Financial Services
Compensation Scheme

Annual Report and Accounts

2023/24

HC 152

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Financial Services Compensation Scheme Annual Report and Accounts 2023/24

For the period 1 April 2023 to 31 March 2024

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HC 152 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 29 July 2024.

This publication is available at www.gov.uk/official-documents.

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Contents

Overview

2023/24 at a glance

9,723
decisions on claims made for customers.

19,008
customers compensated.

21,275
payments (including returning premiums) made to insurance customers.

£54m
in recoveries made from failed firms.

£423m
in compensation paid to customers.

41,826
regulated financial services firms providing funding for the FSCS levy.

5,545
customers of failed credit unions automatically paid, most within seven days.

51
financial services firms declared in default.

447
firms that we paid compensation for, including those declared in default in prior years.

84%
average customer satisfaction.

5th year
recognised as an Inclusive Companies – Top 50 UK Employer.

100%
of non-recyclable waste diverted from landfill.

8,158
new claims received by our claims service.

82%
of survey respondents[1] said our existence increased their trust in financial services.

89%
for staff engagement.

100%
of paper used recycled.

[1] In an FSCS survey carried out in 2023, 82% of respondents, who were aware of FSCS, said its existence increased their trust in the financial services sector.

Our mission and role

Our mission is to provide a trusted compensation service which helps raise public confidence in the financial services industry.

About us

FSCS is the UK's compensation scheme for customers of authorised financial services providers. We can step in and pay compensation when authorised financial services firms fail and owe their customers money.

We are an independent body set up by Parliament under the Financial Services and Markets Act 2000 (FSMA).

Sabah Carter,
Chief Data, Intelligence and Technology Officer

"It is completely free for customers 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."

Our key relationships

Our role

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 from authorised firms to fund compensation payments and our operational costs.

If a customer makes a successful claim against a firm, we will try to recover the money if it is reasonably possible and cost-effective to do so. Our recoveries help to offset the levies financial services firms pay and can provide additional compensation for customers whose claims are above our limits.

What we protect

We protect money held in banks, building societies and credit unions as deposits. We also protect insurance policies, insurance broking, mortgage advice, self-invested personal pensions (SIPPs), some investments and investment advice, pensions advice, payment protection insurance (PPI), debt management plans and pre-paid funeral plans.

In some cases, for example when a credit union or insurer fails, we can automatically pay customers compensation. We also investigate claims brought to us by customers against firms that cannot pay, or are likely to be unable to pay, money they owe. These claims are often against firms that provided financial advice or broking services.

Our compensation limits

We pay compensation for financial loss caused by failed firms that were carrying out FCA and PRA regulated activity.

The amount of compensation we can pay depends on the type of claim, with most products and services currently limited to £85,000 per eligible customer. Our temporary high balance protection covers deposits up to £1m, and insurance protection can be up to 100% of the claim amount, depending on the type of insurance.

For more information on what we cover and our compensation limits, see www.fscs.org.uk/what-we-cover

Chair’s statement

This is my final statement as Chair of FSCS, an organisation that I have been immensely proud to be part of for more than six years.

In the foreword to the Annual Report covering my first full year as Chair, I wrote that the 2020s “will be the decade in which FSCS gets to grips with the consequences of pension freedoms and wider consumer choice, and the more complex claims to which this new world will give rise.” In many ways this has been the case to date, and the organisation has risen to these challenges. However, as I reflect on my time at FSCS, it is fair to say that other unforeseen dynamics have also shaped our future. We have accomplished a tremendous amount, and helped put the UK on a more confident footing.

Our recent work has been carried out against a backdrop of cost of living increases, and the reverberations of the pandemic, which has impacted financial products and consumers. There has been a great deal of change of late, with developments in digital assets and increasing questions around assets and exposures held by non-bank financial institutions (NBFIs). It will be important to be ready for the challenges that these developments may pose in the future.

