from the end of 2020. The aim here will not be to impose new burdens, but to ask firms once a year to take stock of their adherence to the relevant Standards and codes, to confirm compliance at senior, accountable level and to identify any breaches or other issues.

## THEMATIC REVIEWS

Our thematic reviews aim to assess compliance with the standards we oversee, system-wide in areas of risk or challenge. In the year ahead, we shall undertake four major reviews:

- Credit Card Market Study – As all four remedies have now been implemented for over 12 months, we will review a sample of firms to understand how effective these have been for consumers.
- Business Standards (debt sale) – Following introduction of new Standards around the sale of business debt we will begin a rolling programme of review to determine the due diligence firms undertake when choosing a purchaser.
- CRM Code (effective warnings) – This will be the second thematic review we undertake of a section of the CRM Code. We will look to understand how dynamic the warnings are and the impact these have on consumers in attempting to stop scams occurring.
- Business Standards (asset finance) – A risk assessment review is to be conducted at all firms who have signed up to these Standards.

## FIRM SPECIFIC REVIEWS

As recommended in the oversight consultancy report we will introduce a programme of reviews to assess each firm's compliance across all the various codes and Standards. The intention of this work will be to review every firm against the Standards and codes they are signed up to at least every three to four years. This ensures we maintain clear oversight and ongoing dialogue with all of our registered firms.

## SELF-ATTESTATION

We shall be consulting with a view to re-introducing a self-attestation programme designed to be unintrusive while providing the LSB with a clear view of compliance. We shall propose a light touch approach, relevant to each Standard or code, which invites affirmation at senior levels that the Standard or code is being followed. This will also include a requirement to report all breaches which have occurred in the previous 12 months. We shall ask for input from firms on the design and timings of this process. We will look to begin this work in the early summer and will invite firms to take part in discussion at roundtables and workshops. These will likely occur toward late summer to allow time for all comments to be considered, with a view to introduction at the end of 2020.

## STRENGTHENING OUR OVERSIGHT CAPABILITY

To deliver this programme of work, we have strengthened our Oversight Team to eight Compliance Managers. This includes two senior managers who will be responsible for ensuring delivery of differing workstreams.

We will keep our resource requirements under review to ensure we are able to continue to provide a rigorous and independent programme of oversight.

## REACHING WIDER

The LSB will be a thought leader within the industry. We shall build on the evidence delivered by our oversight work to raise standards of service delivery for both personal and business customers. We shall do this, in part, by extending our reach beyond participating firms to raise standards across the industry and by encouraging new firms to register with the LSB. To this end, we shall in the year ahead:

- undertake research that provides insight for our registered firms and raises the profile of the LSB, for example, relating to the treatment of SMEs in financial difficulty and third party advice; and

- work with registered firms to promote the work of the LSB and share the benefits of registration for both the firm and consumers;
- identify and support new firms to adhere to our Standards, with a focus on those firms which have not yet committed to the Standards, but which have a significant share of relevant markets or which are promoting innovative approaches to the delivery of financial services with the potential to gain future market coverage;
- continue to look at emerging risks facing the industry and share insight on risks and opportunities through blogs, podcasts and other channels;
- run conferences, seminars and workshops to disseminate the findings of the LSB's oversight work across debt sale, money management, asset finance and the CRM Code. These events will publicise good practice and highlight areas for improvement by firms;
- aim to be constructive participants in public discourse about the services we oversee, including by establishing an active presence on social media and attending external roundtables and other events.

## RAISING AWARENESS

Raising the profile of the LSB is a priority if we are to be as influential as we want to be in ensuring fair outcomes for customers. In particular, our findings and recommendations must matter both within and outside firms.

For firms not yet registered with the LSB, particularly new entrants to the market, engagement with the LSB provides access to the latest insights into service delivery and valuable external oversight and challenge. We shall ensure that these benefits are well understood by non-participating firms.

