Financial Services
Compensation Scheme

Annual Report and Accounts
2022/23

HC 1636

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Financial Services Compensation Scheme Annual Report and Accounts 2022/23

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HC 1636 part i of ii

An accompanying Financial Services Compensation Scheme Annual Report and Class Statements (part ii) was also presented to the House of Commons on 18 July 2023

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Contents

2022/23 at a glance

97,000

decisions made – processing customer claims as quickly and efficiently as possible.

£403m

total compensation costs – protecting consumers when authorised financial services firms fail.

432

firms reviewed – investigating whether their customers could claim compensation from us and recoup their losses.

67,908

customers compensated – getting people, families and businesses back on track.

45,504

regulated financial services firms – providing funding for the FSCS levy and customer compensation.

£434m

in levy income – ensuring we can pay out compensation when needed and foster trust and confidence in the UK financial services sector.

£15m

in recoveries from failed firms – helping reduce the cost of the annual levy for industry.

4th

year recognised as an Inclusive Companies Top 50 UK Employer – reflecting our commitment to having a diverse workforce that mirrors our customer base.

6,355

customers automatically paid within seven days – compensating people who had deposited their money into credit unions that then failed.

86%

(↑ **2% on 2021/22**) average customer satisfaction – putting people at the heart of everything we do.

87%

for staff engagement – reflecting a strong commitment to our employees' well-being and experience at FSCS.

89%

of complaints responded to within 20 days – making sure we listen to our customers.

4,332kg

of non-recyclable waste converted into 2,422 kWh of renewable energy – reducing our carbon footprint.

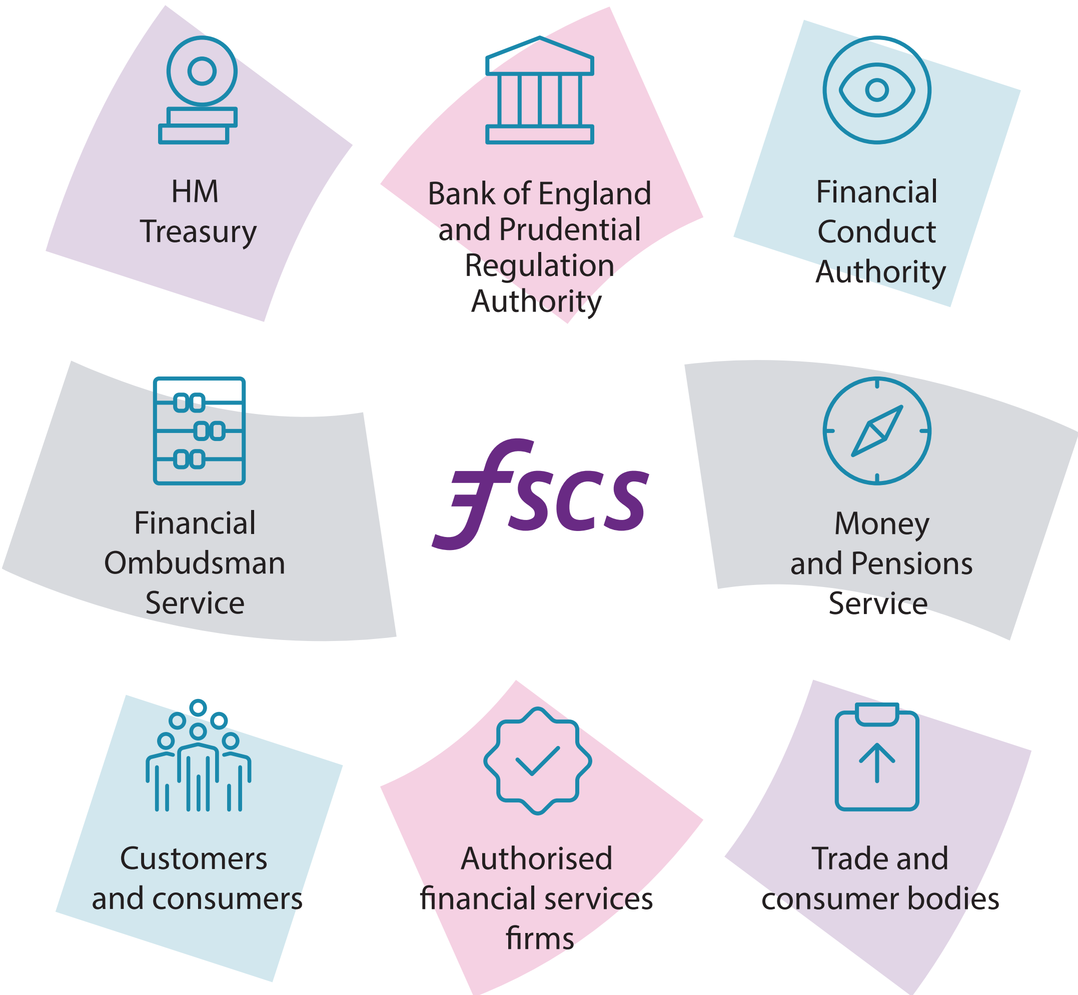
200

trees planted – helping the environment by removing carbon dioxide from the atmosphere.

Our mission and role

Our mission is to provide a trusted compensation service for customers when financial firms fail. This helps to raise public confidence in the financial services industry.

Our key relationships



Our role

We are here to protect consumers if an authorised financial services firm they have been doing business with fails. We may be able to do this by paying compensation if a firm in default cannot pay, or is likely to be unable to pay, amounts it owes to customers.

We are an independent body set up by Parliament under the Financial Services and Markets Act 2000 (FSMA). It is completely free to make a compensation claim directly with us. This means that customers receive the total amount of any compensation owed to them without having to pay extra fees or costs to a representative.

The financial services industry funds us by paying levies each year. Section 213 of FSMA gives the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) powers to make rules that govern our work. This includes our powers to raise levies to fund compensation payments.

What we protect

We protect deposits, insurance policies, some investments and investment advice, insurance broking, mortgage advice, self-invested personal pensions (SIPPs), pensions advice, payment protection insurance (PPI), debt management plans and pre-paid funeral plans.

On 29 July 2022, Funeral Plan providers came under FCA regulation and their customers became eligible for Financial Services Compensation Scheme (FSCS) protection. For more information on what we cover, see www.fscs.org.uk/what-we-cover

How we are governed

We are operationally independent of, but accountable to the FCA, PRA and HM Treasury. We are a private company limited by guarantee, meaning that we do not have any shares or shareholders. We have a board of directors that runs FSCS independently of the UK regulators. However, we work closely with the UK regulators and the Financial Ombudsman Service to make sure that we can respond effectively when a firm fails. More details on how we are governed are provided in the corporate governance section.

For more information about our relationship with the regulators, visit www.fscs.org.uk/making-a-claim/customer-info/financial-protection/ or listen to our Podcast episode explaining the role we play alongside other organisations at www.fscs.org.uk/news/podcasts/episode19/

Our compensation limits

The amount of compensation we can pay depends on the type of claim, with most claims limited to £85,000 per eligible customer. We only pay compensation for financial loss caused by failed firms and compensation limits are per person per firm. These limits are explained on our website at www.fscs.org.uk/what-we-cover

Recoveries

After we have paid a claim, we will try to recover the money, if it is reasonably possible and cost-effective to do so. This is typically from the relevant financial services firm that has failed or from its insurers.

We may also try to recover money from other third parties who contributed to customers' losses. Our recoveries help offset the levies financial services firms have to pay, and can provide additional compensation for customers whose claims are above our limits. There is more information about our recoveries on our website at www.fscs.org.uk/about-us/funding/recoveries/

Chair's statement

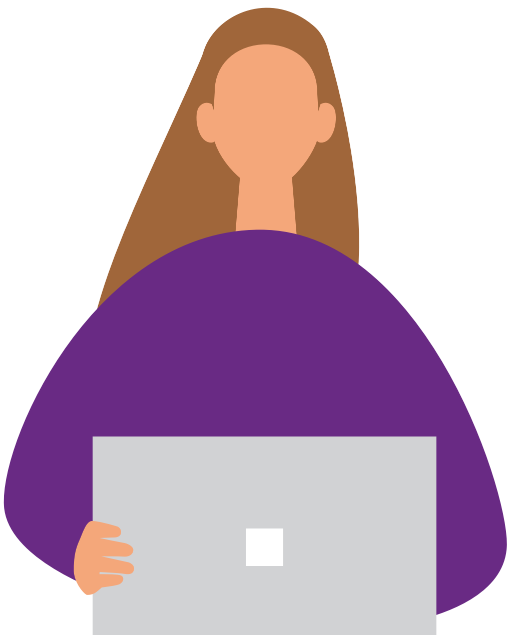
As the financial year drew to a close, we were served a timely reminder of the importance of stability in the finance sector with the resolution of Silicon Valley Bank UK Ltd (SVB UK). Whilst different in nature, this was followed by the high-profile acquisition of Credit Suisse by UBS Group AG.

FSCS's role in promoting the protection it offers to consumers and building trust and confidence in financial services is, therefore, as important as ever. Our message is clear, FSCS stands ready and prepared to step in and support customers when the need arises.

While the recent focus on the banking sector may be at the forefront of our minds, we must not lose sight of the important work FSCS has done over the last 12 months. This has been achieved against a challenging economic backdrop, with the increasing cost of living and its impact on financial products and consumers, as well as volatility in global financial markets.

Promote to prevent

We have continued to focus on the critical relationship between our Promote and Prevent strategic objectives, working with stakeholders and using our data to help prevent consumer harm arising. For example, we have worked with the Financial Conduct Authority and other agencies to identify poor firm behaviour, pinpoint where that consumer harm is taking place and support supervisory and enforcement action. The role of international collaboration is also as important as ever. We continue to work with other agencies, as mentioned, to consider the scope of our coverage. In



particular, how the risks associated with digital assets, or other emerging financial products, might be managed - especially on a cross-border basis following the Treasury's consultation paper on the future crytoassets regime.

Our work on Promote means helping to build and maintain confidence in the UK financial system by improving individuals' trust and confidence when they make financial choices, ensuring they are aware of FSCS protection and its limits. We know that improving financial education and addressing aspects of the 'advice gap', where consumers neglect or are not able to take regulated advice when making significant decisions about their finances, is central to this work.

Achieving these aims relies on a deep understanding of consumer behaviour, which is key to designing appropriate products, services and protection. FSCS has been conducting regular research for a number of years to monitor customer sentiment and this year, we began sharing it regularly for the first time. We have now published reports on pensions, understanding of FSCS protection, financial advice, the impact of the cost of living crisis on consumers' financial decisions, and attitudes towards cryptocurrency.

This research is proving valuable in helping us, and stakeholders across the financial services sector, identify gaps and opportunities to improve customer outcomes and provide consumers with the essential, accurate information they need about FSCS protection. This research also helps us to understand the financial landscape and ensure we are taking the best course of action to, for example, bear down on any associated harm and ultimately the levy.

Working collaboratively

Our cross-regulatory family co-ordination goes from strength to strength and we have formalised this through our commitment to the Wider Implications Framework – supporting work to tackle bad actors in the system. As a result, our Board and management team have been able to escalate issues to concerned parties and our regulatory colleagues. Working with others, such as insolvency practitioners, has also allowed us to reduce the time it takes for customers to receive a decision once they have made a claim.

As part of our Prevent work, we spend a lot of time talking about the need to draw on a wide range of perspectives from across the business, and being able to do this is just one of the benefits of having a diverse workforce. I'm proud of FSCS's commitment to the Progress Together agenda – which aims to improve socio-economic mobility in the financial services sector – and the work that we are carrying out to analyse the social economic makeup of our staff and Board. Through initiatives such as our apprenticeships scheme, we can act to improve social mobility both within FSCS and work with partners to diversify the financial services industry.

In my final year as Chair at FSCS, I am just as excited as I was when I took on the role back in 2018. We have made great progress over the last five years. The last year has been challenging, but we are able to look back on a number of successes and have shown that we are prepared and ready to help our customers when the need arises. Of course, there is still more to do but we are in a strong position and I am sure we can look forward to another high performing year with our positive and forward-thinking agenda.

Lastly, I would like to note that Caroline Rainbird left the organisation in early June after four years as Chief Executive. Caroline led the organisation through a series of considerable external challenges, while ensuring we continued to deliver excellent customer service. We wish Caroline every success in the future.

Marshall Bailey OBE
Chair,
Financial Services Compensation Scheme

Chief Executive's review

Society perhaps expected 2022 to be the first year of post-pandemic rebuilding, but in reality, what we got was another year of great challenge. Of particular relevance to UK consumers has been the sharp increase in inflation, which has seen the cost of living rise.

This, and the resulting increase in interest rates to combat it, has led to greater attention on personal finances and the protection that we, and other organisations, provide. Given any harm from poor advice typically takes five years or more to become an FSCS claim, it could be many years before we know if there is any resulting impact on our work.

Our final levy for the year was £434m, which was lower than originally forecast. In previous reports we mention the unpredictability in the volume, mix, and value of our claims. This uncertainty is one of our only constants. We have continued to engage with stakeholders on our latest trends through the year, including offering earlier forecasts, greater transparency and more detail in the insights we share. This included the publication of *The balancing act of compensation* and a focus on regional data for our political stakeholders.

In December, the Financial Conduct Authority (FCA) published a detailed feedback statement on their *Compensation Framework Review*. One of the calls in our response was for a review of the compensation limit for pension advice claims. As of today, the Financial Ombudsman Service can award £330,000 more than FSCS for the same type of claim, £415,000 compared to our £85,000. Any uncompensated losses could have a devastating impact on someone's ability to afford retirement, as losses are most often discovered right at the end of someone's working life, when there is little time to recover. During 2022/23, uncompensated losses on upheld pensions claims amounted to more than £75m.

We look forward to working with the FCA on the next stages of this review to ensure the compensation framework continues to best-serve the interests of consumers and the financial services industry, both today and in the future.

Prepare and Protect

Pensions claims have continued to dominate the headlines this year. In last year's report, I talked about how we helped 681 former members of the British Steel Pension Scheme (BSPS) who were poorly advised to transfer into personal pensions. At the end of this year, this number had more than doubled with 1,600 completed BSPS claims and a total of £69m in compensation paid. Preparation for the FCA's redress scheme for BSPS members, and associated changes to pensions redress guidance, has been the focus for many of our pensions experts during the year.

Most of the firms FSCS declared in default were advice firms in 2022/23, but we were also called on to assist with insurance and deposit failures. MCE Insurance Company Ltd failed in November 2021, but it was in this financial year that we handled most of the work to pay customers who had claims in progress at the time the insurer went out of business. In total, we paid just over £50m to refund premiums and pay any claims falling due. Five credit unions also failed, with FSCS returning a total of £4.5m to more than 6,300 customers, with most customers receiving their money within seven days.

In total, we declared 64 firms in default this year. In addition, we completed 432 investigations into firms to establish their solvency status and to confirm whether any of their former customers would have eligible claims for compensation. These investigations are a great example of some of the 'invisible effort' that occurs at FSCS and the number we need to undertake has increased quite dramatically over the last four years. Even if we are ultimately unable to declare the firm in default as the claims are not eligible, in the most complex cases, the process can take upwards of 35 weeks to complete.

Right at the end of the year came a test of FSCS's preparedness – the near-insolvency of Silicon Valley Bank UK Ltd (SVB UK). Although FSCS ultimately did not need to pay compensation to any of SVB UK's customers, we were ready to step in. We saw a large increase in enquiries in the last few weeks of the financial year, and during March our bank and savings protection checker received more than 100,000 checks in a single week, four times the usual amount. If there is any silver lining to the unease that followed the resolution of SVB UK, and the takeover of Credit Suisse, it is that it has highlighted the importance of consumers understanding FSCS protection and our limits.

As our Chair mentioned in his statement, this year saw a new activity come under FSCS's remit, and this is only the third time this has happened since FSCS began in 2001. Pre-paid Funeral Plans came under FCA regulation on 29 July 2022, with 26 providers meeting the requirements for authorisation and holding plans for around 1.6m consumers. Hopefully, FSCS will not need to step in and help any of these consumers any time soon. If we do, one of the ways we would be able to help is by facilitating the arrangement of a replacement plan with another provider. This is something we already do in the case of an insurance company failure, so customers do not have to worry about shopping around to find replacement cover.

This method of resolution provides the greatest continuity to our customers, which is something I have been reflecting on. Close relationships with other organisations are key to a lot of our work, and we have been looking at how we can best put our customers 'back on track' as part of their journey with us. This includes signposting them to other sources of support once they have received compensation, such as the free guidance available from MoneyHelper.

Our people

I am conscious that I say this in every annual report, but I am incredibly proud of how our people have yet again risen to the challenges that this financial year has brought. They have continued to put others first, and their combined efforts ensured we continued to deliver on our utmost aim, to help build trust and confidence amongst consumers of UK financial services.

Continuity is as important to FSCS as it is to consumers. The work we do can be very complex, and we benefit from the experience and knowledge of colleagues who have been with us for many years. Around 40% of our colleagues have five or more years' service with us, and our staff turnover is just 10%, a healthy level below most quoted averages in the UK. In our annual people survey, the highest scoring drivers were the positive difference FSCS makes to society and each person knowing how they contribute to that.

FSCS is clearly valued by its people. Our employee Net Promoter Score (NPS) was +61 this year, with anything above +40 considered 'outstanding'. We know that inclusivity plays a big part in this. We were recognised as an Inclusive Top 50 UK Employer for the fourth year running and placed as one of Working Families' Top 30 Employers for flexibility and family-friendly working. Our gender pay gap has been addressed, with median pay now at 1.5% in favour of women. We have also been working to reduce our ethnicity pay gap, which closed by 8% this year.

As ever, we look forward to the year ahead, safe in the knowledge that FSCS is prepared for any challenges that may arise.