More than a year on from the resolution of Silicon Valley Bank UK Ltd, and the acquisition of Credit Suisse, there has been much to reflect on when it comes to depositor protection, and FSCS has contributed to the development of new policy in this area. Furthermore, the Prudential Regulation Authority (PRA) is due to review the deposit protection limit. Regardless of any decisions in this area, ensuring we are ready to step in and support customers when the need arises is a vital part of what we do.

The turbulence in global banking over the past year, and the rise of digital assets and NBFIs operating across territories, highlights the importance of collaborating internationally. During 2023/24, we worked on reform with the International Association of Deposit Insurers (IADI) and shared best practice with other countries. I have repeatedly been impressed by how many countries look to the UK for leadership in matters of financial regulation and oversight.

On the domestic front, last year we worked with the PRA and the Bank of England on a project to improve depositors’ outcomes in insolvency. If a bank or building society fails, in certain circumstances, we can now pay customers more quickly using electronic transfer as an alternative to sending a cheque in the post.

During 2023/24, we also continued to strengthen our co-ordination work with the investment community, and our regulatory colleagues, as part of the Wider Implications Framework. We continue to see the impact of past poor financial advice on the levy, and we continue to work with our regulatory partners to share data and tackle bad actors. Together, we can address the underlying issues that cause harm - changing the dynamic so that the polluter pays to a greater extent, while working to eliminate the pollution in the first place.

During my time as Chair, I have placed a lot of importance on the need to improve financial literacy and education. Equipping consumers to understand where protections begin and end has become increasingly important with new products emerging in the marketplace. Along this vein, I am proud of our efforts to help build confidence in the UK financial system by raising individuals' confidence in their financial choices and awareness of FSCS protection. In an FSCS survey carried out in 2023, 82% of respondents, who were aware of FSCS, said its existence increased their trust in the financial services sector, compared with 78% of respondents in 2022. Survey results from our latest consumer advertising campaign to raise awareness of FSCS pension protection, carried out in late 2023, showed that 61% of our target audience are now aware of FSCS. This is the highest score since our pensions advertising campaign first launched in 2021. The campaign generated an over 100% increase in people using our online Pension Protection Checker.

To deliver what consumers and levy payers expect of us, we must draw on the best skills to meet future challenges and to oversee core change in our internal capabilities. I was delighted to welcome Martyn Beauchamp as our Interim Chief Executive in October 2023. Since then, our executive team has started implementing an ambitious programme to further strengthen our organisation. We further fortified our Board with the appointment of Alyson Levett in July 2023, and I would like to thank Patrick Neville for his six years of service. Patrick served an important role and played a leading part behind the scenes in matters of critical importance. The nation is fortunate to have such strong public servants. His guidance has been immensely valuable.

Whilst I have talked here about some of the widespread changes that have affected FSCS in recent years, I would also like to recognise that many things have remained reassuringly stable. This includes our commitment to ensuring better financial outcomes for UK consumers and, in turn, supporting a healthy marketplace for the industry to operate in. I would like to pay tribute to the hard work and resilience of FSCS staff over the past year despite some difficult circumstances and challenges. I am extremely proud of our work and I am confident that my successor will find the organisation in a strong place.

Marshall Bailey OBE
Chair
Financial Services Compensation Scheme

Customer stories

Anil[1], retired, East Anglia

Anil was searching online for an adviser to help with his pensions and found what he thought was a reputable company. An adviser from the firm visited his home and raised the idea of opening a self-invested personal pension (SIPP).

A SIPP was something Anil was not previously aware of, but he trusted the adviser and transferred his existing pensions into the SIPP. It was later transferred to another SIPP, which had much higher fees and was only suitable for experienced investors.

After the transfer, like most people, Anil didn't check his pension often but knew it was in lots of small investment pots. Later, Anil wanted to put his pensions in one pot to make it easier to track and manage. At the time, he was taking professional advice to arrange a will and a funeral plan. This adviser was able to alert Anil that he may have been mis-sold the SIPP and that he may be able to claim with FSCS. Anil was not aware of FSCS at the time, but decided to make a claim.