Within firms already registered with the LSB, we enjoy strong relationships, but these relationships tend to focus on firms' own second-line risk functions. We shall work in the decade ahead to ensure that boards and

senior executive teams also see the value in active engagement with the LSB's work which provides key assurance about the quality of service to customers. The re-introduction of self-attestation, signed off at senior level, will provide powerful support in this respect.

We also want to extend our reach among organisations representing, advising or working with consumers. Firms' adherence to our Standards provides important assurance about the quality of service to consumers. This should be one factor informing the advice which consumer organisations or consumer-facing organisations give those seeking their help. Our regular reviews, and the published reports based on them, provide influential insights into service delivery and outcome issues, especially for vulnerable customers. These are all matters on which consumer organisations lobby and seek evidence. The LSB is a major source of that evidence.

Finally, we shall modernise our website to make it easy for consumers to find the Standards themselves so that they can be better informed about what outcomes to expect from a service. We shall ensure that the Standards continue to be written in accessible and plain language.

## ENHANCING THE LSB'S CAPACITY: OUR PEOPLE

In taking forward our strategy, the LSB's most important resource will be our people. We want those people to be enthused and motivated by the LSB's mission, to be outward-looking in orientation and to be versatile and proactive in delivery.

To this end, the LSB will be taking a number of steps in 2020/21 to promote the development of our people:



## INDUCTION PROCESS

As the LSB continues to grow and expand, we have undertaken a full review of the LSB induction process. This process will be focused on providing all new people with the information and support they need to integrate fully into the team without overwhelming them with process and procedures.

## TRAINING & DEVELOPMENT

As part of our new performance management process we have included a training and development plan for each employee. We have also included quarterly personal development review meetings with all team members with a strong focus on developing and supporting people with their careers.

## PEOPLE SURVEY

We will be conducting a people survey in the Spring, once we have completed our recruitment drive, with an emphasis on how well we have embedded our new mission and strategy and a strong focus on culture, values and leadership.

## EXTERNAL BENCHMARKING

The LSB aims to set salaries at the median for equivalent roles in the market in order to be able to attract and retain people of the right experience and skills. It has been 5 years since the last formal benchmarking exercise and as the remit of the LSB has been extended significantly and our team is growing, we have retained the services of an external benchmarking consultancy to review and compare our salaries against the market and industry. The scope of their work will include the following:

- An external benchmarking exercise for all roles across the organisation, including roles based outside of London. We have a number of home based Compliance Managers located around the country.
- An external benchmarking exercise for the Non-Executive Directors.
- A review of the provision of London Weighting in the external market.

### 3. THE LSB'S BUDGET FOR 2020/21

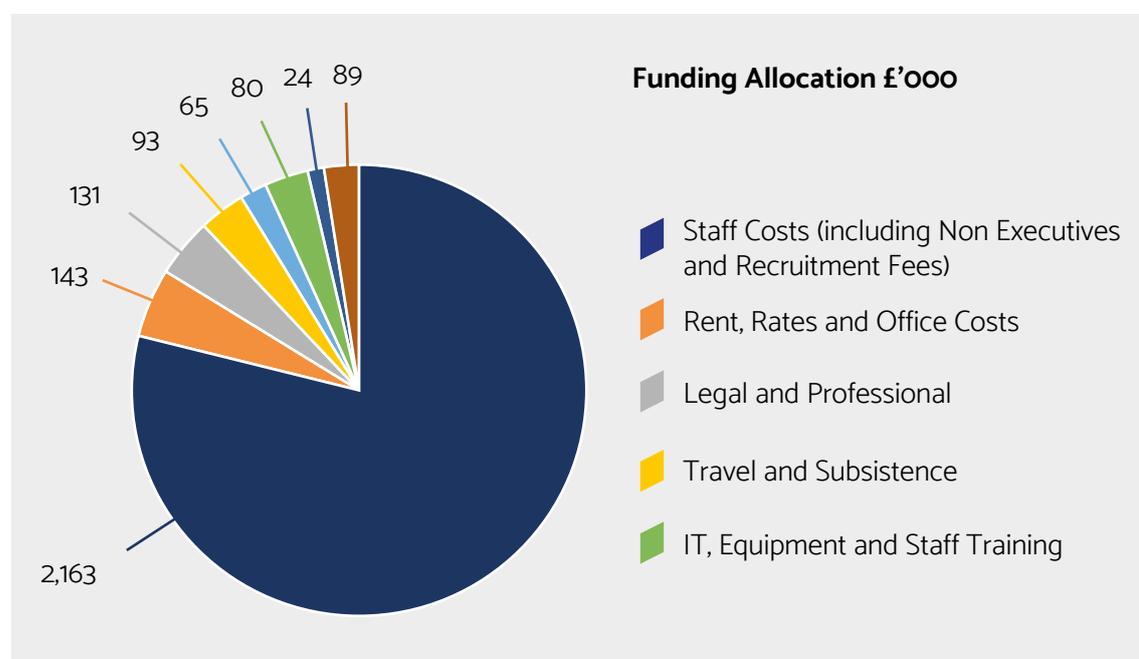
We have undertaken a full strategic review in 2019/20 and also commissioned an independent external review of our oversight work. This has helped to inform our oversight strategy which is reflected in our Business Plan & Budget for 2020/21.