Caroline Rainbird
Chief Executive (to 5 June 2023),
Financial Services Compensation Scheme

Strategy

Our mission

Providing customers with a trusted compensation service which helps raise public confidence in the UK financial services industry.

Our strategy

Achieving our mission through our pillars of Prepare and Protect and Promote to Prevent.

As we entered the final year of our Promote to Prevent and Prepare and Protect strategy, we played a greater role in **building trust and confidence** in the UK financial services sector.

Prepare and Protect

Under Prepare and Protect, we focused on building our future capabilities and driving value for money.

Building future capabilities

- We initiated a long-term service innovation and improvement programme that focuses on our claims operations as well as delivering value for money for levy payers. The programme considers all aspects of claims handling including technology and people capabilities. For our customers, the programme also aims to simplify the process and reduce the time and effort it takes to make a claim.
- As part of our ongoing readiness programme, we carried out exercises to support our response to a failed Funeral Plan provider. This included testing preparedness and assumptions with the Financial Conduct Authority (FCA) around our combined response.

Promote to Prevent

Our Promote to Prevent agenda focused on supporting consumers and industry. During 2022/23, we helped consumers avoid harm and assisted our regulatory partners in improving consumer protection through the use of our customer data and insights.

Supporting financial industry consumers

- We tested new ways of reaching customers of failed firms earlier to encourage them to claim directly with us so that they could keep 100% of their compensation.
- We invested in creating educational information to help our customers get back-on-track with their finances and make confident financial decisions in the future.
- We continued to use communication channels to influence behavioural change. Our *Pensions Protection* campaign encourages consumers to check that their pension is protected by highlighting the risk of their provider going out of business. Campaign highlights included:
  - emotive advertising across TV and radio to engage consumers, and a conversation around FSCS protection via social media with TV personality, Angellica Bell; and
  - an increase in activity for people using our pensions protection checker, peaking at 1,116% during the first phase of advertising.

Assisting our regulatory partners improve consumer protections

- We provided a detailed submission to the FCA review of the UK's compensation framework. We also published the key points of this submission in our *balancing act of compensation paper*. This paper sets out some of our key recommendations for helping to reduce consumer harm, as well as proposals to improve the UK's redress framework.
- We helped shape government and regulatory thinking in a number of areas, including through formal responses to consultations. This included FCA consultations on the British Steel pension redress scheme, *Defined Benefits Pension Transfer*, a new financial promotions gateway and the introduction of a new core investment advice regime.

Enabling industry to act on our data and insights

- We provided the FCA with insight, evidence and advice to assist with their supervision and investigations.
- We worked with insolvency practitioners to improve how we reach customers owed money by failed firms sooner.

As we end a successful four-year strategy cycle, we now turn our attention to the year ahead.

Key strategic project's for 2023/24 include:

- supporting the *Improving Depositor Outcomes in Bank Insolvency* initiative with our regulatory partners. This will deliver an online portal to allow electronic payments to customers of failed deposit takers, enhancing our ability to issue compensation;
- focusing on incorporating key regulatory changes, for example for pensions, credit unions and funeral plans, into our existing processes;
- delivering the first year of our long-term service innovation and improvement programme, which includes evaluating our future technology and systems capabilities;
- widening our artificial intelligence opportunities to support our claims handlers process customer claims;
- developing our customer insight capabilities and progressing data sharing with our regulatory partners;
- using our claims data and insights to highlight for industry where harm exists and how it could potentially be prevented through changes to industry practice; and
- increasing customer awareness about being able to make claims directly with us, and helping people make more confident financial decisions at point of purchase.

Leon*, retiree, Stoke

Claim type

Unsuitable investment advice

Compensation received

£13,000

Background

After retirement, Leon was looking for opportunities to earn better returns than the interest rates available on savings accounts at the time.

What happened?

Leon was introduced to a financial adviser by an acquaintance. After some initial discussions he followed their recommendations and in 2016 made some new investments. Unknown to Leon, the independent financial advice firm that had advised him then failed in 2018. After making some enquiries in 2020, Leon was informed in May of that year that a number of his investments had lost all of their value.

Leon was directed to FSCS by a new financial adviser to make a claim for unsuitable investment advice. Less than five months later he received £6,000 in compensation for one of his investments. He went on to receive a further £7,000 for additional losses.

Customer feedback

"Having invested in good faith based on supposedly sound advice, it was a relief to receive the compensation. Everyone at FSCS, from the very first call when I was very anxious, has been so supportive, helpful and approachable. I would encourage anyone who thinks they may have a claim to approach FSCS directly".

**Identity changed for privacy and photo used is stock imagery.*

Performance

Most people in the UK benefit from our protection – for example, if they have a bank account, insurance policy, pension or investments.

It is completely free for customers to claim directly with us, and we aim to make it as quick and easy as possible to make a claim via our online claims service.

We want to help people and their families get their lives back on track as quickly as possible after losing money as a result of a firm failure. We know it can be an incredibly stressful experience, so our customer support team is available at every step of the process.

During 2022/23, we helped 67,908 customers get back on track by either paying them compensation or enabling them to transfer to a new provider for their investment or insurance policy. In total, we made just under 97,000 decisions on claims.

During this financial year, we paid compensation to customers who had experienced losses from 563 different authorised financial services firms, including some of the 64 that we declared in default in 2022/23. It is worth noting that we expect to continue to receive claims from customers in 2023/24 against firms that defaulted (failed) in 2022/23 and earlier.

We also continued to automatically compensate eligible depositors of failed credit unions within seven days, where the credit union was able to provide all the necessary information. In 2022/23, we handled a total of 9,122 claims relating to five credit union failures, and were able to automatically pay compensation to more than 6,300 customers within seven days.

Our service was funded by levies provided by 45,504 regulated financial services firms.

In 2022/23, approximately £12m of the amount we recovered was used to offset levies. We also recovered over £3m on behalf of customers whose claims were above our compensation limits, and we were able to pass this amount on to them. Since the 2015/16 financial year, we have recovered more than £310m.

This financial year, we continued delivering compensation to customers on behalf of HM Treasury as part of the London Capital & Finance plc (LCF) Compensation Scheme which ended in October 2022. This included paying £1m in compensation to 144 customers over the course of 2022/23. This brought total compensation paid since November 2021 to over £115m, with over 9,000 customers receiving compensation. Processing these claims was in addition to our usual industry-funded work, and all expenses related to the processing of these claims was financed by the government-funded scheme.

In 2022/23, we completed our preparations for Funeral Plans which came under our protection at the end of July 2022. In addition to developing our processes to meet our statutory requirements, we completed readiness exercises to ensure we were prepared to protect customers in the event of a failed Funeral Plan provider.

During 2022/23, we focused on reducing the time it takes between our customers submitting a claim, to receiving a decision.

We did this without compromising on quality through process enhancements including requesting data direct from failed firms or insolvency practitioners.

For the first time, we achieved a monthly overall customer satisfaction score of 89% twice during the financial year. The 12-month average also increased, from 84% in 2021/22, to 86% in 2022/23.

Where customers had general queries, we handled 92% of calls within 60 seconds. We also responded to 84% of webchats within 60 seconds.

Some 98% of customers who made a claim for compensation did so online.

During 2022/23, some customers asked us to reconsider our decision and others made a complaint about how we handled their claim. This year, we received 545 complaints about how we handled claims and 1,695 customers asked us to review our decision.

We aimed to respond to customer complaints within 20 working days and we met this target in 89% of cases, with an average response time of 10 working days. Regarding claims that we were asked to review, we met this target in 58% of cases, with an average response time of 56 working days. It is important to note that claim reviews often involve gathering information from third parties which adds time to the process, which we are not able to control on occasions. Also impacting the overall response time this year was an increasing number of customer appeals connected with complex products which can take substantial time and resource to investigate.

Customers can also ask us to refer their complaint to the Independent Investigator, who will carry out a review and report to our Board of Directors. This year, we referred two complaints to the Independent Investigator. The Annual report of the Independent Investigator can be found on the next page.

Annual report of the Independent Investigator

April 2022 to March 2023

This is my fourth year serving as Independent Investigator for the review mechanism provided by FSCS to complainants who remain dissatisfied with the actions of the organisation, generally in respect of a claim for compensation, and who have exhausted all internal review options.

During the year two cases were referred to me, both of which I accepted. I fully upheld both complaints. Although the number of complaints that I consider is quite small, themes do emerge which identify areas for management attention. I prepare a detailed report for each referral which is issued to both the complainant and two designated members of the FSCS Executive Team.

The majority of referrals centre on claims for compensation that have been unsuccessful, although it is important to emphasise that my remit extends to any dissatisfaction with an FSCS case, query, or complaint handling. Both of this year's referrals concerned pension products and, more specifically, pension transfers. I made a series of process change recommendations following on from both referrals and subsequently met with senior members of the complaints team to discuss progress of their implementation. It was clear from both referrals that FSCS was under some pressure from significant claim volumes in the pensions area and that this had an impact on both service levels and throughput times. I am aware that additional resources have been brought in to manage these increased volumes.

I am particularly pleased that progress continues to be made to increase the retention period for retrieving telephone call recordings, which now stands at two years. This represents a significant improvement from the retention period prevailing when I commenced as Independent Investigator in 2019.

I am hoping to see progress during the current year on the finalisation and issue of an updated policy regarding ex gratia payments.

Given the relatively low number of referrals, it was agreed that I would meet with the Board during the second half of 2023/24. These meetings are an important part of ensuring the visibility of the independent accountability mechanism and the relevance of findings to future operating model decisions.

Caroline Trewhitt
Independent Investigator

Responsible business

We have a long-standing commitment to being a responsible business. Our *Business in the Community (BITC) Responsible Business Map* is thoroughly researched and fully aligned to the United Nations' Global Goals which focus on three overarching themes: **healthy business**, **healthy communities, and healthy environment.**

Healthy business

We know that equality, diversity and inclusion are central to a healthy business, and we were delighted to be recognised in the Inclusive Companies – Top 50 UK Employers for a fourth year running. For the first time, we were also recognised during 2022/23 as a Working Families Top 30 Employer. This was for our family-friendly policies that include enhanced maternity and paternity leave, and a firm commitment to flexible working.

In our 2022 people survey results, our employee Net Promoter Score (eNPS) was +61. This was the second year running we achieved an eNPS score above 60 (above 40 is considered outstanding). We also achieved an overall staff engagement score of 87% for questions we asked staff about advocacy, pride and loyalty.

Regarding the sickness absence of our staff, based on the latest figures reported by the Chartered Institute of Personnel and Development (CIPD), the average absence rate in the UK is 3.2%. At FSCS, we have consistently maintained a sickness absence profile of below 2% for a number of years (in 2022/23 it was 1.3%). In terms of average working days lost to sickness, in 2022/23 it was 3.7 days per person and in 2021/22, it was 4.3 days per person.

For employee turnover, again, based on the latest figures reported by the CIPD, around one in six employees in the UK (16.4%) resigned from their roles during 2022. Over the past five years, we have consistently maintained an employee turnover rate below the national average, and our figure for 2022/23 was 12%. In 2021/22, this figure was 16%.

As signatories of both the Women in Finance and Race at Work charters, we see gender and ethnicity pay reporting as critical for driving change. Each year we publish our gender and ethnicity pay data as part of our commitment to narrowing any differences. For the 2022/23 financial year, our gender pay gap was 1.49% in favour of females compared to the 2021 national average of 15.4%[1] in favour of males. In 2022/23, our ethnicity pay gap was 13% in favour of white groupings, which is a reduction of 8% over the last four years.

Healthy communities

As part of our commitment to being a responsible business, we offer a range of volunteering opportunities for staff to support local charities. During 2022/23 we partnered with Future Frontiers, an award-winning education charity that provides young people from disadvantaged backgrounds with the guidance and

[1] Gender pay gap in the UK – Office for National Statistics (ons.gov.uk)

opportunities to fulfil their full educational potential. As part of this volunteer work, our staff provided face-to-face coaching to Year 10 students from the Ark Acton Academy in Ealing.

We are also proud to work with local charity Providence Row. One of the main aims of their rooftop garden is providing nutritious food to their kitchen for preparing and distributing hot meals through their food programme. Over the past financial year, our staff volunteered at the charity by gardening, serving breakfast and helping provide 14,992 meals to 886 people.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Healthy environment

During 2022/23, we gathered greenhouse gas emission data to set our carbon reduction targets for 2023/24. This data will also form the basis of our five year carbon reduction strategy.

In connection with reducing our carbon emissions, between September 2022 and 31 March 2023, we diverted 4,332 kilograms of non-recyclable waste away from landfill (and incineration) and converted it into 2,422 kilo-watt hours (kWh) of energy.

Using the Department for Business, Energy and Industrial Strategy's 2022 conversation factors, our quantified total carbon dioxide (CO_2) emissions for 2022/23 was 204.63 tonnes. This is an increase of 71.70 tonnes in comparison with 2021/22.

During 2022/23, we planted a total of 200 trees as part of reducing our carbon footprint, and we have the ambitious aim of planting a minimum of 1,000 trees over the next five years. Each tree planted can absorb a tonne of CO_2 over its lifetime of around 100 years. This means that we will be helping the planet out by removing approximately 1,000 tonnes of CO_2 from the atmosphere over the next 100 years.

Other initiatives implemented during 2022/23 included:

- increasing the amount of environmentally-friendly stationery products we purchased to 96.6% (and all stationery was delivered by electric vehicles);
- increasing our sustainable vending machine products, which resulted in 83% of the products we purchased being classified as sustainable;
- increasing LED lighting across the business from 35% to 75%; this will save us, on average, 18,720 kWh per year;
- reducing water consumption in our toilet facilities by using a cistermiser system that reduces water usage by approximately 129,600 litres of water each year;
- donating any unwanted furniture items to our charity partners; and
- encouraging staff to think about how they can make a difference through themed days and events including *'Green Weeks'*, *'Better travel Tuesdays'* and creating bee-friendly environments in their gardens.

Environment

Quantified total carbon dioxide CO_2 emissions in 2022/2023 = 204.63 tonnes

The scopes below refer to CO_2 emissions that are controlled by FSCS (scope 1), or emissions that are a consequence of our activities and occur from sources not owned or controlled by us (scopes 2 and 3). More information about the accounting standards for measuring CO_2 emissions can be found at www.ghgprotocol.org.

Scope 1: refrigerants and car fleet usage

0

Total scope 1 emissions = 0.0

Scope 2: electricity usage

Total usage - 474,288 kWh (this amounts to 91.72 tonnes of CO_2, giving an intensity ratio of 0.00349 tonnes of CO_2 per square foot of office space)

Total cost = £232,089

Total scope 2 emissions = 91.72

Scope 3: Courier services

Van travel – 51,224 miles = 19.43 tonnes CO_2

Production, transportation, transformation and distribution of the fuel used to power vehicles = 21.94 tonnes of CO_2

Waste (including cardboard, metal, glass, plastics, paper and non-recyclable items)

Total waste – 34,193kg

Total waste recycled - 28,655kg

Total waste to landfill – 1,206kg

Total waste incinerated – 4,332kg - converted into 2,422 kWh of renewable energy

Total cost of waste disposal – £30,983.76

Transferral of waste to recycling sites = 1.15 tonnes of CO_2

Electricity transmission and distribution to our offices = 10.40 tonnes of CO_2

Homeworking

Multiple and single occupancy households combined = 15.27 tonnes of CO_2

Staff travel

UK flights - 59,258 miles = 31.62 tonnes of CO_2

International flights - 44,447 miles = 11.82 tonnes of CO_2

Rail – 21,686 miles = 1.28 tonnes of CO_2

Total cost = £37,126.26 (flights = £31,629.81 and rail = £5,496.45)

Total scope 3 emissions = 112.91

There are some unquantified CO_2 emissions that could not be included in the above due to the limitations on the data available such as gas usage (scope 1), and some indirect sources (scope 3). We are also unable to report on water usage for the same reasons. FSCS plans to work with environmental consultants to understand how these can be modelled for reporting in future years.

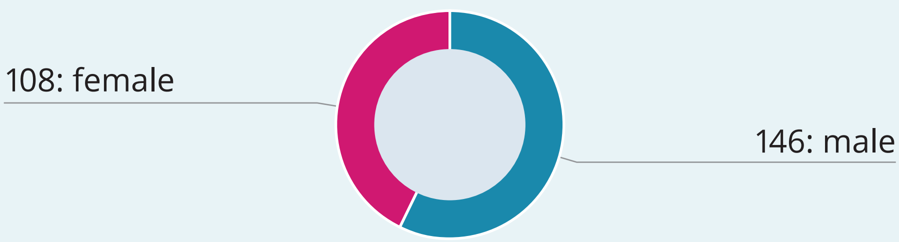
Awards

- **Winner** – WM People Awards 2022 – Diversity & Inclusion
- **Winner** – RITA 2022 – Best Use of New Technologies
- **Winner** – Inspiring Workplaces 2022 – Ranked #18 in Top 50 workplaces in EMEA
- **Winner** – Marketing Innovation Awards 2022 – Judges Special Award – Marketing Education
- **Highly commended** – Marketing Innovation Awards 2022 – Most Effective Innovation in Diversity and Inclusion
- **Winner** – BCI Europe Awards 2022 – Collaboration in Resilience
- **Winner** – Princess Royal Training Awards 2022
- **Winner (Gold)** – CXAs 2022: Financial Services
- **Winner** – Risk Management Awards – RM Team of the Year

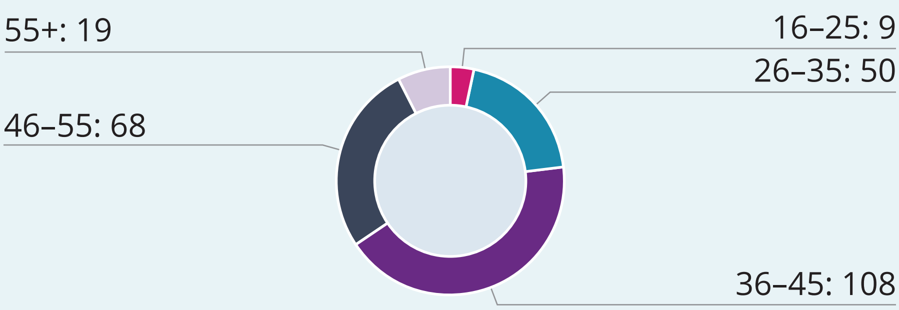
Our people

Our total number of employees (not including non-executive directors) as of 31 March 2023 was 254.

