

Policy Statement | PS2/14

Financial Services Compensation Scheme: management expenses levy limit 2014/15

March 2014



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.
Registered in England and Wales No: 07854923



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Policy Statement | PS2/14

Financial Services Compensation Scheme: management expenses levy limit 2014/15

March 2014

1 Introduction

1.1 This Prudential Regulation Authority (PRA) policy statement publishes the final management expenses levy limit (MELL) for the Financial Services Compensation Scheme (FSCS) for 2014/15. The MELL approved by the PRA Board for 2014/15 is £80 million.

1.2 The management expenses of the FSCS are the costs that the FSCS expects to incur in order to deliver its functions. An appropriately set MELL will allow the FSCS to provide a responsive and well-understood compensation service for customers of authorised financial services firms.

1.3 The efficient and effective functioning of the FSCS helps the PRA meet its objectives of promoting the safety and soundness of PRA firms⁽¹⁾ and seeking to minimise the adverse effect that the failure of a PRA firm could be expected to have on the stability of the UK financial system. It is neutral in terms of facilitating competition: the MELL does not help facilitate nor hinder competition in the relevant markets as it leads to a minimal cost per firm.

1.4 The Financial Conduct Authority (FCA) Board has also approved the same limit.

2 Summary of proposals

2.1 In January the PRA and FCA jointly consulted⁽²⁾ on a proposed a MELL of £80 million covering:

- FSCS management expenses (or budget) of £74.7 million: this is the amount that will be levied for 2014/15 and covers such items as staff and building costs, ongoing operating expenses, IT, outsourcing and claims handling, legal or other professional services and strategic programmes.
- A contingency reserve of £5.3 million for management expenses that allows the FSCS to levy additional funds, most likely at relatively short notice, without formal consultation by the PRA and FCA to meet contingencies that were not foreseen when the annual levy was raised.

3 Consultation responses

3.1 There were four consultation responses.

- Some concern was expressed that although the budget remained constant (£74.7 million compared to £74.4 million) the budget for 2014/15 was in fact higher than the FSCS current forecast for actual spend noted in its Plan & Budget for 2013/14 (£63.5 million).

- The FSCS states that at the time of publishing its Plan & Budget the forecast is only an indication of where the year will end. The 2014/15 budget includes funding for projects which either had not commenced or where there was an underspend in 2013/14. This included for instance the Connect project in the Strategic Change Portfolio (£3 million carried over), the Keydata expenses (£3 million underspend) and the project for verification of the Single Customer View is budgeted to increase to £3.4 million for 2014/15, compared to the current years predicted spend of £0.7 million (or the £1.2 million in the original budget).
- In response to whether an appropriate cost benefit analysis was undertaken in seeking recoveries in the Keydata case, the FSCS notes that they expect recoveries to outweigh the costs of legal proceedings.
- There were also questions about the costs associated with the FSCS' internal change programme which has been ongoing for some time. One respondent calls for a National Audit Office value for money audit on the FSCS. The Financial Services and Markets Act 2000⁽³⁾ requires that the FSCS sends copies of its annual accounts to the Comptroller and Auditor General and the Treasury as soon as is reasonably practical. However, the PRA cannot require an NAO audit of the FSCS. Further, the PRA does not believe that the responses lead to concluding that the budget for 2014/15 should be changed.
- The question was raised whether there was sufficient information in CP1/14. The FSCS Plan & Budget was published the day after CP1/14 and the documents are intended to be read together in order to avoid duplicative documents.
- There were some comments, more centred on the FCA, on which we do not comment in detail but will be covered in the FCA feedback to the consultation, for instance the use of product levies.

(1) Section 2B(1) and 2B(2) of FSMA 2000.

(2) PRA CP1/14 www.bankofengland.co.uk/pr/Pages/publications/finsermanage.aspx.
FCA CP14/1 www.fca.org.uk/news/cp14-1-financial-services-compensation-scheme.

(3) Section 218ZA.

Appendix

-
- 1 Financial Services Compensation Scheme (Management Expenses Levy Limit) Instrument 2014

**FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY
LIMIT) INSTRUMENT 2014**

Powers exercised

- A. The Prudential Regulation Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137T (General supplementary powers);
 - (2) section 213 (The compensation scheme);
 - (3) section 214 (General); and
 - (4) section 223 (Management expenses).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (consultation with the Financial Conduct Authority) (“FCA”), the PRA consulted the FCA. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

Commencement

- D. This instrument comes into force on 1 April 2014.

Amendments to the Handbook

- E. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

- F. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit) Instrument 2014.

By order of the Board of the Prudential Regulation Authority

26 March 2014

Annex
Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text.

**6 Annex 1R Financial Services Compensation Scheme – Management Expenses
Levy Limit**

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
...	
1 April 2013 to 31 March 2014	£94,400,000
<u>1 April 2014 to 31 March 2015</u>	<u>£80,000,000</u>