In summary, we are budgeting a surplus of £435k before taxation (2019/20: deficit of £69k<sup>1</sup>). This is driven in part by a deferred fee income adjustment in relation to the CRM Code fees from 2019/20 to reflect the timing of additional resource starting in the organisation.

During 2020/21, in order to deliver our plan, we will be investing in additional headcount to strengthen our organisation further.

#### INCOME AND EXPENDITURE

The LSB's budget for total administrative costs is £2.8 million in 2020/21, with funding allocated as follows:



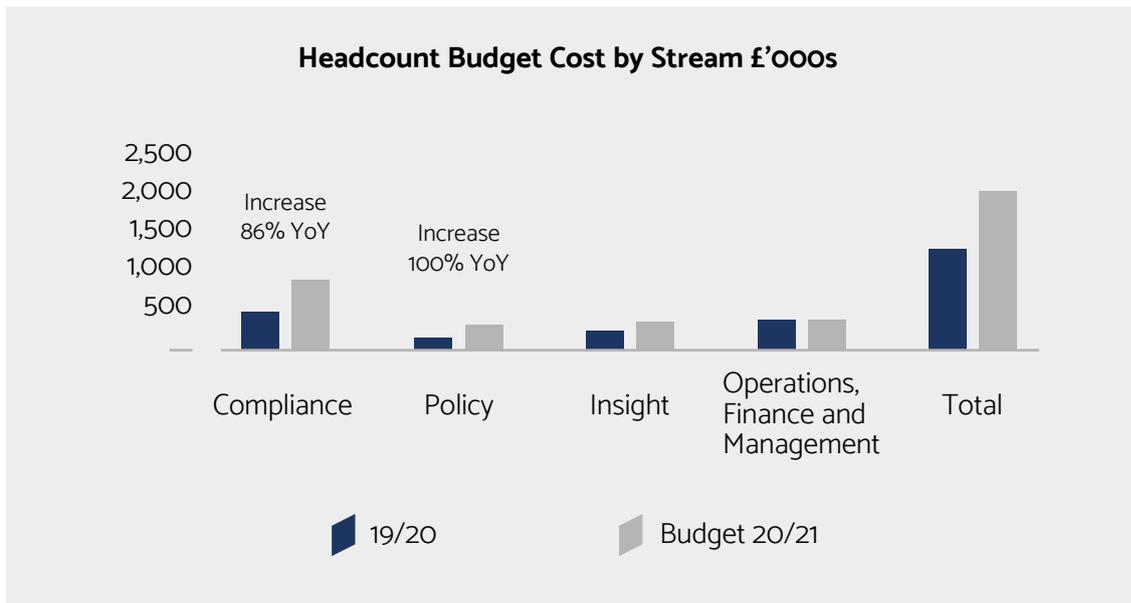
Staff costs are 78% of administrative costs and there is significant investment in headcount during the budget year, which is detailed in the next section.