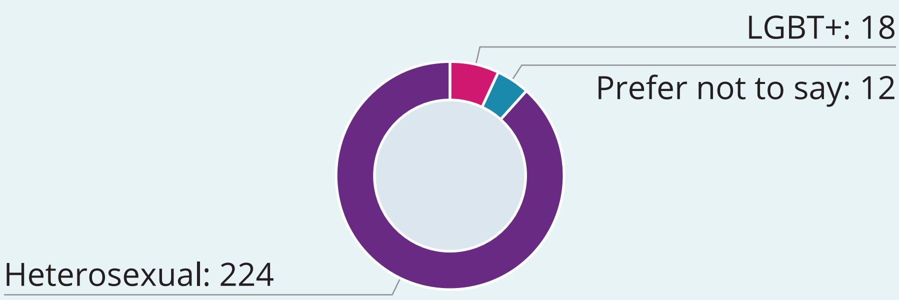
Gender split



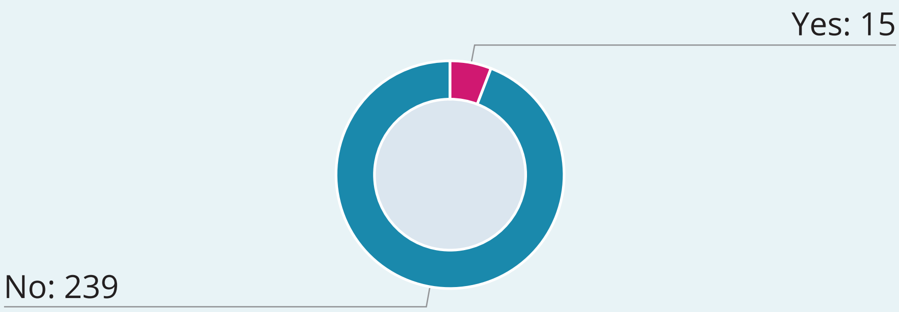
Age



Sexual identity



Individuals with disabilities



Ethnic identity

Arab – 1
Asian and Black – 1
Asian Other – 9
Bangladeshi – 9
Black African – 10
Black African and Caribbean – 2
Black Caribbean – 5
Black Other – 1
Chinese – 7
Indian – 30
Mixed Other – 3
Other – 10
Pakistani – 2
White – 156
White Asian – 1
White and Black African – 1
White and Black Caribbean – 2
White Other – 4

Financial review

Our financial strategy supports us in delivering an efficient and effective compensation service and helps to build people's confidence in the UK financial services sector. By increasing people's trust in financial services, we also aim to contribute to the UK's financial stability.

Compensation payments to our customers are funded through our levies which are paid by regulated financial services firms. The compensation we pay is also funded through the money recovered from the estates of financial firms that have failed.

Business planning and budgets

We have an annual business-planning cycle and prepare forecasts each spring and autumn that we share with industry to help them with their financial planning for our annual levies. For more information about our publications see www.fscs.org.uk/industry-resources/other-publications/

Each year, the Prudential Regulation Committee of the Bank of England and the Financial Conduct Authority Board approve our annual budget after carrying out a public consultation.

Annual reporting

Each year, we publish our *Annual Report and Accounts* and a separate *Class Statements* document. The *Class Statements* summarises the source of our levies and how we have used these funds. These documents are available on our website at www.fscs.org.uk/news/fscs-news/annual-report/

Our accounts also form part of the *Whole of Government Accounts*, which is a consolidated set of financial statements for the UK public sector. We provide HM Treasury with appropriate reassurance on the systems, controls and processes that underpin our accounts within relevant levels of materiality (relevant financial thresholds).

Summary of financial performance

Levy income

During the 2022/23 financial year, our levy income was £434m which was lower than in 2021/22 (£643m). As was the case in 2021/22, a retail pool or supplementary levy was not required.

For more information, please refer to the separate *Class Statements* report.

Compensation costs

Total compensation paid out to customers in this financial year was £403m, which is lower than the total for 2021/22 (£584m).

The main drivers for compensation during 2022/23 included firm failures within the Life Distribution & Investment Intermediation (LDII), General Insurance Provision and Investment Provision classes.

In the LDII class, the compensation paid in 2022/23 was £203m, which was lower than in the previous financial year (£263m). This decrease was mainly due to:

- a reduction (£33m) in compensation costs as we processed fewer complex pension claims largely relating to Capital & Income Solutions Ltd and Pembrokeshire Mortgage Centre Ltd. The bulk of the compensation for these failures was paid out to customers in 2021/22; and
- a £33m reduction in compensation costs for self-invested personal pension (SIPP) advice claims due to higher rejection rates and the processing of fewer claims.

Compensation paid to customers in the General Insurance Provision class in 2022/23 was £163m, which was lower than the compensation costs for this class in the previous financial year (£186m). This reduction is partly because there were no new insurance firm failures in 2022/23. There was also a £13m decrease in compensation costs for Chester Street Insurance Holdings Ltd in comparison with 2021/22.

Compensation payouts in the Investment Provision class totalled £31m in 2022/23. This was a decrease on the total compensation paid out in the previous financial year (£122m), mainly as a result of FSCS receiving fewer SIPP operator claims.

For more information on the compensation costs for the different funding classes during 2022/23, please see pages 8-17 of the *Class Statements*.

Recoveries

We continue to pursue recoveries, where it is reasonably possible and cost-effective to do so. Our recoveries help offset the levies financial services firms have to pay, and can provide additional compensation for customers whose claims are above our limits.

In 2022/23, we recovered a total of £15m, of which approximately £12m was used to offset our levies. The remaining £3m was passed on to customers whose claims were above our compensation limits.

Recoveries recognised under International Financial Reporting Standards (IFRS) totalled £54m in 2022/23. Under IFRS, some of the amounts recovered in this financial year were recognised as income in previous financial years. Some income expected in future financial years is also recognised in this financial year.

Administration expenses

During 2022/23, our administration expenses increased from £79m (2021/22) to £85m.

This increase was, in part, due to a need for pension claims contractors with experience in specialist software to model hypothetical pension benefits. Additional staff, including contractors, were also required to:

- assist with rising demands associated with data management, stakeholder engagement, and supporting critical internal change projects;
- meet regulatory changes, including for Funeral Plans; and
- develop our information technology processes and capabilities.

During the year, there was also a substantial increase in the costs associated with recoveries which required legal advice and expertise.

Our 2022/23 administration expenses were partially offset by fewer claims being processed using outsourced claims handling providers, and by using more internal resource. Further, fewer claims were processed within the Investment Provision class (SIPP and general investment categories) than in 2021/22.

Balance sheet

Our assets are mainly cash and recoveries receivable, which we treat in line with our accounting policy for recoveries.

Our liabilities are mainly levies we have collected but have not yet accounted for as income. Our liabilities also include provisions for compensation we estimate that we will have to pay under our rules at year-end.

During the year, FSCS incurred less costs than expected when the levy was raised. This resulted in surpluses for some classes and an overall increase in our cash balance.

In most classes with surpluses, we are expecting these funds to be required in the 2023/24 financial year, and these surpluses have been carried forward and used to offset the levy for that financial year.
In classes where the surpluses are not expected to be fully used in 2023/24, there will be a £4m refund to the Home Finance Intermediation class, a £1m refund to the Home Finance Providers class and a £0.5m refund to the Debt Management class.

Nicole*, Project Manager, Derby

Claim type

Unsuitable pension advice

Compensation received

£46,000

Background

Nicole had received pensions advice from a close work colleague who was a financial adviser.

What happened?

Following her colleague's advice, Nicole transferred her existing pension into a self-invested personal pension (SIPP). As part of the SIPP investment, Nicole's pension savings were moved abroad and invested into the construction of apartments in Cape Verde that promised high returns.

Before long, Nicole started becoming nervous about the transfer. The investments were performing poorly, and she did not have direct access to any information about her SIPP. After several attempts to get in touch with her SIPP provider came to no avail, Nicole contacted a new financial adviser. The new adviser was also unable to reach the SIPP provider as Nicole's original financial adviser had seemingly disappeared and was no longer contactable.

Nicole persevered for several years to contact her SIPP provider directly. "I had lost over £40,000. That's not an amount you can afford to lose. It was a worrying time and such a significant amount of money."

It later came to light that her SIPP provider had gone out of business in June 2021. After discussing her situation with a friend, Nicole was put in touch with a recommended financial adviser. "My new adviser was really disappointed in the fact that I had lost complete trust and faith in financial services, and she wanted to do what she could to help restore that. It was her who put me in touch with FSCS.'"

Nicole submitted a claim to FSCS and received £46,000 in compensation in early 2022.

Customer feedback

"My claims handler Alex understood my anger and frustration – the battle that I had faced. All the way through, without ever promising that I would definitely get my money back, it felt like he and FSCS were on my side.

"I remember the day I got my money back. I cried – it was pure relief that it was over! I received an email to explain my claims decision, and the money was back in my bank account the same day. I couldn't believe it – I had to get my husband to check that it was real!"

**Identity changed for privacy*

Approval of the strategic and performance report

The strategic and performance report is made up of the following:

- Strategy
- Performance
- Annual report of the Independent Investigator
- Responsible business
- Financial review

This report was approved by the FSCS Board on 07 July 2023 and signed on its behalf by:

Fiona Kidy
Chief Financial Officer,
Financial Services Compensation Scheme

17 July 2023

Statement of Accounting Officer's responsibilities

HM Treasury has designated the Chief Financial Officer as FSCS Interim Accounting Officer.

The responsibilities of an Accounting Officer are set out in *Managing public money* published by HM Treasury. Responsibilities include accountability for the propriety and regularity of finances, keeping proper records and safeguarding of FSCS assets.

In preparing the accounts, the Accounting Officer is also required to have regard for the requirements and principles of the *Government Financial Reporting Manual* (FReM). This includes:

- observing the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements and applying suitable accounting policies on a consistent basis;
- making judgements and estimates on a reasonable basis;
- preparing the accounts on a going concern basis;
- confirming that the *FSCS Annual Report and Accounts* are fair, balanced and understandable; and
- taking personal responsibility for the *Annual Report and Accounts* and the judgements required for what is fair, balanced and understandable.

As the FSCS Interim Accounting Officer, the Chief Financial Officer has taken all the steps required to be aware of any relevant audit information and ensure that FSCS's auditors are aware of that information. As far as the FSCS Chief Financial Officer is aware, there is no relevant audit information of which the auditors are unaware.

Corporate governance

We are committed to meeting high standards of corporate governance. This report sets out how we are governed and describes the arrangements we have in place and the key activities since the last report. We report this information in line with the requirements of the Accounts Direction issued by HM Treasury.

The Board

The FSCS Board sets our overall direction, culture and strategy, ensuring that there are appropriate policies, procedures and delegations in place to fulfil its responsibilities and obligations.

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are responsible for appointing and removing members of the Board. The appointment and removal of both the Chair and the Chief Executive must also be approved by HM Treasury. All directors are appointed for periods of no more than three years, and may be reappointed for further periods on a similar basis. The process for appointing and reappointing directors is overseen by the Nomination and Governance Committee.

FSCS works closely with the FCA and the PRA on Board appointments, and external consultants are engaged to help find suitable candidates.

Board appointments are based on merit and objective criteria, considering the skills and experience the individual can bring to the role.

We are committed to creating an inclusive organisation and actively seek to promote all forms of diversity on our Board. We have published measurable objectives of how we will continue to ensure board diversity by 2024.

Operation of the Board

The Board has a formal schedule of matters reserved for its decision, which is available on our website. This sets out the coverage of the Board's activities and responsibilities. Certain responsibilities are delegated to committees of the Board.

The Board held 10 formal meetings during the year and a separate strategy day.

In addition, the Board held informal meetings to discuss key strategic matters, some of which were with senior officials from outside organisations, including regulatory partners.

The Board also received additional briefings and updates on important operational issues and developments.

The Board received all the information it needed to discuss issues and make decisions at the appropriate times, and executive directors made sure the Board received sufficient timely, accurate and clear information as required.

The Company Secretary, appointed by the Board, attended Board and committee meetings and was responsible for advising on all governance matters, as well as making sure that the correct procedures were followed and records kept.

Directors, supported by the Company Secretary, had the necessary information, time and resources required to carry out their roles effectively.

Our Board

Non-executive directors

Marshall Bailey OBE
Chair
Appointed – 1 April 2018
Expiry of appointment – 31 March 2024

Helen Parker
Deputy Chair and Senior Independent Director*
Appointed – 1 July 2017
Expiry of appointment – 30 June 2024

Wendy Williams CBE
Appointed – 1 September 2020
Expiry of appointment – 31 August 2026

Rt Hon Baroness Morgan of Cotes (Nicky Morgan)
Appointed – 1 September 2020
Expiry of appointment – 31 August 2026

Richard Parkin
Appointed – 1 July 2019
Expiry of appointment – 30 June 2025

Patrick Neville
Appointed – 1 July 2017
Expiry of appointment – 30 June 2023

Cathryn Riley
Appointed – 1 February 2021
Expiry of appointment – 31 January 2027

New appointment for 2023/24

Alyson Levett
Appointed – 1 July 2023
Expiry of appointment – 30 June 2026

Executive directors

Caroline Rainbird
Chief Executive
Appointed – 13 May 2019
Expiry of appointment – 05 June 2023

Fiona Kidy
Chief Financial Officer
Appointed – 1 July 2020
Expiry of appointment – 30 June 2026

* The Senior Independent Director acts as a sounding board for the Chair and serves as an intermediary for other directors.

Induction and development

New directors receive a comprehensive induction process so they can quickly familiarise themselves with our work.

The induction includes meeting existing Board members and staff from several business areas and receiving associated detailed briefings.

To refresh their knowledge and skills, directors take up opportunities and are offered training as part of their ongoing professional development.

The Chair carries out annual performance reviews with each non-executive director and the Chief Executive. The Senior Independent Director (Deputy Chair) carries out the Chair's performance review on behalf of the Board. The Chief Executive carries out the annual performance reviews of the other executive directors.

Board evaluation

Our Board carries out formal and rigorous evaluations of its own performance, and that of its committees, usually once a year.

These evaluations are externally facilitated approximately every three years. Dr Tracy Long CBE of Boardroom Review Ltd undertook a review of the effectiveness of the FSCS Board in mid-2021, with a focus on boardroom dynamics and board interactions. A report on that review was included in last year's *Annual Report* and a full summary of the review has been published on our website.

The Board will be considering the results of the latest internal board evaluation survey in mid 2023. A summary of this evaluation will be included in next year's *Annual Report and Accounts*.

Committees of the Board

The roles and responsibilities of the committees are set out in their terms of reference, which are available on our website at www.fscs.org.uk/about-us/org-info/our-gov/committees/
Each committee reports to the Board after each meeting.

Audit Committee

The Audit Committee is made up of four independent non-executive directors.

Matters discussed during the year included:

- internal control arrangements and assurance reports;
- internal audit plan, internal audit reports, action plans to follow up audit recommendations, and the internal audit function;
- accounting policies and significant accounting judgements and estimates;
- *Annual Report and Class Statements*, making recommendations to the Board, following which the Board decided that the *Annual Report and Accounts*, taken as a whole, was fair, balanced and understandable, and provided enough information for the company's performance, business model and strategy to be assessed;
- external audit function and process;
- reports on health and safety, data protection, fraud and money laundering;
- reports on other matters, including quality assurance and corporate insurances; and
- the Committee's terms of reference.

There were also discussions with both internal and external auditors without executive directors or management.

As described in the Directors' report, the Comptroller and Auditor General is the statutory auditor of FSCS, as required under the Financial Services Act 2012. The external auditor did not provide any non-audit services during the year.

The Board carried out an annual review of the effectiveness of the risk management and internal control systems. A full report on our risk and control arrangements is given on pages 52-55.

Risk Committee

The Risk Committee is made up of four independent non-executive directors. Matters discussed during the year included:

- our risk-management arrangements, risk profile, risk tolerances and risk appetite;
- claims processing and quality;
- deep-dives on risks associated with pension claims planning and work in progress, people risks and stakeholder reputational risks;
- our resilience profile, including contingency planning and disaster recovery arrangements; and
- the effectiveness of the Committee.

Remuneration and People Committee

The Remuneration and People Committee is made up of four independent non-executive directors. Matters discussed during the year included:

- recommendations to the Board for approving the Chief Executive's remuneration package, and setting the remuneration of the Chief Financial Officer;
- salary budget recommendations;
- recognition and reward;
- equity, diversity and inclusion;
- succession planning;
- employee turnover and exit interviews;
- FSCS's people strategy;
- people surveys;
- the Board's engagement with the workforce; and
- the effectiveness of the Committee and its terms of reference.

Nomination and Governance Committee

The Nomination and Governance Committee is made up of the FSCS Chair, the Chief Executive and two other independent non-executive directors. Matters discussed during the year included:

- board composition and succession planning;
- diversity and the mix of skills and experience on the Board;
- recommendations for appointing and reappointing directors in 2023 and 2024;
- director development;
- FSCS's corporate governance arrangements benchmarked against external guidance; and
- the effectiveness of the Committee and its terms of reference.

Attendance at Board and committee meetings

	Board	Audit Committee	Remuneration and People Committee	Nomination and Governance Committee	Risk Committee
Number of meetings held	10	4	4	3	4
Number of meetings attended by each committee member:					
Marshall Bailey	10 of 10		4 of 4	3 of 3	
Fiona Kidy	10 of 10				
Nicky Morgan	8 of 10	4 of 4			3 of 4
Patrick Neville	10 of 10	4 of 4			4 of 4
Helen Parker	10 of 10		4 of 4	3 of 3	
Richard Parkin	10 of 10	4 of 4	4 of 4		4 of 4
Caroline Rainbird	10 of 10			3 of 3	
Cathryn Riley	9 of 10	4 of 4			3 of 4
Wendy Williams	8 of 10		4 of 4	3 of 3	

Section 172 statement: taking into account the interests of stakeholders

Under Section 172 of the Companies Act 2006, directors have a duty to promote the success of FSCS, taking into account the views of our stakeholders.

The Board considers matters including the long-term consequences of any decision, the interests of our employees, maintaining a reputation for high standards of business conduct and the need to foster good business relationships with suppliers, customers and others. The following information sets out how our Board has considered the interests of our stakeholders in its discussions and decision-making:

Consumers – As we are here to protect consumers, if an authorised financial services firm they have been doing business with fails, the Board always considers the implications decisions will have on FSCS customers. This is in terms of the quality of service that we provide and our role in processing compensation claims in an efficient, timely and customer-friendly way.

Levy payers – As our costs are funded by levies paid by financial services firms, the Board takes the interests of levy payers into account when making decisions that will have implications for levy payers, especially when setting levies and communicating about levies. The Board considers feedback from levy payers, including in situations when significant changes in compensation forecasts may result in extra levies. The potential effect on levy payers is also considered when discussing business failures or other issues that might result in significant levies or have other levy implications. Directors are also mindful that our service is expected to be cost-effective and that we will need to consider pursuing recoveries that are likely to be reasonably possible and cost-effective to pursue.

Regulators – The Board makes sure that we are in regular contact with the Financial Conduct Authority and the Prudential Regulation Authority on matters we share an interest in. Although we are independent of the regulators, we are still accountable to them, as well as to HM Treasury. Our directors make sure we regularly report on our work and matters considered by the Board. If the Chief Executive knows about certain views expressed by the regulators or HM Treasury on particular matters, the directors are told so that they can consider those views when making decisions. The Board also aims to fulfil our obligations in running the compensation scheme efficiently and cost-effectively, in line with relevant laws and rules, and it reports our proposed budget to the regulators.

Partners and suppliers – The Board makes sure that we work to high standards of business conduct. It ensures appropriate policies, governance and procedures are in place for entering into and managing contracts for the supply of goods and services, together with values and standards expected when dealing with third parties. During the year, the Board also approved our *Modern Slavery Statement*, which is on our website at www.fscs.org.uk/about-us/modern-slavery/

Our people – Our directors consider the effect their decisions could have on employees, including issues relating to morale and staffing, and make sure that workplace policies and practices are fair. The Board's engagement with the workforce is enhanced by regular meetings with the Chair of the Remuneration and People Committee and the organisation's engagement leads. This allows the workforce's views on certain matters to be presented at Board and committee meetings. The Chair of the Remuneration and People Committee is the designated non-executive director leading on the Board's workforce engagement, with the Committee overseeing and receiving associated reports.

Directors' remuneration

Certain parts of this directors' remuneration section are subject to audit, and these parts are marked 'audited section' in the relevant sections.

Non-executive directors' fees are reviewed and set by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). We are responsible for setting the remuneration of executive directors. The Remuneration and People Committee considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval. The Chief Executive is not present when this remuneration package is being considered. The remuneration packages of other executive directors are set by the Remuneration and People Committee.

Directors' remuneration 2022/23 (audited section)

	Banded fees and salary[1] £'000	Taxable benefits[2] (nearest £100) £'000	Banded performance-related bonus[3] £'000	Pension[4] £'000	Banded total £'000
Non-executive directors					
Marshall Bailey	75-80	0.4	-	-	75-80
Nicky Morgan	20-25	1.0	-	-	25-30
Patrick Neville	25-30	7.5	-	-	35-40
Helen Parker	30-35	0.4	-	-	30-35
Richard Parkin	25-30	0.7	-	-	30-35
Cathryn Riley	20-25	1.0	-	-	25-30
Wendy Williams[5]	0-5[5]	-	-	-	0-5[5]
Executive directors					
Fiona Kidy	225-230	2.4	15-20	21	265-270
Caroline Rainbird	325-330	2.3	20-25	30	380-385

Directors' remuneration 2021/22 (audited section)

	Banded fees and salary[1] £'000	Taxable benefits[2] (nearest £100) £'000	Banded performance-related bonus[3] £'000	Pension[4] £'000	Banded total £'000
Non-executive directors					
Marshall Bailey	75-80	-	-	-	75-80
Nicky Morgan	20-25	1.0	-	-	25-30
Patrick Neville	25-30	2.9	-	-	30-35
Helen Parker	30-35	0.4	-	-	30-35
Richard Parkin	25-30	-	-	-	25-30
Cathryn Riley	20-25	0.6	-	-	25-30
Wendy Williams[5]	0-5[5]	-	-	-	0-5[5]
Executive directors					
Jimmy Barber[6]	20-25	-	-	-	20-25
Fiona Kidy	205-210	2.4	20-25	20	250-255
Caroline Rainbird	285-290	2.3	25-30	22	340-345

Notes:

1 The Chair and other non-executive directors are paid fees, and executive directors are paid salaries. Executive directors do not receive fees or any extra remuneration for their roles as directors. Salaries and fees are stated for the financial year they are earned in and relate to each director's period of appointment. For executive directors, the figures in the 'fees and salary' column are made up of basic salary, non-taxable benefits, other benefits paid through PAYE and any other payments or special allowances agreed from time to time. More details on directors' salaries and fees are given on page 50.

2 'Taxable benefits' represent the gross (pre-tax) value of benefits, whether cash or non-cash, that UK income tax is charged on. The figures in this column include certain employee benefits taken up by executive directors, as explained below under 'Other benefits', and any *taxable expenses* directly and properly incurred by directors in the performance of their duties. Some of these taxable expenses relate to non-executive directors' travel (and any associated accommodation, meals and refreshments) for attending Board and committee meetings. The figures shown include the associated income tax and National Insurance liability, which we pay in line with HM Revenue & Customs guidelines.

3 'Performance-related bonus' is shown for the financial year it is earned in. More details on the bonus framework are given on pages 50-51.

4 'Pension' figures are shown as the amounts we paid to defined-contribution pension schemes and as cash in lieu of (instead of) pension contributions.

5 By mutual agreement with the Home Office, Wendy Williams has taken up her role as a director of FSCS on a pro bono basis. As a result, she does not receive Board fees.

6 Jimmy Barber left the Board on 30 April 2021.

Pay multiples (audited section)

This section shows the relationship between the remuneration of the highest-paid director and the remuneration of employees at the 25th, 50th and 75th percentile of pay and benefits of our workforce. The 50th percentile is also known as the median, the midpoint of our range of salaries. For these purposes, total remuneration includes basic salary, bonuses and taxable benefits. It does not include pension contributions or cash in lieu of pension contributions. To keep comparisons consistent, it also does not include compensation for loss of office. Details of the remuneration of the highest-paid director are given in Note 10 to the financial statements.

Pay ratios

The Chief Executive was the highest-paid director in both 2021/22 and 2022/23.

Ratio of the remuneration of the highest-paid director to the remuneration of the workforce as a whole (excluding highest-paid director):

Year	25th percentile pay ratio	Median (50th percentile) pay ratio	75th percentile pay ratio
2022/23	6.1	5.1	3.9
2021/22	5.9	4.8	3.8

Pay and benefits of FSCS employees at the 25th, 50th and 75th percentile of pay and benefits of the workforce (excluding highest-paid director):

Year	25th percentile		Median (50th percentile)		75th percentile	
	Total pay and benefits	Salary component of pay and benefits	Total pay and benefits	Salary component of pay and benefits	Total pay and benefits	Salary component of pay and benefits
2022/23	£56,593	£51,500	£68,698	£61,790	£89,610	£81,000
2021/22	£53,189	£47,470	£65,549	£59,590	£82,075	£73,730

Average percentage change in the remuneration of the workforce as a whole from 2021/22 to 2022/23 (excluding highest-paid director):		Percentage change in the remuneration of the highest-paid director from 2021/22 to 2022/23:	
Salary and allowances	Performance pay and bonuses	Salary and allowances	Performance pay and bonuses
8.5%	(16.9%)	12.2%	(18.2%)

The changes in the pay ratios compared to the previous year's pay ratios are consistent with our expectations and reflect the application of our Recognition and Reward Policy and salary benchmarking across the organisation.

Prior to 2022/23, our bonus arrangements included eligibility for an additional Personal Performance Bonus that was subject to certain performance criteria. This element of the bonus arrangements was withdrawn in 2022/23, following a review of the reward and recognition framework, and replaced with a differently structured Special Recognition Awards system. The Annual Scheme Performance Bonus for eligible employees was also set at a lower level in 2022/23 than in the previous financial year. These were the main reasons for the reduction in 'Performance pay and bonuses' as shown in the table above. There were no other significant changes to our employment models or methodology during 2022/23.

Directors' remuneration framework

Directors' fees and salaries

Non-executive directors

The fees we currently pay to non-executive directors, including the Chair, were set in April 2011 and have not changed since.

The fees paid to the Chair in 2022/23 were £75,000 a year, and fees paid to other independent non-executive directors were £24,500 a year. Additional fees paid to each of the chairs of the Audit Committee, Risk Committee and Remuneration and People Committee were £5,000 a year. All these fees are unchanged from 2021/22.

The Chair of the Board was also the Chair of the Nomination and Governance Committee but does not receive an additional fee for this role. The Deputy Chair and Senior Independent Director (a combined role) receives an additional £5,000 a year.

Executive directors

The Remuneration and People Committee applies certain principles when reviewing the remuneration of executive directors.

The first principle is that any growth in the salaries of individual executive directors should take account of external benchmarks. This is in line with the approach across our workforce. For this purpose, we regard the median (midpoint average) salary for equivalent roles in the general UK workforce to be an appropriate benchmark. This is to make sure we broadly match market rates to motivate and retain staff, but not necessarily to pay significantly more or less generously than the market.

The second principle is that executive directors get the same starting salary and salary increase procedure as other staff. In some circumstances, we may allow salaries to increase faster than the annual rise in inflation to reflect specific market pressures or recruitment challenges for certain roles, or where the loss of critical people would jeopardise our performance.

Salaries for executive directors occasionally change due to independent pay reviews carried out across the organisation by external consultants. Otherwise, benchmarks and salaries generally increase in line with the overall uplift in the salary bill, as agreed by the Remuneration and People Committee and the Board.

In 2022/23, the salaries of executive directors were reviewed and set in line with the principles above and were based on individual performance and comparisons with appropriate benchmarks.

Bonuses

Executive directors were eligible to be considered for an Annual Scheme Performance Bonus in 2022/23. These bonuses are not available to non-executive directors.

The main principle of our bonus system is that they should be non-consolidated awards (that is, one-off payments that do not count towards pension entitlements) reflecting the performance of the organisation and the contribution the executive director has made. Objectives are set for each executive director and include a strategic element linked to the performance of the organisation as a whole. These are measured and reviewed during the course of the year and at year-end, along with other aspects of individual performance.

Other benefits

Executive directors are entitled to receive other benefits under our flexible benefits programme. Some of these benefits are taxed and some are paid through salary sacrifice (where the director's salary is reduced by the amount of the benefit, so they then pay tax only on the reduced salary). Taxable benefits are shown in the Directors' remuneration table.

Remuneration for executive directors holding other non-executive positions

Executive directors may be non-executive directors of other organisations. Decisions on whether they may retain any remuneration from these appointments are made on a case-by-case basis.

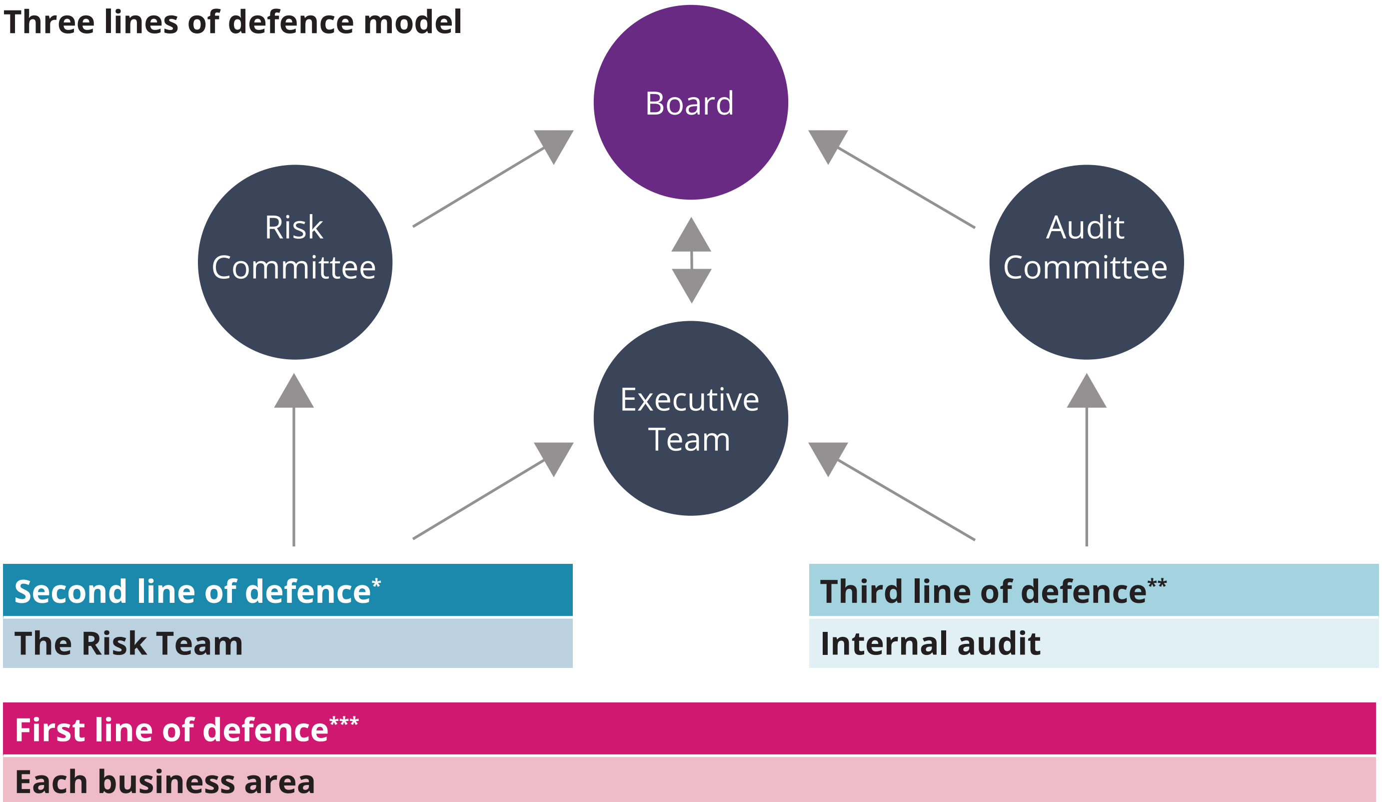
Risk management

Approach to risk

We recognise that, in its nature, risk is ever present and ever changing. Through our *Risk Management Framework*, which is based on the three lines of defence model, we promote a holistic view towards risk. This includes identification, monitoring, managing and reporting as well as systematically examining emerging threats and looking for improvement opportunities.

The FSCS Board sets the level of risk that we are prepared to accept (our risk appetite) to achieve our aims. The Board is also responsible for setting and maintaining risk management and internal control systems to support our risk appetite. In the event that a particular risk is assessed as outside of our agreed appetite levels, it is reported to the Risk Committee and plans are developed to return the risk within the agreed appetite level. The Risk Committee meets every

Three lines of defence model



* The Risk Team is a centralised team that oversees and challenges our risk decisions. The team provides advice, conducts independent testing, reports on our risk profile and ensures that any mitigating actions are appropriate.

** Internal audit provides independent assurance to the Audit Committee and the Board through reviews, engaging with committees and executive management, providing opinion, challenge and informal advice.

*** Each business area has responsibility for identifying, managing and controlling risks within their areas of accountability. They do this in line with our overarching risk management policy and associated framework.

three months and reports to the FSCS Board after each meeting regarding our risk position.

During 2022/23, we adopted a low to cautious risk appetite in the delivery of our statutory duties, which includes processing claims resulting from the failure of regulated financial services firms. However, we also recognise that it is not always possible, or useful, to remove all the risks attached to all of our activities. We acknowledge that the acceptance of some risk is appropriate to promote innovation and drive greater efficiencies, and for improving the experience and outcomes for our customers and stakeholders.

Risk appetite

While we adopted a low to cautious risk appetite during 2022/23, we recognise that the financial sector is continuously evolving and that we must be flexible in the way we manage risk. To help us remain agile, we operate separate risk categories (Strategic, Governance, Financial, Information Technology and Data, Operational and People) and risk appetites for each area of our organisation.

Future direction

As we look to the next financial year, we will continue evolving our approach to risk, and using technology for greater insights to inform effective decision-making. We will also continue promoting a common understanding across the organisation of how we manage risk, and our risk appetites for each risk category. More specifically, as the organisation starts to consider its overarching future strategy, risk management will be key from the outset. As part of this, we will continue identifying where we can work with, and across, the regulatory landscape to help reduce consumer harm. This, in turn, will help us reduce the risks associated with claims processing and funding.

Key

Appetite level	Definition
Low	Prepared to accept only the very lowest levels of risk, with a preference for very safe decision-making.
Cautious	Willing to accept some low-medium risk, whilst maintaining an overall preference for safer decision-making.
Moderate	Willing to accept a higher level of risk to achieve significant benefit and/or realise opportunities. Whilst the inherent risk maybe high, it is still controllable.
High	Prepared to consider innovative decisions with a high degree of residual risk.