<sup>1</sup> 2019/20 figures are an unaudited year end estimate and may be subject to change

## HEADCOUNT

The LSB's plan is to have recruited an additional 11 staff members between Q2 2019/20 and 2020/21 year end. This is a budgeted increase in total staff costs of £626k and staff costs excluding Non-Executive Directors fees and recruitment costs of £674k (annualised this is c£780k) between 2019/20

and 2020/21 (forecast 2019/20: £1.3 million and budget 2020/21: £1.9 million). The large increase year on year is due to timing, as a slower and more steady recruitment drive was planned. The below shows how the funds are distributed by streams of work and where our major recruitment drives have been:



## LEGAL AND PROFESSIONAL FEES

In 2020/21 we are budgeting to spend £131k on legal and professional fees which is a £38k increase year on year. The increase relates to research projects and risk assurance work and some professional development of LSB employees.

## MARKETING, PR AND EVENTS

As part of our strategy to raise awareness of the LSB, we will be investing in our marketing this year, we have a new Communications Manager in place at the end of 2019/20 and are developing a communications plan. As part of this we have a budget for website development costs of £20k. We also plan to hold more roundtable type events for our registered firms and potentially other audiences. The increase in cost year on year is budgeted to be £26k.

## RENT, RATES AND OFFICE COSTS

As the LSB team expands, we are budgeting for an increase in venue costs for meetings, internal team events etc, and therefore office costs are budgeted to increase year on year by £17k. Rent and rates has a budgeted increase of 5% year on year, this is to allow for additional associated costs ahead of the lease expiring in the following year. Overall rent, rates and office costs is expected to increase by £18k.

## OTHER COSTS

Other cost lines are largely assumed to continue on a run rate basis into next year with an inflationary increase applied of 2% to relevant cost lines. There were a small number of one off costs in 2019/20 which have been adjusted for in this assumption.

## FEE INCOME

Fee income of £3.2 million will be recognised next year (of which £2.8 million is invoiced income and £432k is a CRM Code deferred income adjustment from 2019/20). The increase in invoiced income of £365k from 19/20 largely relates to CRM Code registration fees reflecting the necessary increase in headcount required to fulfill our commitments. We have assumed that we continue to strengthen our oversight work but that fee income in relation to existing registrations will only increase in line with wage and running cost inflation assumptions and therefore we cover our costs to operate.

We have assumed no new registrations next year; however, we will work to increase the number of firms signed up to the CRM Code. In addition, we will look for further opportunities to drive fairer customer outcomes through potentially expanding market coverage and therefore also diversifying our funding sources.

## BALANCE SHEET AND RESERVES

### CASHFLOW

We forecast to close this year with a cash balance of £1.4 million and we are budgeting that we will close 2020/21 also with a cash balance of £1.4 million.