Risk category	Description	Appetite
Strategic	Recognising that FSCS is a statutory body, we have a cautious to moderate risk appetite towards our strategic risks. To positively influence change for the benefit of our customers, and reduce the impact of firm failure, we accept an increased moderate risk appetite. When working with strategic and regulatory partners to ensure that we are delivering the best possible service to customers we, where appropriate, accept that there are sometimes higher risks associated with a collaborative approach.	
Governance	FSCS adopts a low to cautious risk appetite, with a low appetite for non-compliance with our legal requirements. Compliance is essential for us to promote integrity and confidence in our services.	
Financial	FSCS has a low appetite for those risks associated with costs that are not in accordance with the rules that govern us. We also have a cautious appetite for risks associated with any unanticipated costs, whether they be compensation (including levy payments) or management expenses. This means that, as much as possible, our financial forecasts look to avoid any additional or unexpected costs.	
Information Technology and Data	Recognising the need for utilising innovation in relation to IT and security, FSCS has a low to cautious risk appetite for external access to systems that support our critical business functions. For systems that support non-critical business functions however, we accept a higher, moderate level of risk. This is also the case when introducing new systems for improved service delivery and efficiencies.	
Operational	Overall, the operational risk appetite of FSCS is low to moderate. We have a low appetite towards any risks that would compromise the quality of our customer service. We ensure that we maintain appropriate processes, systems and controls to support our operations i.e. assessing and paying claims. We do, however, adopt a more moderate risk appetite for developing and enhancing our processes and systems.	
People	Broadly, FSCS has a low to cautious risk appetite towards staff recruitment, and upskilling. We recognise that it is necessary to accept a higher level of risk for the availability of sufficiently skilled staff and retention, which can be influenced by the external recruitment market.	

Themes during 2022/23

The table below captures the key risk themes of this financial year.

Risk theme	Observations
Strategic	FSCS has an ambitious agenda for improving our processes and customer experiences as well as generating efficiencies. We are acutely aware that conducting multiple strategic initiatives at once requires careful planning and risk management. Therefore, we implemented oversight of all changes to avoid any resource clashes, temporary reduction in efficiency and lengthened delivery timescales at increased cost.
Governance	As the claims involving FSCS are becoming more and more complex, with higher compensation levels, we remain alert to the increased risk that FSCS may face judicial reviews.
Financial	A firms' likelihood of failing remains a key factor in FSCS being able to accurately forecast its financial needs for the coming year. In this regard, we continue to collaborate with regulatory bodies to increase visibility on the volume and type of claims we may receive, and quality of data we have to inform our forecasting processes. Our engagement with the Prudential Regulation Authority, Financial Conduct Authority, Financial Ombudsman and other regulatory bodies is well established. However, failures with little warning can still impact our operations and resourcing.
Information Technology and Data	Risks associated with the use, ownership, operation, involvement and adoption of new IT systems remains high on our agenda. We continue to install robust monitoring and response controls for any potential threats that could exploit the vulnerabilities of an asset or group of assets. This includes safeguarding the data that we hold.
Operational	FSCS continues to see increasingly complex claims that need to be investigated, particularly for pensions. We continue to work with regulatory bodies to identify opportunities for simplification and efficiencies to reduce claims processing times, improve customer outcomes and keep costs down.
People	Following the pandemic, our approach to smarter working has seen engagement with our people remain high. FSCS continues to attract, retain and develop talent across all levels of the business, enabling the organisation to provide high-quality customer service.

Directors' report

For the year ending 31 March 2023, FSCS directors present this report, together with the audited financial statements on page 66 to 104.

The directors have prepared these financial statements in line with International Financial Reporting Standards (IFRS).

This has been done to enhance the quality of the financial information, with the aim of making the financial statements easier to compare and understand internationally, and to increase transparency.

The directors

The directors who held office during the year and up to the date of signing the financial statements include:

- Marshall Bailey OBE;
- Fiona Kidy;
- Rt Hon Baroness Morgan of Cotes (Nicky Morgan);
- Alyson Levett;
- Patrick Neville;
- Helen Parker;
- Richard Parkin;
- Caroline Rainbird;
- Cathryn Riley; and
- Wendy Williams CBE.

Directors' remuneration

Details of directors' remuneration are set out in the directors' remuneration section on page 46 and in Note 10: Directors' remuneration.

Directors' indemnity and insurance

FSCS maintains insurance to indemnify its directors and its officers against claims arising from its operations. We also granted qualifying third-party indemnities (as defined in the Companies Act 2006) to directors in relation to acts or omissions arising in the ordinary course of their duties. Indemnities were in force during the financial year to 31 March 2023 and at the date of the approval of this report.

Under the Financial Services and Markets Act 2000, we have an exemption from liability in damages for anything done or omitted in relation to the discharge, or purported discharge, of our statutory functions. This is provided that such acts or omissions are done in good faith and do not infringe section 6(1) of the Human Rights Act 1998.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

- as far as the director is aware, there is no relevant audit information of which FSCS's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information, and to ensure that FSCS's auditors are aware of that information.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with IFRS as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the situation of the company and of the income or expenditure of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for:

- keeping adequate accounting records that show and explain FSCS's transactions and that disclose with reasonable accuracy our financial position, and enable us to ensure that the financial statements comply with the Companies Act 2006;
- safeguarding the assets of FSCS and taking reasonable steps for preventing and detecting fraud and other irregularities; and
- maintaining the integrity of our website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate governance and financial risk management

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained earlier in this Accountability Report. Information on the use of financial instruments by the company is disclosed in Note 17. In particular, the company's exposure to credit risk, liquidity risk and interest rate risk is separately disclosed in that Note.

Responsible business

FSCS's responsible business section, which includes information regarding our environmental targets, as well as diversity and inclusion data is provided on pages 26-31.

Going concern

The directors are satisfied that FSCS is able to meet its obligations. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis.

Independent auditor

Under the Financial Services Act 2012, the Comptroller and Auditor General is the statutory auditor of FSCS.

Approval of the accountability report

The accountability report is made up of the following:

- Statement of Accounting Officer's responsibilities
- Corporate governance
- Section 172 statement: taking into account the interests of stakeholders
- Directors' remuneration
- Risk management
- Directors' report

This report was approved by the FSCS Board on 07 July 2023 and signed on its behalf by:

Fiona Kidy
Chief Financial Officer,
Financial Services Compensation Scheme

17 July 2023

Auditor's report

The Certificate and Report of the Comptroller and Auditor General to the Members of Financial Services Compensation Scheme and the Houses of Parliament

Opinion on financial statements

I have audited the financial statements of Financial Services Compensation Scheme for the year ended 31 March 2023 under the Financial Services and Markets Act 2000.

The financial statements comprise the Financial Services Compensation Scheme:

- Statements of Financial Position as at 31 March 2023;
- Statement of Comprehensive Income and Statement of Cash Flows for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards.

In my opinion the financial statements:

- give a true and fair view of the state of the Financial Services Compensation Scheme's affairs as at 31 March 2023 and its surplus for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards;
- have been prepared in accordance with the requirements of the HM Treasury directions issued under the Financial Services and Markets Act 2000; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects, the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I am independent of the Financial Services Compensation Scheme in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Financial Services Compensation Scheme's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Financial Services Compensation Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this certificate.

Other information

The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's certificate and report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the directors' remuneration section to be audited has been properly prepared in accordance with the Companies Act 2006.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic and performance report and the accountability report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic and performance report and the accountability report have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Financial Services Compensation Scheme and its environment obtained in the course of the audit, I have not identified material misstatements in the strategic and performance report or the accountability report.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the directors' remuneration section to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by the accounts direction issued by HM Treasury under the Financial Services and Markets Act 2000 are not made; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the Financial Services Compensation Scheme from whom the auditor determines it necessary to obtain audit evidence;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006 and Financial Services and Markets Act 2000;
- ensuring such internal controls are in place as directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- preparing the *Annual Report*, which includes the directors' remuneration section, in accordance with the Companies Act 2006; and
- assessing the Financial Services Compensation Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with Financial Services and Markets Act 2000 and International Standards on Auditing (UK) (ISAs (UK).

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the Financial Services Compensation Scheme's accounting policies.
- inquired of management, the Financial Services Compensation Scheme's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Financial Services Compensation Scheme's policies and procedures on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Financial Services Compensation Scheme's controls relating to the Financial Services Compensation Scheme's compliance with the Companies Act 2006, Financial Services and Markets Act 2000, FCA Handbook and PRA Rulebook

- inquired of management, the Financial Services Compensation Scheme's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations;
  - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Financial Services Compensation Scheme for fraud and identified the greatest potential for fraud in the following areas: posting of unusual journals, complex transactions, bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the Financial Services Compensation Scheme's framework of authorities and other legal and regulatory frameworks in which the Financial Services Compensation Scheme operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Financial Services Compensation Scheme. The key laws and regulations I considered in this context included Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012; Financial Services (Banking Reform) Act 2013; Companies Act 2006; the Financial Services Compensation Scheme and HM Treasury Framework Document; FCA Handbook; PRA Rulebook; and relevant employment law and taxation legislation.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit Committee and legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- I inspected a copy of the Annual Fraud Report presented to the June 2023 Audit Committee meeting.

I communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

18 July 2023

Financial statements of FSCS for the year ended 31 March 2023

Statement of comprehensive income

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Income:			
Levy income in respect of compensation costs		349,235	568,627
Other levy income		85,028	74,339
Total levy income	*4*	434,263	642,966
Recoveries	*5*	54,248	15,505
Recharges to HM Treasury in respect of LCF	*20*	102	1,644
Bank interest received		6,137	–
Total income		494,750	660,115
Expenditure:			
Compensation costs	*6*	(403,483)	(584,132)
Administrative expenses	*7, 8*	(85,394)	(78,951)
Interest payable	*15*	(112)	(115)
Net interest on defined benefit pension scheme	*22*	416	230
Total expenditure		(488,573)	(662,968)
Surplus/(deficit) before tax		**6,177**	**(2,853)**
Corporation tax		(1,166)	–
Surplus/(deficit) after tax		**5,011**	**(2,853)**
Other comprehensive income			
Remeasurements on defined benefit pension scheme	*22*	(5,011)	2,853
Total comprehensive result for the year		**–**	**–**

All of FSCS's operations are continuing.

A statement of changes in equity has not been presented as there were no equity balances brought forward or any changes in equity balances during the year.

The notes on pages 70-104 form part of these financial statements.

Statement of financial position

	Note	As at 31 March 2023 £'000	As at 31 March 2022 £'000
ASSETS			
Non-current assets			
Property, plant and equipment, and right of use assets		8,153	8,293
Employee benefit assets	*22*	11,056	14,847
Financial assets	*12*	60,619	46,214
		79,828	**69,354**
Current assets			
Trade and other receivables	*11*	52,383	20,758
Cash and cash equivalents	*13*	509,902	333,011
Financial assets	*12*	46,701	18,380
		608,986	**372,149**
Total assets		**688,814**	**441,503**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		**–**	**–**
Non-current liabilities			
Other non-current financial liabilities	*14*	71,675	61,061
Provisions	*16*	516	516
Lease liabilities	*15*	6,589	7,515
		78,780	**69,092**
Current liabilities			
Bank overdraft	*13*	511	3,441
Trade and other payables	*14*	569,074	317,045
Provisions	*16*	39,522	51,498
Lease liabilities	*15*	927	427
		610,034	**372,411**
Total liabilities		**688,814**	**441,503**
Total equity and liabilities		**688,814**	**441,503**

The notes on pages 70-104 form part of these financial statements. These financial statements are exempt from the requirements of Part 16 of the Companies Act 2006 by virtue of Section 482 (non-profit making companies subject to public sector audit) of that Act.

The financial statements on pages 67 to 69 were approved by the Board of Financial Services Compensation Scheme Limited (registered number 3943048) on 07 July 2023 and signed on its behalf on 17 July 2023 by:

Fiona Kidy
Chief Financial Officer, Financial Services Compensation Scheme

Statement of cash flows

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Operating activities			
Net cash generated from operations	*19*	175,112	80,776
Net cash flows from operating activities		**175,112**	**80,776**
Investing activities			
Bank interest received		6,137	–
Purchases of property, plant and equipment		(890)	(521)
Net cash flows used in investing activities		**5,247**	**(521)**
Financing activities			
Lease payments	*15*	(538)	(785)
Net cash flows used in financing activities		**(538)**	**(785)**
Net increase/(decrease) in cash and cash equivalents		179,821	79,470
Cash and cash equivalents at 1 April	*13*	329,570	250,100
Cash and cash equivalents at 31 March	*13*	**509,391**	**329,570**

Notes to the financial statements for FSCS for the year ended 31 March 2023

1. Constitution

Financial Services Compensation Scheme Limited (FSCS) is a company incorporated and domiciled in the UK under the Companies Act 2006 as a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member. FSCS has no share capital and no ultimate controlling party.

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA). FSCS, as Scheme Manager, operates broad funding classes based on identifiable industry sectors – Deposits; General Insurance Provision; General Insurance Distribution; Life & Pensions Provision; Life Distribution & Investment Intermediation; Investment Provision; Home Finance Intermediation; Debt Management; and Funeral Plans (from 29 July 2022).

The registered office is 10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7QU.

2. Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with the Companies Act 2006, UK adopted International Accounting Standards and the Accounts Direction issued by HM Treasury. The directors are satisfied that FSCS is in a position to meet its obligations as they fall due, given its statutory rights to raise levies on Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) authorised firms. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis.

Section 218 of the FSMA requires us to prepare a statement of the value of each of the funds established by FSCS (the Scheme Manager). These statements, referred to as the *Class Statements*, are separate from the statutory financial statements of the Scheme Manager and have not been prepared under the basis of International Financial Reporting Standards (IFRS). The *Class Statements* are prepared by the Scheme Manager in accordance with the FCA Handbook and the PRA Rulebook. These statements can be found at www.fscs.org.uk.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

The principal accounting policies for the Scheme Manager are set out below.

a) Revenue recognition

The core principle of IFRS 15 – Revenue from Contracts with Customers is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires an entity to identify the contract(s) with a customer and the performance obligation related to the contract. It further requires the transaction price to be determined and allocated to the performance obligations in the contract. Revenue can only be recognised under the standard when the entity satisfies a performance obligation.

Management assessed the implication of adopting IFRS 15 directly, however given the nature of FSCS' activities and that IFRS 15 relates to commercial organisations, it was not considered appropriate. Accordingly, management has applied International Accounting Standard (IAS) 8(10) to use its judgement to develop and apply an accounting policy that provides information that is relevant and reliable. In doing so, management has broadened the definition of a contract to include legislation and regulation. In this circumstance, a "contract" is the underlying statutory framework set out in FSMA and the FCA and PRA rules for FSCS. This framework enables FSCS to raise levies to recover the costs of carrying out its statutory functions and pursue recoveries from the estates of failed firms to offset these costs. The performance obligation under the "contract" is the protection provided by FSCS which all regulated firms benefit from in the form of increased consumer confidence.

Levies for compensation costs

FSCS recognises levies receivable in respect of compensation costs on an accruals basis to match compensation costs net of recoveries. Any excess funds are ultimately repayable to the levy payer (with shortfalls similarly recoverable from the levy payer), by way of a return or a reduction in next year's levy, in accordance with the funding rules set by the FCA and the PRA.

Recoveries income

Recoveries are recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors). Recoveries are initially measured at fair value. This differs from the treatment in the *Class Statements*, where recoveries are only recognised on receipt or notification from an insolvency practitioner.

Other operating income

FSCS recognises levy revenue raised from authorised firms in respect of management fees to cover the administration costs of FSCS when incurred. The management expenses levy is used to fund FSCS's overheads and is split between base costs and specific costs. All authorised firms contribute to the base costs, which are the costs of running FSCS and are not dependent on levels of activity. Specific costs are the costs of assessing claims, making payments and any other costs which can be directly attributable to a particular class.

Any deficit or surplus in the defined benefit pension scheme will eventually be funded through, or used to reduce, future levies on levy paying firms. Consequently, an asset and accrued levy income, or a liability and deferred levy income, is recognised in these financial statements.

b) Compensation costs

Compensation costs are only recognised when the eligibility and quantum of the claim is known, or for reinstatement cases when fully valued. In most cases, this is when the claim has been assessed and a decision has been made, as before that point the eligibility and quantum of the claim cannot be known.

In the case of deposit defaults, Special Administration Regime (SAR) defaults, insurance return of premium cases, and funeral plan cover, these do not generally require an application form or decision to be made by FSCS; therefore, the expenditure is recognised when the firm is declared in default.

c) Financial instruments

Trade and other receivables

Trade and other receivables are measured at amortised cost using the effective interest rate method. FSCS has applied the simplified approach to impairment of financial assets by providing for expected lifetime credit losses as permitted by IFRS 9. These provisions are based on an assessment of risk of default and expected timing of collection estimated by reference to past default experience, adjusted as appropriate for current observable data. Levy receivables are also reviewed periodically to assess if any objective evidence has been identified which indicates that a specific impairment for uncollectable amounts is required.

Allowance losses for levies receivable are included within levy income in the statement of comprehensive income.

Financial assets

Recoveries receivable are initially measured at fair value. Gains and losses arising from subsequent changes in fair value are recognised within recoveries income. Refer to Note 12 for further information on how fair value is determined.

Trade and other payables

Payables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowings

Borrowings are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument and drawdowns are made. Borrowings are measured initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Interest is charged to the statement of comprehensive income over the term of the borrowings. Interest accrued within a financial period becomes due and payable in accordance with the terms of the loans.

d) Provisions and contingent liabilities

A provision is recognised in the statement of financial position when there is a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the value can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

On occasion, legal proceedings are threatened or initiated against or by FSCS. A provision is made for the estimated full cost in respect of any such proceedings where at the end of the year it is probable that there is an obligation which will require an outflow of economic benefit.