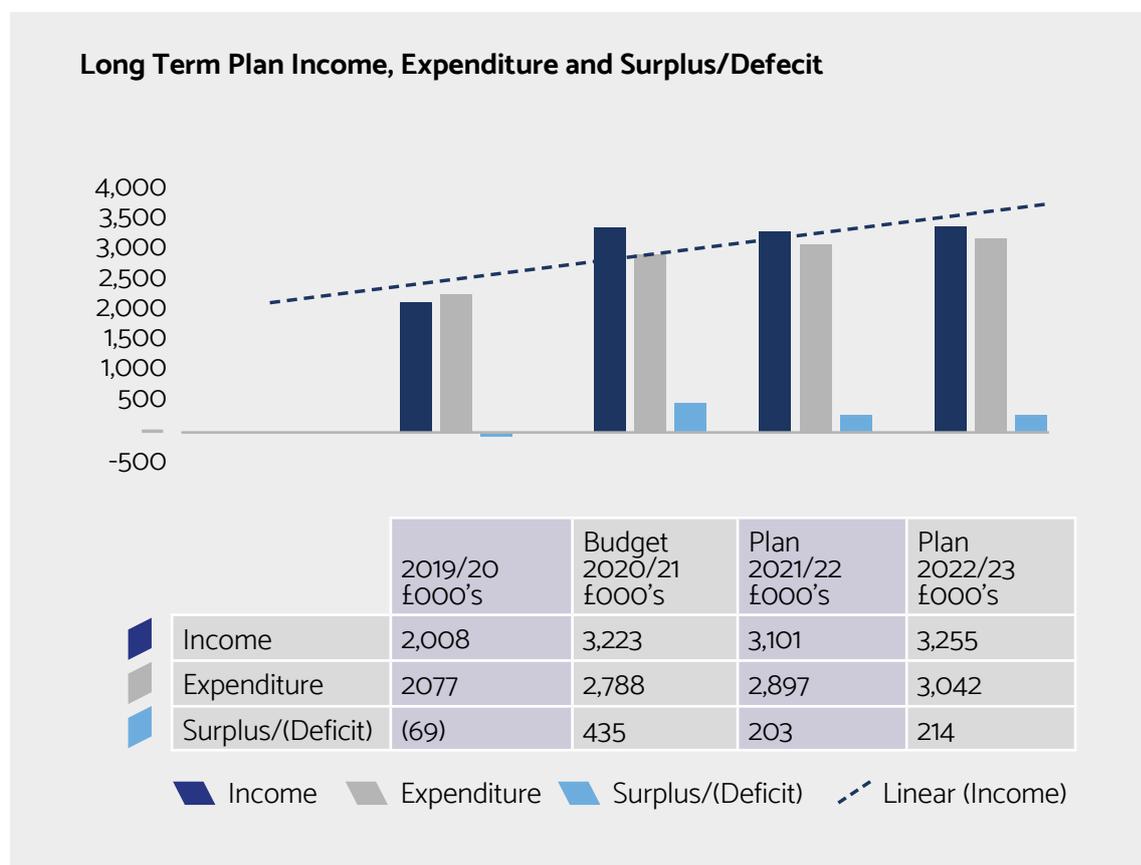
### RESERVES

In line with the reserves policy, we plan to retain reserves at a minimum level of £729k. The LSB's reserves policy has been set taking a risk based approach, at a level to cover costs in the event of closure of the organisation plus a small contingency amount. The LSB's opening reserves for the budget year 2020/21 are £799k and after a surplus of £435k (£348k after Corporation Tax), we are budgeting to close the year with reserves of £1.1 million. We will continue to manage any surplus reserves in line with our reserves policy and will reinvest those funds appropriately.

# 4. THE LSB'S LONG TERM PLAN

## INCOME AND EXPENDITURE

Projected income and expenditure for the LSB is that we move from a surplus of £435k in the budget year to a surplus of £203k in 2021/22 and £214k in 2022/23 before taxation.



## HEADCOUNT

The Headcount investment planned for 2020/21 will annualise in 2021/22 with no further headcount increases planned, the assumption is only a small level of churn and recruitment required and a wage inflation rate reflective of our industry benchmarking (as in the budget year).

## OTHER COST LINES

Other cost lines are expected to increase in line with inflation with a larger increase in rent and rates reflective of our increase in headcount. Total expenditure increases overall by 4-5% year on year between 2021 and 2023.