Provisions for compensation costs are made where a liability has been established, but where the related costs are uncertain in timing or amount. Provisions for compensation costs only include claims where FSCS is able to determine their eligibility and can reliably estimate the quantum of those claims. Generally, this would only apply to deposit defaults, Special Administration Regime (SAR) defaults, return of insurance premium cases and funeral plan cover as these do not require an application form or decision to be made by FSCS, and an estimate can be made based on records held by the failed firm. Liabilities and provisions are not recognised for other types of claims until they have been assessed because the eligibility, and therefore obligation, is not known before that point.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

e) Interest receivable

Interest received on cash deposits is credited to the classes in proportion to their relative fund balance.

f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are charged to the classes.

g) Third party arrangements as agent

Where FSCS works for and makes compensation payments on behalf of third parties, as agent; these are recoverable from such parties. Any amounts so due from third parties are shown in the statement of financial position.

Management expenses incurred in performing work on behalf of third parties are recovered from such parties by FSCS and not allocated to the classes or funded by levy payers, so will only be shown within the *Annual Report and Accounts* of the Scheme Manager. These costs will be shown in the statement of comprehensive income within administrative expenses with a corresponding recharge as income.

h) Taxation

FSCS is only liable to pay corporation tax on investment income. The related tax is charged to the classes as shown in the fund movements of the *Class Statements*.

i) Pension Scheme

FSCS operates both a defined benefit pension scheme (Pension Scheme) and a money purchase scheme.

The pension costs for the Pension Scheme are accounted for in accordance with IAS 19 ‘Employee Benefits’. The aggregate Pension Scheme asset/liability recognised in the statement of financial position is the excess or deficit of the present value of the Pension Scheme’s assets over the value of the Pension Scheme’s liabilities. Any deficit will be funded by future levies and any surplus used to reduce future levies. The deficit or surplus for funding purposes will be that calculated for the Pension Scheme, which is required by The Pensions Regulator to be prepared on a prudent basis. This may differ from the IAS 19 deficit or surplus shown in these financial statements.

The costs of the money purchase scheme are charged to the statement of comprehensive income as incurred.

Further details are contained in Note 22.

j) Changes in accounting policy

i. New and amended standards adopted by FSCS:

   There were no IFRS or IFRS Interpretations Committee interpretations effective for the first time in the financial year beginning on or after 1 April 2022 that have a material impact on the company.

ii. New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 April 2022 and not early adopted:

   There were no IFRS or IFRS Interpretations Committee interpretations not yet effective that would be expected to have a material impact on the company.

3. Accounting judgements and key estimation uncertainties

In applying the accounting policies as set out in Note 2, there are a number of uncertainties that could impact on the amounts recognised in the financial statements.

The key area of judgement identified in the financial statements is:

- in preparing these financial statements, a fundamental judgement has been applied to revenue recognition in respect of levy income (see Note 2(a)). Levy income represents fees to which FSCS deemed it was entitled during the financial year, after taking into account costs associated with running the compensation scheme, including compensation costs less recoveries and management expenses incurred. Any surplus or deficit against levy income in the year is therefore held payable or receivable on the statement of financial position as the intention is to return any surplus, by way of a refund or a reduction in next year’s levy, or claim any deficit in the following year.

The key areas of judgement and estimation uncertainties identified in the financial statements are:

- the value and expected timing of recoveries through dividends from the estates of failed firms, as explained in Note 12;
- the value and expected timing of provisions for compensation costs, as explained in Note 16; and
- the current valuation of the defined benefit pension scheme, as explained in Note 22.

4. Levy income

In FSCS's financial statements, levies are recognised on an accruals basis, taking into account the costs which have been incurred and any recoveries FSCS has made. The table below shows the total of all constituent parts of levy income for the year reported in the statement of comprehensive income (SoCI).

	Year ended 31 March 2023	**Year ended 31 March 2022**
	£'000	**£'000**
Levy income recognised in SoCI		
Levy income in respect of compensation costs	**349,235**	**568,627**
Other levy income		
Levy income in respect of base costs	31,791	27,045
Levy income in respect of specific costs	54,419	51,951
Levy income in respect of interest payable	112	115
Levy income in respect of pension obligations	3,791	(4,772)
Offset from bank interest received net of tax	(4,971)	–
Offset from exchange (gains)/losses	(114)	–
	85,028	**74,339**
Total levy income	**434,263**	**642,966**

5. Recoveries income

Recoveries income recognised in the statement of comprehensive income of FSCS is analysed as below:

	Received	Movements in recoveries receivable	Year ended 31 March 2023	Received	Movements in recoveries receivable	Year ended 31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000
Funding class						
Deposits	2,424	–	2,424	2,931	–	2,931
General Insurance Provision	9,960	36,948	46,908	3,956	(532)	3,424
General Insurance Distribution	(6)	–	(6)	353	–	353
Life & Pensions Provision	–	–	–	–	–	–
Life Distribution & Investment Intermediation	(448)	5,404	4,956	6,361	2,748	9,109
Investment Provision	(26)	–	(26)	(297)	–	(297)
Home Finance Intermediation	(8)	–	(8)	(15)	–	(15)
Debt Management	–	–	–	–	–	–
Funeral Plans	–	–	–	–	–	–
	11,896	**42,352**	**54,248**	**13,289**	**2,216**	**15,505**

6. Compensation costs

The table below provides an analysis of the compensation cost by funding class:

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	£'000
Funding class		
Deposits	4,496	4,646
General Insurance Provision	162,921	185,976
General Insurance Distribution	1,670	7,181
Life Distribution & Investment Intermediation	202,733	263,372
Investment Provision	30,988	121,977
Home Finance Intermediation	676	979
Debt Management	(1)	1
Funeral Plans	–	–
Total compensation costs	**403,483**	**584,132**

7. Administrative expenses and interest payable

Administrative expenses and interest payable incurred by FSCS which were specifically levied to levy payers are shown in the table below by levy class.

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	**£'000**
Deposits	13,156	12,462
General Insurance Provision	6,226	6,932
General Insurance Distribution	1,769	5,472
Life & Pensions Provision	190	221
Life Distribution & Investment Intermediation	29,009	20,776
Investment Provision	3,318	5,475
Home Finance Intermediation	863	728
Debt Management	–	–
Funeral Plans	–	–
Base costs	31,791	27,045
IAS 19 pension adjustments	(804)	(1,689)
LCF Government Scheme administration costs	102	1,644
Other – interest payable	(112)	(115)
Less exchange (gains)/losses	(114)	–
Total administrative expenses	**85,394**	**78,951**
Other – interest payable	112	115
Total administrative expenses and interest payable	**85,506**	**79,066**

8. Administrative expenses

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Staff costs	9	23,001	20,669
Accommodation and office services		2,023	1,847
IT maintenance costs		6,289	5,947
Outsourced claims-handling costs		11,559	13,235
Contractors		9,955	6,635
Change including IT development costs		7,777	5,785
Depreciation		1,030	1,193
Press and communications		3,660	3,364
Auditor's remuneration			
Statutory audit of the financial statements		148	142
Other audit services[2]		17	17
Legal and professional fees		8,239	5,675
Bank charges		6,711	7,559
LCF Government Scheme administration costs	20	102	1,644
Other		4,883	5,239
		85,394	**78,951**

[2] Agreed upon procedures on the *Class Statements*.

9. Staff costs

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	**£'000**
Wages and salaries, including the executive directors	18,535	16,781
Social security costs	2,331	2,043
Pension costs	2,135	1,845
	23,001	**20,669**

The employer's pension contributions shown above include the liability for contributions in respect of service during the year.

The average number of employees of FSCS during the year was as follows:

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	**£'000**
Average number of employees		
Executive Team	8	8
Operations	153	155
Other	82	75
	243	**238**

Other includes Finance, Legal and People Teams.

10. Directors' remuneration

As at 31 March 2023, there were seven independent non-executive directors (2022: seven) and two executive directors (2022: two). The directors of the company who were in office during the year can be found within the Directors' Report. Total remuneration paid to directors is as follows:

	Year ended 31 March 2023	Year ended 31 March 2022
	£'000	**£'000**
Aggregate remuneration	825	797
Pension contributions	51	42
	876	**839**

Retirement benefits during the year accrued to no directors (2022: none) under FSCS's defined benefit scheme and two under the money purchase scheme (2022: two).

The highest paid director, the Chief Executive (2022: Chief Executive), received aggregate remuneration of £351,394 (comprising basic salary of £318,280, bonus of £23,871 and other emoluments of £9,243) (2022: £318,841 (comprising basic salary of £282,800, bonus of £28,280 and other emoluments of £7,761)). Payments of £29,643 have been made for pension (2022: £22,366). The Chief Executive did not receive any additional remuneration in respect of her role as director.

The fees paid to the Chair are set at £75,000 per annum (2022: £75,000) and the fees paid to the independent non-executive directors are set at £24,500 per annum (2022: £24,500). Additional fees paid to the chair of the Audit Committee, Remuneration and People Committee, and Risk Committee were set at £5,000 per annum (2022: £5,000). An additional fee of £5,000 per annum was also payable to the Deputy Chair and Senior Independent Director. In addition, business-related expenses totalling £11,019 (2022: £4,999) were reimbursed to the independent non-executive directors. The Chair and the other independent non-executive directors are not entitled to a pension funded by FSCS.

11. Receivables

Trade and other receivables: amounts falling due within one year

		31 March 2023	31 March 2022
	Note	**£'000**	**£'000**
Amounts due from the FCA	*20*	45,078	13,490
Levies receivable			
General Insurance Provision		184	351
General Insurance Distribution		–	100
Life Distribution & Investment Intermediation		502	–
Investment Provision		–	1,039
Home Finance Intermediation		3	14
Debt Management		–	1
In respect of base costs		120	105
Net amounts due from levy payers in the following classes:			
Life & Pensions Provision		461	265
In respect of base costs		279	–
Amounts due from HM Treasury		–	161
Other receivables		75	326
Prepayments		5,681	4,906
		52,383	**20,758**

12. Financial assets

	As at 31 March 2023	As at 31 March 2022
	£'000	£'000
Financial assets (current)		
Recoveries receivable	46,701	18,380
	46,701	**18,380**

	As at 31 March 2023	As at 31 March 2022
	£'000	£'000
Financial assets (non-current)		
Recoveries receivable	60,619	46,214
	60,619	**46,214**

Total recoveries receivable of £107,320,000 (2022: £64,594,000) include £81,313,000 (2022: £44,365,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class and £26,007,000 (2022: £20,229,000) from firms declared in default in the Life Distribution & Investment Intermediation class. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable and distribution of surplus owed to customers (see Note 14). Analysis of moments in recoveries can be found in Note 5.

The timing and value of recoveries receivable are estimated based on information available to the directors up to the date of signing these accounts, including insolvency practitioners' statements of estimated outcome and other reports published as part of the various insolvency processes; however, the timing and final outcome are uncertain. Recoveries receivable are categorised as level 3 within the fair value hierarchy as they are based on insolvency practitioner's statements of estimated outcome and other reports. These amounts could change significantly if administrator assessments change. The sensitivity analysis below shows the impact on the net recoveries receivable if there is a delay in the timing of the recoveries estimated to be received or if the discount rate applied is increased.

			Delay in recoveries	
		Base case	**1 year**	**2 year**
		£'000	**£'000**	**£'000**
	Base case	–	(5,734)	(11,152)
Discount rate	+1%	(2,614)	(9,102)	(15,175)
	+2%	(5,068)	(12,259)	(18,928)

Movements in the input assumptions in opposite directions would have opposite effects of a similar magnitude.

13. Cash and cash equivalents, overdraft, facilities and class borrowings

As at 31 March 2023, FSCS had bank facilities of £1,500m, comprising a 364-day sterling Revolving Credit Facility of £1,450m expiring on 13 March 2024, and an overdraft facility of £50m. Any drawdown of the Revolving Credit Facility is subject to Board approval.

	31 March 2023	31 March 2022
	£'000	**£'000**
Cash at bank	509,902	333,011
	509,902	**333,011**
Bank overdraft	(511)	(3,441)
	509,391	**329,570**

FSCS is permitted to access funds from HM Treasury, through the National Loans Fund or any other appropriate source, for a term and at an interest rate to be agreed at the time. The amount of the borrowing facility available to FSCS is determined by HM Treasury. As at 31 March 2023, this facility was not utilised. Any amounts drawn from this facility will be replenished by means of FSCS levies on the relevant class and recoveries in subsequent years.

14. Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2023 £'000	31 March 2022 £'000
Compensation payable		1,203	3,103
Net amounts held on behalf of levy payers			
Deposits		22,417	16,391
General Insurance Provision		57,268	1,360
General Insurance Distribution		5,485	1,822
Life Distribution & Investment Intermediation		93,812	26,478
Investment Provision		118,363	78,104
Home Finance Intermediation		7,412	8,672
Debt Management		498	487
Payments on Account		202,271	148,140
Social security and other taxes		728	594
Corporation tax		1,166	–
Accruals		7,215	8,090
Deferred income in respect of base costs		–	1,014
Distribution of surplus owed to customers	*12*	2,109	1,344
Net amounts due to levy payers in respect of recoveries receivable	*12*	44,592	17,036
Other payables		4,535	4,410
		569,074	**317,045**

Non-current liabilities: amounts falling due after more than one year

	Note	31 March 2023 £'000	31 March 2022 £'000
Net amounts due to levy payers in respect of recoveries receivable	*12*	59,542	44,746
Distribution of surplus owed to customers	*12*	1,077	1,468
Amounts due to levy payers in respect of pension surplus		11,056	14,847
		71,675	**61,061**

Under the funding rules, the FCA instructed the largest c.1,000 levy payers to make payments on account for FSCS's 2023/24 levy. These firms were invoiced in February, with a due date of 1 April 2023. As at 31 March 2023, invoices totalling £242,432,000 (2022: £268,978,000) were issued, of which £201,685,000 (2022: £147,459,000) was collected, leaving amounts due from levy payers of £40,746,000 (2022: £121,520,000). The amounts received are held to the credit of those individual firms rather than to any particular funding class and are shown separately in Note 14 and in the *Class Statements*. These funds will be applied to reduce the payments of these firms when the 2023/24 annual levies are invoiced in July 2023, which are allocated against funding classes. FSCS has presented the receivable and the liability on a net basis in the statement of financial position after considering the fundamental principles in the International Accounting Standards Board (IASB) Conceptual Framework and the requirements of IFRS 15.

15. Lease liabilities

On 20 December 2011, FSCS entered a lease agreement for its premises at 10th Floor, Beaufort House, 15 St Botolph Street, London. The original lease term was from 31 December 2011 to 30 December 2021. On 24 March 2016, FSCS entered another lease agreement for its premises at the Bank of England, Debden. The lease term is from 24 March 2016 to 23 March 2026. At the date of implementation, the remaining lease liability was £2,956,000 based on discounted lease payments. The rate used to discount the lease payments for IFRS 16 purposes was 1.74% as quoted by the Public Works Loan Board Lending Facility.

On 20 April 2021, FSCS signed a new 10 year lease for its office premises at 10th Floor, Beaufort House, 15 St Botolph Street, London. The new lease term is from 31 December 2021 to 30 December 2031. The new lease has been treated as a lease modification in accordance with IFRS 16. The remeasured lease liability of circa £8.1m has been calculated as the present value of the remaining lease payments at circa £8.8m, discounted using an expected interest rate of 1.42% based on a 10.5 year loan from the Public Works Loan Board Lending facility. A corresponding adjustment has been made to the right of use asset. The lease arrangement has a one year rent free period from 31 December 2021 and a further 6 months rent free period from 31 December 2026 if the lease is not terminated. The contract provides for a rent review on 31 December 2026.

	31 March 2023	31 March 2022
	£'000	£'000
Lease liabilities movements		
Brought forward	7,942	964
Lease modifications	–	7,648
Payments during the year	(538)	(785)
Interest expense on lease liabilities	112	115
Lease liabilities at 31 March	**7,516**	**7,942**

	31 March 2023	31 March 2022
	£'000	£'000
Lease liabilities fall due as follows:		
Within 1 year	927	427
Within 2 to 5 years	3,247	3,250
Within 6 to 10 years	3,342	4,265
Greater than 10 years	–	–
Lease liabilities at 31 March	**7,516**	**7,942**

The net book value of right of use assets, as at 31 March 2023, was £6,916,000 (2022: £7,736,000).

16. Provisions

	As at 31 March 2022	Additional provisions made in the period	Unused amounts reversed during the period	Utilised in the year	As at 31 March 2023
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Compensation cost	51,068	28,106	(7,556)	(35,330)	36,287
Levy provision	430	4,796		(1,991)	3,235
Other	516	–	–	–	516
Total provisions	**52,014**	**32,902**	**(7,556)**	**(37,321)**	**40,038**
Current	51,498	32,902	(7,556)	(37,321)	39,522
Non-current	516	–	–	–	516
	52,014	**32,902**	**(7,556)**	**(37,321)**	**40,038**

Compensation cost provision

The provision for compensation costs of £36,287,000 (2022: £51,068,000) includes estimates for return of funds, return of premiums, general insurance claims, and other claims settlements agreed. This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the amount of these claims, using the best information available to the directors at this time.

This provision includes a remaining estimate of £850,000 for Strand Capital Ltd and £4,359,000 estimated for Reyker Securities plc. These are based either on estimates provided by or ongoing discussions with the administrators as to how much FSCS would be liable to contribute towards investors' losses. The information available to the directors includes evidence received from the administrators who are third parties and independent from FSCS and are appointed by the courts. The overall costs will depend on the outcome of the distribution plan and the finalisation of the return of client assets, which are still subject to change. These changes can have a significant impact on the overall cost, so the outcome could be higher or lower. We had a remaining provision of £2,972,000 for SVS Securities plc in 2021/22. This was reduced by £1,489,000 in light of information from the administrators. We made interim payments totalling £1,550,000 during 2022/23, leaving an amount of £68,000 owed to FSCS from SVS. The remaining provision for Reyker Securities plc was £7,940,000 in 2021/22. This was increased by £2,187,000 in light of the latest information from the administrators. We also made interim payments totalling £5,768,000 during 2022/23, leaving a provision of £4,359,000 remaining for Reyker. Significant judgements had to be made by the administrators in arriving at these estimates, such as the timing of the return of remaining client assets on some estates, which are still subject to change. These changes can have a significant impact on the overall cost, so the provision could be different to the final outcome.

Provisions of £5,350,000 and £7,167,000 were made for the return of premiums on the failures of Elite Insurance Company Ltd and MCE Insurance Company Ltd in 2021/22. The provision for Elite Insurance Company Ltd was reduced by £4,912,000 following decisions made by the administrator to delay disclaiming certain policies. Return of premium payments made during the year relating to MCE Insurance Company Ltd as well as updated information received from the administrator resulted in a provision of £1,208,000 remaining at 31 March 2023 for MCE Insurance Company Ltd. These provisions were arrived at using our best estimates from a variety of sources on the likely number of policies FSCS would be paying and the associated cost of unexpired premiums based on broker or customer submissions.

Compensation costs also include an amount of £8,838,000 (2022: £22,053,000) for other general insurance claims. This is an estimate of unpaid compensation claims that were accepted on or before 31 March 2023. The provision is based on submissions from Run-Off Agents who receive the acceptance of offers, where possible, or a review of post-year-end payments to determine the value of claims likely to have been accepted on or before 31 March 2023. Due to other third parties being involved, the Run-Off Agents may not be aware of all acceptances unless these third parties provide notification. These are not expected to be material. A risk adjustment of 7% has been applied to the amounts submitted. FSCS does not hold all the information pertaining to general insurance claims, and the final outcome could be different.

A review was conducted by the FCA and FSCS, which concluded the approach FSCS took in respect of the State Earnings Related Pensions Scheme (SERPS) resulted in an underpayment for some customers. Out of approximately 9,000 claims processed between October 2017 and March 2023, 600 customers were impacted. Included within this provision is an estimate of £16,490,000 which FSCS expects will be payable to this group of customers. This estimate includes an interest element which was arrived at by using the average SERPS remediation payment multiplied by the average number of days between the original decision date and the anticipated remediation completion date. The final outcome will be calculated on a case-by-case basis so the amount will be different; this is not expected to be material to the financial statements.

Levy provision

A number of firms applied for a reduction in the amount levied and requests for refunds were received from levy payers due to errors in the tariff data submitted by them to the FCA. Based on the best information available to the directors, a provision of £3,235,000 (2022: £430,000) has been made in the accounts for credit notes to be raised.

17. Financial risk management

The company's financial risk management policy is disclosed below.

Liquidity risk

Liquidity risk is the risk that FSCS is unable to meet its payment obligations associated with its financial liabilities as they fall due. FSCS manages its liquidity by carefully monitoring the projected income and expenditure related to its day-to-day business. Each month, FSCS identifies liquidity up to the point when it next expects to levy the majority of fees. FSCS also has available to it, for liquidity purposes, £1,500m of facilities, comprising a 364-day sterling Revolving Credit Facility of £1,450m expiring on 13 March 2024 and an overdraft facility of £50m at a fixed margin above bank rate. Any usage of the Revolving Credit Facility would be subject to Board approval.

In the event that FSCS is unable to raise sufficient levies and the facilities mentioned above do not provide adequate funds, FSCS would request a loan from HM Treasury.

The table below summarises the maturity profile of the company's financial liabilities based on expected undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2023						
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	12,478	556,596	71,675	–	640,749
Lease liabilities	–	–	927	3,247	3,342	7,516
Loan interest payable	–	–	–	–	–	–
	–	**12,478**	**557,523**	**74,922**	**3,342**	**648,265**
As at 31 March 2022						
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	13,094	303,951	61,061	–	378,106
Lease liabilities	–	–	427	3,250	4,265	7,942
Loan interest payable	–	–	–	–	–	–
	–	**13,094**	**304,378**	**64,311**	**4,265**	**386,048**

Included within the trade and other payables balance is £305,255,000 (2022: £133,314,000) relating to net amounts held on behalf of the levy payers (excluding payments on account). Surpluses are held to the credit of each class and will be used to reduce next year's levy or returned by way of a refund. While the timeframe for utilising these balances is uncertain, these have been placed within the 3-12 month bracket.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is not exposed to significant interest rate risk.

Any interest rate risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole; therefore any interest rate risk is ultimately passed on to and absorbed by the levy payers.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with FSCS, resulting in a financial loss to FSCS. FSCS's principal financial assets are cash and cash equivalents, together with levies and recoveries receivable.

FSCS's credit risk falls into the following categories:

i. the collection of levies from the financial services industry: the FCA, which collects the levies on behalf of FSCS, has a strong record in collecting levies;

ii. the placement of those levies as deposits with various counterparties: FSCS only places a maximum of £30m with commercial banks, any balances above this limit are placed in a Bank of England account;

iii. recoveries receivable from claims against institutions where FSCS has paid compensation (most often made through an insolvency process); and

iv. loan arrangements made to firms in default to enable FSCS to continue providing protection to its customers.

Any credit risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole; therefore any loss due to credit risk will be absorbed by the levy payers.

Currency risk

Currency risk occurs when FSCS recovers funds from institutions that might be denominated in a foreign currency. Changes in the exchange rate for US dollars or euros may affect the value recovered. Any currency risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole; therefore any loss due to currency risk will be absorbed by the levy payers. The company is not exposed to significant currency risk.

Fair values

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, other current assets and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments, such as recoveries receivable (financial assets) is calculated by discounting management's estimate of future expected cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. These receivables are categorised as level 3 within the fair value hierarchy as their valuation uses inputs which are not based upon observable market data.
- The fair value on loans (financial assets) and loan commitments (financial liabilities) are calculated by discounting management's estimate of future drawdowns and repayments on these facilities. These are also categorised as level 3 within the fair value hierarchy.

For the level 3 financial assets and liabilities, changing certain estimated inputs to reasonably possible alternative assumptions does not change the fair value significantly.

The carrying amounts of the company's financial assets and financial liabilities are a reasonable approximation of fair value.

Analysis of movements in level 3 assets and liabilities:

				Total gains and (losses) in the period recognised in the income statement		
	As at 1 April 2022	**Received in year**	**Recognised or issued in year**	**Recoveries**	**Comp-ensation costs**	**As at 31 March 2023**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value through the income statement						
Recoveries receivables	61,782	(11,895)	46,386	7,861	–	104,134
Loans	–	–	–	–	–	–
	61,782	**(11,895)**	**46,386**	**7,861**	**–**	**104,134**
Financial liabilities						
Loan commitments	–	–	–	–		–
	–	**–**	**–**	**–**	**–**	**–**

Unrealised gains and losses on level 3 financial assets and liabilities:

	31 March 2023 Income statement			31 March 2022 Income statement		
	Recoveries	Compensation costs	Total	Recoveries	Compensation costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Unrealised gains and losses on level 3 financial assets and liabilities						
Recoveries receivables	42,354	–	42,354	2,236	–	2,236
Loans	–	–	–	–	–	–
Loan commitments	–	–	–	–	–	–
	42,354	**–**	**42,354**	**2,236**	**–**	**2,236**

18. Loan commitments

On 24 March 2023 FSCS entered into a loan agreement with East West Insurance Company Ltd (EWIC). FSCS has agreed to make available a maximum principal amount of £16,400,000 for the administrators to use for the fees of contractors engaged by EWIC for the provision of investigation, management, quantification, validation and resolution services (loss adjusting costs). This enables FSCS to continue providing protection to EWIC policyholders without any significant disruptions. Loans made under this agreement are not interest bearing.

Under IFRS 9, any loans made through this term facility will be classified as a financial asset measured at fair value through profit or loss. As at 31 March 2023, no amounts were drawn from this facility.

IFRS 9, also requires FSCS to recognise a financial liability for loss allowances on undrawn commitments. FSCS has assessed the loss on a forward-looking basis using a three-stage expected credit loss (ECL) model for exposures arising from this loan commitment. At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is made for ECLs resulting from default events projected within the next 12 months (12-month ECL). Subsequently, financial assets are considered to be in 'stage 2' if their credit risk has increased significantly since initial recognition, at which point it is considered appropriate to recognise a lifetime ECL. Financial assets are included in 'stage 3' when there is objective evidence that the asset is credit impaired, with expected credit losses still calculated on a lifetime basis. As at 31 March 2023, no default events are projected within the next 12 months, so no ECL has been recognised on undrawn commitments.

19. Reconciliation of the profit/(loss) on ordinary activities before interest and tax to net cash inflow from operating activities

The statement set out below relates cash flows to items shown in the statement of comprehensive income and statement of financial position movements.

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Surplus/(deficit) on ordinary activities		5,011	(2,853)
Adjustments for:			
Interest payable		112	115
Interest received		(6,137)	–
Depreciation		1,030	1,193
Loss on disposal		–	–
Decrease/(increase) in receivables	*11*	(31,625)	37,409
Increase/(decrease) in payables	*14*	262,643	37,250
Decrease/(increase) in financial assets	*12*	(42,726)	(3,103)
Difference between pension charge and cash contributions		(1,220)	(1,919)
Increase/(decrease) in provisions for liabilities and charges	*16*	(11,976)	12,684
Net cash inflow from operating activities		**175,112**	**80,776**

The increase in payables include movements in amounts held on behalf of levy payers. These balances are influenced by the difference between cash levies received (see Note 20) and compensation costs during the year (see Note 6), which are the main drivers of the fund balances pertaining to each class. This is a result of the revenue recognition judgment, to hold any surplus/deficit against levy income as a payable or receivable reflecting FSCS' rights and obligations, in respect of future levy.

20. Transactions with related parties

During the year, FSCS entered into transactions with the FCA as a related party. The FCA and the PRA appoint, and have the right to remove, directors to the Board of FSCS and they establish the rules under which FSCS operates. The FCA and the PRA are considered to be related parties but not controlling parties during the year.

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £621,101,000 (2022: £734,166,000) during the year. Collections of £701,013,000 (2022: £718,340,000) were received from levy payers. The fee for the agency service was £353,000 (2022: £323,000).

Overall, payments of £669,425,000 (2022: £719,835,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2023 of £45,076,000 (2022: £13,487,000). The FCA also held £2,000 of funds on behalf of FSCS, which will be returned to firms in the Deposits class. The total of these two balances amounted to £45,078,000.

During the year, FSCS did not enter into any transactions with the PRA.

HM Treasury is not considered to be a related party or a controlling party. However, in the interests of transparency, full disclosure of the transactions with HM Treasury has been made. These transactions with HM Treasury comprise funding, management expenses recharged, and compensation payments made on behalf of HM Treasury.

In April 2021, the government appointed FSCS to administer a compensation scheme for bondholders who lost money when London Capital & Finance plc (LCF) collapsed.

During the year, HM Treasury provided funding of £263,000 to FSCS for the purpose of administering the LCF Government Compensation Scheme. During the year, FSCS has made compensation payments totalling £982,000 to eligible bondholders of this scheme and has incurred £102,000 of management expenses which have been recharged to HM Treasury. During the year, interest received net of bank charges amounted to £37,000. £1,327,000 was returned to HM Treasury. As at 31 March 2023, this leaves an amount of £38,000 held on behalf of HM Treasury for further compensation payments.

There were no other such transactions during the year.

The remuneration of key management personnel is set out in the Directors' Remuneration section on page 46.

21. Contingent liabilities and contingent assets

Compensation costs

As at 31 March 2023 and 31 March 2022, compensation payments may become due as a result of claims made to us by customers of authorised financial services firms which have failed. To qualify for compensation customers must be eligible under our rules. These rules are outlined in the FCA Handbook and in the PRA Rulebook sections on depositor protection and policyholder protection. FSCS can only pay compensation for financial loss and there are limits to the amounts of compensation FSCS pays. There is significant uncertainty around the number of claims we will receive from customers, the likelihood of eligible claims, the type or product of those claims, the amount of compensation we will pay, and the timing of those payments. Therefore, it is not practicable to provide an estimate of the costs of potential claims we may receive or claims we have received but not yet decided on.

Recoveries receivable

FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost-effective to pursue, which will offset some of the compensation FSCS will pay out. At 31 March 2023 and 31 March 2022, FSCS had a number of ongoing recoveries actions against failed firms, the insurers of those failed firms, or other third parties, which are deemed probable to succeed. However, some of these have not been recognised as assets in the statement of financial position because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of FSCS.

Section 27 claims

Following the Court of Appeal decision in Adams v Options, FSCS adopted an interim approach in that it continued to pay compensation for due diligence failures by their SIPP Operator, in circumstances where there could potentially be a claim under Section 27 of FSMA. This was because Options sought to challenge the decision of the Court of Appeal in the Supreme Court.

Once the Supreme Court confirmed its decision not to hear an appeal in the Adams case, the FSCS Board considered matters and decided that FSCS is able to proceed to assess relevant claims against SIPP Operators (involving an unregulated introducer) by considering potential liabilities owed under Section 27 of FSMA.

Because of the decision of the Court of Appeal in Adams v Options and the decision of the High Court in a claim for judicial review brought against FSCS, we are now reviewing SIPP claims that we have to date decided upon on an interim decision basis since 1 April 2021 and we are starting to assess those claims.

Where customers are eligible for further compensation as a result of a valid claim under Section 27 of FSMA, we will write to affected customers to inform them of our final decision on this matter and pay them any additional compensation they are due.

At this stage it is not practicable to provide an estimate of the total cost of these claims given that this will depend on an assessment of the particular facts in each claim.

East West Insurance Company Ltd (EWIC)

EWIC, a UK-based insurance company, entered administration and was declared in default by FSCS on 12 October 2020. There is an ongoing judicial review case involving a group of policyholders who are challenging FSCS' decision not to compensate their insurance claims against EWIC. The Court of Appeal will hear the case on 25 July 2023. The outcome of the appeal is uncertain, but if FSCS's appeal is unsuccessful, FSCS could be required to pay additional compensation totalling an estimated £4m. The estimated amount could depend on what elements of the claim the court finds are compensatable under FSCS's rules.

There are no other material contingent liabilities or contingent assets identified at the reporting date.

22. Retirement benefits

FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Pension Scheme), which was closed to new staff and closed to future accrual on 30 June 2011.

Money purchase scheme

A non-contributory money purchase pension scheme, for permanent and fixed-term contract staff, was set up with effect from 1 February 2001. From 1 April 2019, FSCS makes contributions equal to 9% of the basic annual salary so long as the permanent or fixed-term contract staff pay a minimum employee contribution of 1%. FSCS increases this contribution to 11% after three years' service. If staff choose to increase their employee contribution above 1%, FSCS will match this with an employer's contribution up to a maximum of an additional 4% of their basic annual salary.

Amounts paid by FSCS into the money purchase scheme amounted to £2,824,000, and £322,000 was outstanding to be paid at 31 March 2023 (2022: £2,465,000 and £235,000 respectively).

Defined benefit pension scheme with money purchase underpin (hybrid pension scheme)

FSCS operates a funded scheme with defined benefits payable that are underpinned by the value of notional money purchase units allocated to members in respect of service prior to 1 April 2002. Assets are held in separate Trustee-administered funds. An actuarial valuation of the Pension Scheme was carried out as at 1 April 2021. The valuation used the projected unit method and was carried out by professionally qualified actuaries.

The Trustees have the primary responsibility for governance of the Pension Scheme. Benefit payments are from Trustee-administered funds and the Trust is governed by UK regulation. Responsibility for governance of the Pension Scheme, including investment decisions and contribution rates, lies jointly with the company and the Trustees. The Trustees comprise representatives of FSCS and members, in accordance with the Trust Deed and Rules. FSCS is entitled to recover any surplus contribution upon wind-up of the Pension Scheme.

Principal actuarial assumptions at the statement of financial position date are:

	31 March 2023 % (p.a.)	31 March 2022 % (p.a.)
Discount rate	4.75	2.70
RPI inflation assumption	3.25	3.65
CPI inflation assumption	2.55	3.30
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	3.15	3.40
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	2.25	2.50

The following standard mortality tables published by the Institute and Faculty of Actuaries and projections of future mortality improvements have been used:

Pre and post retirement: 100% S3PMA light for males and 100% S3PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation (CMI) mortality projections model 2021, with a 1.25% per annum long-term trend rate for males and a 1.25% per annum long-term trend rate for females from 2013 onwards, allowing for an individual member’s year of birth.

Key assumptions	31 March 2023	31 March 2022
Life expectancy at 60 for male aged 60	28.0	28.0
Life expectancy at 60 for female aged 60	29.8	29.7
Life expectancy at 60 for male aged 45	29.0	29.0
Life expectancy at 60 for female aged 45	30.8	30.7

For the 31 March 2023 disclosures, 75% of retiring members are assumed to exercise their option to commute the maximum amount of their pension for a Pension Commencement Lump Sum using the cash commutation factors in place as at 31 March 2023. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2023 disclosures, 80% of male and 75% of female members are assumed to have eligible adult dependants of the opposite sex, with males assumed to be three years older than females.

The assumptions were chosen by FSCS, with professional advice.

As at 31 March 2023, the Pension Scheme's asset allocation is 100% in matching assets consisting of bonds, (including Self-Sufficiency Credit funds and index-linked gilts) and cash.