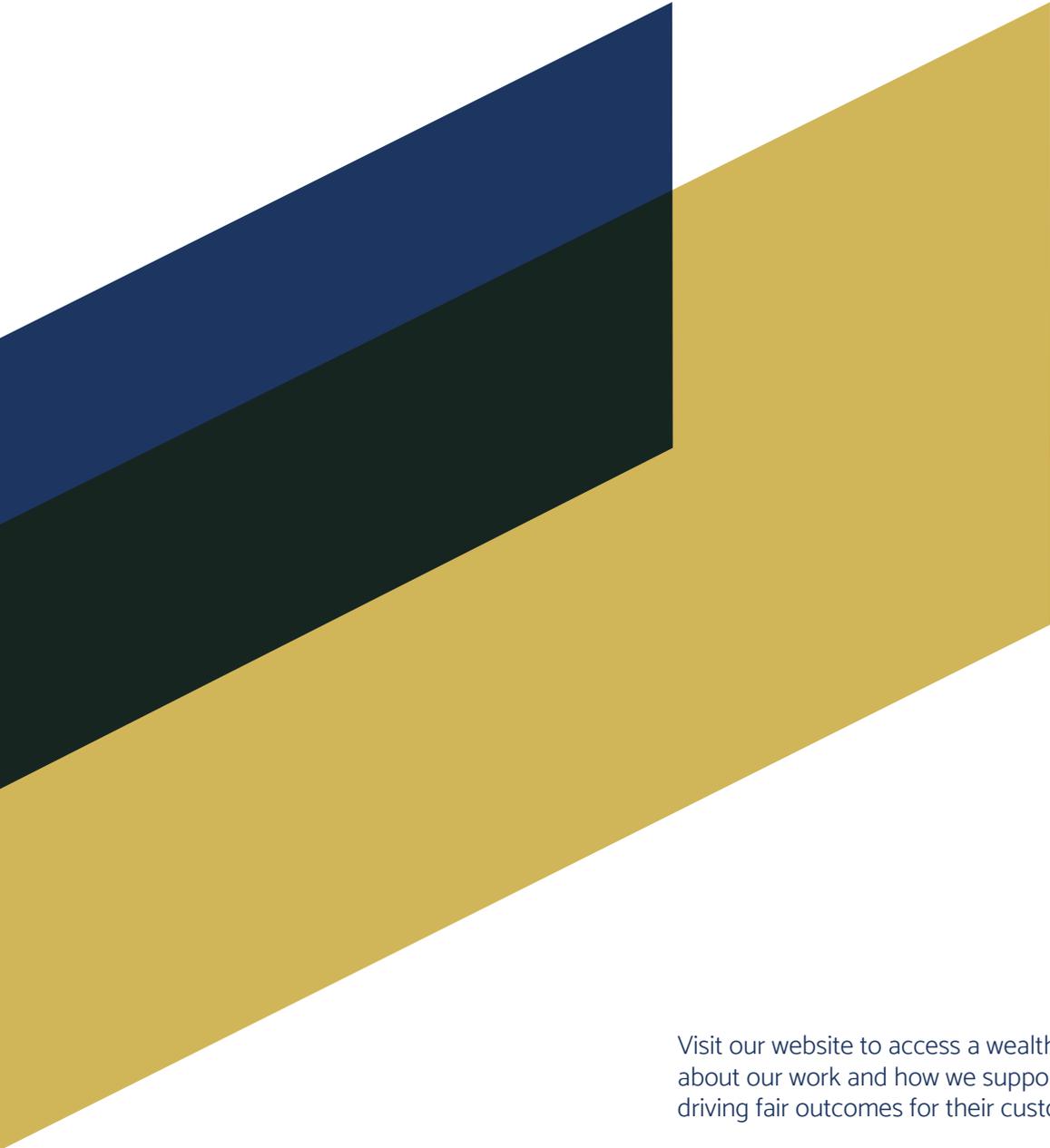
## FEE INCOME

Fee income is planned to decrease slightly overall year on year between budget year 2020/21 and plan year 2021/22 from £3.2 million to £3.1 million due to the CRM Code deferred income released in the budget year. However, we are planning for a fee increase in line with operating cost increases of 4% on existing fees plus additional CRM Code registration fee income of £190k from 2021/22 to cover increases in staff costs.

We are also planning to diversify funding sources while increasing market coverage which should form part of the funding increases and we will be conducting a full fee methodology review in 2020/21.

## BALANCE SHEET AND RESERVES

Reserves are planned to be maintained in line with the policy recommendation and therefore set at a minimum level of £729k. The budget year reserves are expected to be £1.1 million, then increase in 2021/22 and 2022/23 with closing reserves at £1.5 million.



Visit our website to access a wealth of information about our work and how we support firms in driving fair outcomes for their customers.



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