The fair values of the Pension Scheme's assets are set out below:

	Quoted[3]	Unquoted	Total
As at 31 March 2023	**£'000**	**£'000**	**£'000**
Property	–	–	–
Indexed-linked gilts	17,799	–	17,799
UK corporate bonds	13,576	–	13,576
Diversified growth funds	–	–	–
Cash and net current assets	1,096	–	1,096
Alternative	–	–	–
Liability Driven Investments	–	–	–
Total assets	**32,471**	**–**	**32,471**

	Quoted	Unquoted	Total
As at 31 March 2022	**£'000**	**£'000**	**£'000**
Property	–	2,630	2,630
Indexed-linked gilts	6,767	–	6,767
UK corporate bonds	6,966	–	6,966
Diversified growth funds	–	14,341	14,341
Cash and net current assets	3,436	–	3,436
Alternative	4,607	–	4,607
Liability Driven Investments	7,356	–	7,356
Total assets	**29,132**	**16,971**	**46,103**

[3] Assets described as quoted are investments in fund units which, while not exchange-traded, are dealt on the basis of prices published by the investment manager. The constituent elements of these funds are principally directly quoted assets.

The assets as at 31 March 2023 are consistent with the Pension Scheme's investment strategy as set by the Trustees. As the Pension Scheme matures, it has reduced the level of investment risk by moving towards a position that is predominantly liability matching in nature. This involves an asset liability management framework that has been developed to achieve long-term investments that are in line with the obligations under the Pension Scheme. Within this framework, the objective is to match assets to the pension obligations by investing in long-term fixed interest and index-linked securities with maturities that match the benefit payments as they fall due and in the appropriate currency. FSCS actively monitors the duration and the expected yield of the investments that are matching the expected cash flows arising from the pension obligations.

The Pension Scheme does not invest in the sponsor's own financial instruments, including property or other assets owned by the sponsor.

The amounts recognised in the statement of financial position are as follows:

	31 March 2023	31 March 2022
	£'000	£'000
Fair value of assets	32,471	46,103
Present value of obligations	(21,415)	(31,256)
Funded status	**11,056**	**14,847**
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling')	–	–
Net defined benefit asset/(obligation)	**11,056**	**14,847**

	Year ended 31 March 2023	Year ended 31 March 2022
Movement in net defined benefit asset/(obligation) over the year	£'000	£'000
Net defined benefit asset/(obligation) at beginning of the year	14,847	10,075
Employer contributions	1,369	1,920
Expense recognised in income statement	(149)	(1)
Remeasurement gain/(loss) recognised in other comprehensive income	(5,011)	2,853
Net defined benefit asset/(obligation) at end of the year	**11,056**	**14,847**

Changes in present value of the defined benefit obligation	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Opening defined benefit obligation	31,256	33,208
Past service cost	264	–
Interest cost	839	693
Distributions	(331)	(388)
Experience (gains)/losses	1,061	(1,287)
Actuarial (gains)/losses arising from change in financial assumptions	(11,674)	(1,410)
Actuarial (gains)/losses arising from change in demographic assumptions	–	440
Closing defined benefit obligation	**21,415**	**31,256**

Sensitivity analysis of the Pension Scheme liabilities

The sensitivity of the principal assumptions used to measure the Pension Scheme liabilities is set out below:

	Change in assumption	Value of Scheme liabilities £'000
No change to the assumptions		21,415
Discount rate reduced by	0.25% p.a.	22,344
Discount rate increased by	0.25% p.a.	20,541
Inflation increased by*	0.25% p.a.	22,042
Inflation reduced by*	0.25% p.a.	20,689
Life expectancy increased by	1 year	21,998
Life expectancy reduced by	1 year	20,884

* This sensitivity allows for the impact on all inflation related assumptions (deferred revaluation and pension increases, subject to the relevant caps and floors).

Description of risks to which the Pension Scheme exposes FSCS

If the Pension Scheme assets do not move in line with Pension Scheme liabilities, then a deficit may arise. As the Pension Scheme matures, FSCS intends to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. As at 31 March 2023, the Pension Scheme's asset allocation is 100% in matching assets consisting of bonds (including Self-Sufficiency Credit funds and index-linked gilts), and cash. The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation, and the real assets held, such as index-linked gilts and real Self Sufficiency Credit, also provide mitigation against increases in inflation). Increases in life expectancy in excess of the increases allowed for in the assumptions will increase non-insured Pension Scheme liabilities. The inflation-linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy. A decrease in corporate bond yields will increase the value placed on the Pension Scheme liabilities, although this will be partially offset by an increase in the value of the Pension Scheme's bond holdings.

	Year ended 31 March 2023	Year ended 31 March 2022
Changes in fair value of the Pension Scheme assets	**£'000**	**£'000**
Opening fair value of assets	46,103	43,283
Contributions paid by employer	1,369	1,920
Interest income	1,255	923
Return on Scheme assets excluding interest income	(15,624)	596
Distributions	(331)	(388)
Administration expenses	(301)	(231)
Closing fair value of assets	**32,471**	**46,103**

	Year ended 31 March 2023	Year ended 31 March 2022
Expenses recognised in the income statement	**£'000**	**£'000**
Past service cost	264	–
Administration expenses	301	231
Net interest on the net defined benefit obligation/(asset)	(416)	(230)
Total expense/(income)	**149**	**1**

Remeasurement effects recognised in other comprehensive income	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Return on Pension Scheme assets excluding interest income	(15,624)	596
Experience gains/(losses) on Pension Scheme obligations	(1,061)	1,287
Actuarial gains/(losses) arising from change in financial assumptions	11,674	1,410
Actuarial gains/(losses) arising from change in demographic assumptions	–	(440)
Net actuarial gains/(losses) recognised in the period	**(5,011)**	**2,853**

	£'000
Best estimate of employer contributions to be paid over following year	800

Expected future benefit payments	£'000
Year ending 31 March 2024	549
Year ending 31 March 2025	483
Year ending 31 March 2026	601
Year ending 31 March 2027	621
Year ending 31 March 2028	900
Five years ending 31 March 2033	5,228

As required by IAS 19, the projected unit method has been used to determine the liabilities.

FSCS has agreed with the Trustees that the funding objective is to aim to ensure that the Pension Scheme has sufficient and appropriate assets to cover its technical provisions (which are effectively the liabilities in respect of service already completed) under the scheme specific funding regulations (the Pension Scheme operates under the Pensions Act 2004 regulatory framework).

The valuation of the Pension Scheme's liabilities for accounting purposes has been carried out at a different date from when the Pension Scheme's last actuarial valuation was carried out to determine the funding position and using some different assumptions. Therefore, the figures quoted in this Note are different from those disclosed in the last actuarial valuation report as would usually be expected. The figures set out in this Note are calculated according to the requirements of IAS 19. Separate calculations will be carried out for the Trustees and possibly the sponsor, to monitor and control the funding of the Pension Scheme using assumptions selected by the Trustees.

FSCS estimates the duration of the Pension Scheme liabilities on average to fall due around 18 years.

23. Other disclosures

FSCS was issued with an updated Accounts Direction in March 2023, which required FSCS to disclose audited information contained within this Note.

Exit packages

FSCS is required to disclose summary information on the use of exit packages, in accordance with the Accounts Direction issued by HM Treasury. The following table includes exit packages as they relate to all employees, and exit packages are accounted for in full in the year of departure.

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Exit package cost band	**Year ended 31 March 2023**	**Year ended 31 March 2023**	**Year ended 31 March 2023**	**Year ended 31 March 2022**	**Year ended 31 March 2022**	**Year ended 31 March 2022**
≤ £10,000	–	–	–	2	–	2
£10,001-£25,000	–	–	–	4	–	4
£25,001-£50,000	1	–	1	1	1	2
£50,001-£100,000	2	–	2	–	1	1
£100,001-£150,000	–	–	–	2	1	3
£150,001-£200,000	–	–	–	–	–	–
Over £200,001	–	–	–	–	–	–
Total number of exit packages by type	**3**	**–**	**3**	**9**	**3**	**12**
Total resource cost (£'000)	**207**	**–**	**207**	**345**	**256**	**601**

FSCS is not required to follow the provisions of the Civil Service Compensation Scheme as its principal governance arrangement is with the FCA/PRA. Any FSCS exit packages are approved in line with our own internal procedures.

Losses and special payments

Total losses and special payments were £671,537 (2022: £599,261) during the year to 31 March 2023. There were no individual losses or special payments exceeding £300,000. The majority of this is made up of claim overpayments which is further explained below.

FSCS processed a total of 283 overpayments during the year to 31st March 2023, representing a value of £1,121,258 (compared to 205 claims and a value of £975,366 for 2021/22). Of these, 194 totalling £322,277 were in relation to insurance claims and of which £313,367 has been recovered. The remaining 89 overpayments, which were in relation to advice claims, represent £798,981 of the annual total; £509,087 has been written off and the remainder has either been recovered, or is in the process of recovery. The write offs were mainly due to the time elapsed from point of payment or where process guidance needed to be clarified. Updates have subsequently been made to procedures with the required amendments.

Throughout the year, we saw a continued increase in the proportion of complex pension claims which have increased from 11% to 24% of advice firm decisions made. Whilst average compensation remained at circa £50k, the high level of complexity of pension claims increased the potential risk of error and its associated cost with these claims. The errors identified increased slightly to 0.27% (from 0.17% in 2021/22) of compensation paid based on value.

The FSCS Quality Assurance (QA) teams performed a percentage of checks on claims in line with decision volumes across operations, and due to the increase in overall pension volumes, the number of checks undertaken has also increased year on year. Further enhancements have been made to our training, accreditation and competency processes, including:

- development of a quality framework to include customer experience standards;
- substantial growth and investment in our RECAL expertise (pensions) to cope with growth and complexity of claims;
- improvements to the ‘right first time’ metrics and associated development plans; and
- calibration sessions to ensure consistency of approach.

For 2022/23, QA and other checks FSCS performed, identified net compensation calculation errors of £669,903, of which there was an outstanding recovery balance of £151,906 as at 31 March 2023. The total loss figure includes write-offs described above; these overpayments discovered in QA are still subject to recovery procedures; and smaller miscellaneous items.

24. Events after the reporting period

There were no material events after the reporting period. The Board authorised these financial statements for issue on 18 July 2023.

Appendix

FSCS organisation chart

Board	Committees:	
	• Audit • Risk	• Remuneration and People • Nomination and Governance
Chief Executive		
Chief Communications Officer	**Chief Customer Officer**	**Chief Counsel**
Head of Communications Communicating with consumers to raise awareness of FSCS protection and making a claim. Includes social media, marketing and publications.	**Head of Customer Experience** Continually improving customer services and future proofing systems and processes.	**Head of Legal** Providing legal expertise to all areas of the business.
Head of Stakeholder and Public Affairs Managing and building external relationships with key stakeholder groups including government and industry.	**Head of Operations** Ensuring staff and processes are reviewed in line with balancing short-term and long-term customer service improvement goals.	**Head of Recoveries** Pursuing recoveries against firms in default to reduce the costs of FSCS compensation.
	Head of Operating Environment Strategy Focused on future service delivery to customers.	
	Head of Readiness Ensuring FSCS is prepared in the event of a firm failure.	
	Head of Resolution Ensuring FSCS can effectively respond when a firm fails across all the products it protects.	
	Head of Service Delivery Challenging and supporting FSCS operations teams (internal and external) to deliver the best possible customer service.	

Chief Data, Intelligence and Technology Officer	Chief Financial Officer	Chief People Officer	Chief of Staff
Head of Engineering and Application Development Designing, developing, and implementing information systems and applications.	**Head of Finance** Making sure FSCS has the funds to pay its customers, suppliers and staff, and provision of financial analysis and reporting to internal and external stakeholders.	**Head of Employee Experience** Ensuring FSCS employees are supported and inspired to achieve FSCS's overarching purpose.	**Head of Policy** Ensuring awareness of any new government or regulator policies that could impact FSCS or the wider financial services market.
Head of Enterprise Architecture and Emerging Technology Delivering technology solutions architecture governance.	**Head of Organisational Risk and Resilience** Ensuring assurance processes that generate reliability and drive organisational compliance.	**Head of Environment** Driving excellence in environmental and health and safety compliance, as well as property lease and facilities management.	**Head of Strategy and Insight** Helping the organisation to identify, plan and set strategic goals.
Head of Product Developing products and platforms to align with user requirements and enhance FSCS customer and staff experience.		**Head of People** Managing the HR process from initial recruitment through to careers ending at FSCS.	**Head of Transformation** Delivering critical change and transformation initiatives and programmes.
Head of Technology and Cloud Operations Delivering IT service desk, server, network, database and security services across FSCS infrastructure and Cloud operations.			
Head of Data Designing, developing, and implementing data solutions and applications.			
Head of Cyber and Information Security Delivering IT security assurance and policies across systems and data, including education and awareness for FSCS staff.			

Firm defaults

From 1 April 2022 to 31 March 2023, FSCS declared the following firms in default:

Name of authorised firm	Date declared in default
Keywood Olley & Associates Ltd T/A North East Mortgages, EMH Financial Planning	05/04/2022
Whitebridge Financial Planning Ltd	26/04/2022
Briggs Murray Financial Planning & Wealth Management Ltd T/A Briggs Murray Wealth	26/04/2022
City of Plymouth Credit Union Ltd	27/04/2022
Integrity IFA Ltd T/A Dewar and Partners, Scottish Landlords Insurance, Wood and Ker	27/04/2022
North East Warrington Credit Untion Ltd	04/05/2022
Westbury Private Clients LLP	06/05/2022
Juno Moneta Capital Management Ltd formerly Corcillum Ltd T/A Morgan Peterson, BL Financial	06/05/2022
Rainbow Saver Anglia Credit Union Ltd	18/05/2022
A to Z Mortgages Ltd T/A Dunure Asset Management	24/05/2022
Rajan Business Centre Ltd	30/05/2022
Tradenext Ltd T/A TradeNext Prime, FCI Tradenext, iTrader, i-Pay, Remitnext	14/06/2022
Cowley & Miller Independent Financial Services Ltd	07/07/2022
County Capital Wealth Management Ltd T/A The Pension Review Service, Fathom	21/07/2022
Smith, Law & Shepherds I.F.A Ltd	21/07/2022
Curzon Capital Ltd	22/07/2022
Daniel Stewart & Company Plc formerly Oval (552) Ltd T/A Daniel Stewart & Company Ltd	15/08/2022
FSP Ltd	06/09/2022
Mercia Financial Planning Ltd	06/09/2022
Gloucestershire Credit Union Ltd	14/09/2022
Trust Financial Consulting Ltd	16/09/2022
Nationwide Benefit Consultants Ltd T/A The Pension Reporter	16/09/2022
Birmingham Inner City Credit Union Ltd	26/09/2022
Everyday Financial Advice Ltd T/A Tudor Court Financial Planning	07/10/2022

Name of authorised firm	Date declared in default
The TJM Partnership Ltd formerly T.J. Market (Holdings) Plc, Neovision Global Capital Ltd	07/10/2022
Thompson Prior LLP	17/10/2022
Hallmark (East Midlands) Ltd T/A Hallmark Mortgages & Overseas Properties, Abbot Insurance Broker	20/10/2022
Solutions Financial Services (UK) Ltd	27/10/2022
Oracle Consultants Ltd T/A Incisive Wealth/Incisive Dental & Incisive Wealth Management	11/11/2022
Juno Moneta Wealth Ltd T/A Teal Financial, Empower Wealth Management, NAPIT Wealth	11/11/2022
Bartholomew Financial Ltd	22/11/2022
EQ Financial Planning Ltd	25/11/2022
Antonor LLP formerly Priory Impartial Solutions LLP T/A Ridgeway Consultants	29/11/2022
VTB Capital Plc	06/12/2022
FSC Investment Services Ltd formerly Ashwood Wealth Management Ltd	08/12/2022
Craig Mitchell T/A Craig Mitchell Personal and Corporate Financial Planning	08/12/2022
Premier Wealth Management Harrogate Ltd	13/12/2022
A+ Financial Services Ltd T/A aplus independent financial advice, Grosvenor Trust & Saving, aplus	14/12/2022
Nurture Financial Planning Ltd T/A Premier IFA Ltd	09/01/2023
Midhurst Asset Management Ltd formerly Legistshelfco No 122 Ltd	09/01/2023
Cadogan Asset Management Ltd	10/01/2023
Plan Your Retirement Ltd	11/01/2023
Better Retirement Group Ltd formerly Directly Financial Ltd, Financial Strategy Ltd	17/01/2023
Vintage Investment Services T/A Vintage, Vintage Protect, Vintage Mortgages	17/01/2023
Broadgate Financial Management LLP	17/01/2023
Braemar Wealth Management NW Ltd	17/01/2023
Aquila Financial Services	19/01/2023

Name of authorised firm	Date declared in default
H&F Financial Ltd	10/02/2023
Planet Pensions Ltd s.r.o., v likvidaci T/A Square Mile International Financial, s.r.o.	14/02/2023
Alexander Sloan Financial Planning Ltd	15/02/2023
WGL Altrincham Ltd formerly Whitehead Group Ltd/Whitehead & Partners Ltd	21/02/2023
Corporate Benefits Consulting Ltd	22/02/2023
Bailey Richards Wealth Management Ltd	22/02/2023
FP Consulting Ltd T/A The Salmon Partnership, RMS Wealth Management	24/02/2023
Northern Provident Investments Ltd formerly Money Labs Ltd, ISA Lab	24/02/2023
Optimise Wealth Management Ltd	24/02/2023
RSS&L Ltd	24/02/2023
The London Trading Company (UK) Ltd T/A Lontrad, TCM Wealth Management	10/03/2023
Portal Financial Services LLP formerly Portafina LLP	15/03/2023
DAC Pensions Ltd formerly Davies & Co SSAS Solutions Ltd T/A DAC Pensions	16/03/2023
Osborn Wealth Management Ltd formerly Pace Ward Financial Ltd	22/03/2023
Hudson Foster Financial Services Ltd T/A Hudson Foster & Co, Great Benefits Financial	31/03/2023
Help Financial Ltd formerly Sterling Wealth Ltd, Financial Management Ltd	31/03/2023
Kings	31/03/2023

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