Anil said FSCS kept him up to date at various points and his claim handler called him as soon as a decision was made. He was delighted when he was told he would receive around £20,700 in compensation. "I was surprised, gobsmacked really. I thought I might get a few thousand."

[1] Identity changed for privacy and photo used is iStock imagery.

Interim Chief Executive's review

Martyn Beauchamp joined FSCS as Interim Chief Executive in October 2023.

What were your first impressions of FSCS?

FSCS is a remarkable organisation. This shows up in so many ways, but three stood out to me very early on. Firstly, I was struck by how resourceful the organisation is, especially when handling increasingly complex claims. Secondly, in the discretionary effort that colleagues give to our work, going over and above to put customers back on track when their authorised financial services firm fails. And thirdly, and perhaps most vividly, in the sense of purpose that runs through the organisation like electricity.

FSCS plays a vital role within UK financial services. Beyond our core remit of paying compensation and making recoveries, we use our unique perspective, gathered over almost 25 years, to feed relevant data and insight into regulatory consultations, enhancing policymakers' understanding of the potential impact of proposed changes. It's a privilege to lead such a systemically important organisation.

> "One of our strategic priorities is to transform our future claims handling model to improve our customers' experience, drive productivity and create more opportunities for our colleagues to thrive."
>
> *Martyn Beauchamp*

Has anything surprised you about the work FSCS does?

The breadth and complexity of our work is unique. We have one of the broadest consumer protection remits in the world, and in 2023/24 we paid £423m in compensation to customers across deposits, insurance, pensions, investments, payment protection insurance (PPI) and mortgage claims. As much as we focus on positive outcomes for consumers, we're also conscious of our responsibility to our levy payers. Recovering more than £54m to offset future levy costs, is one of the outstanding performance highlights during 2023/24.

What also surprised me is the amount of work that goes behind the scenes. Working in close collaboration with regulators, and other key stakeholders, to implement 50 individual changes to our processes in response to new defined benefit pensions redress guidance, is just one recent example.

What were FSCS's key achievements this year?

Our focus in 2023/24 was on strengthening our core operations while investing in our future fitness.

One of our strategic priorities is to transform our future claims handling model to improve our customers' experience, drive productivity and create more opportunities for our colleagues to thrive. This means substantially increasing our in-house operations while continuing to work closely with partners. We have made encouraging progress in implementing the programme and have started the 2024/25 financial year in a strong position.

A key milestone was the launch of our in-house contact centre, which puts customer conversations into the heart of our head office. I meet customers every month to listen to their feedback and we know how important it is to offer a friendly, expert experience when they call or chat to us online. I also made it a priority to meet with our Independent Investigator soon after joining FSCS, and they shared the outcome of recent complaints they had reviewed. This underlines the importance of strengthening our control over the customer experience to improve outcomes and gather actionable feedback. Having our own in-house team gives us the ability to continue to listen to this feedback and improve our service even further.

Operationally, we are laser focused on providing fair and timely outcomes for our customers. But because we are funded by the financial services industry through an annual levy, it's vital that our operation is consistently cost-effective. We continue to manage our costs and risks responsibly, and have just closed our most successful year for recoveries since 2019/20, which allows us to offset future levy requirements.

Further achievements during the year include the development of a new digital payment portal for deposit failures, and progress towards refreshing the 'FSCS Protected' brand to support ongoing consumer awareness.

What are the biggest challenges FSCS is currently facing?

Our priorities are to maintain continuity of service to our customers while transitioning to our new claims management model. As with any change programme, this will require diligent implementation and careful management to get right, and I'm confident we're equipped to do so. At the same time, we're investing in technology to ensure our future fitness while continuing to create enriching opportunities for our people.

Compensation claims are becoming ever more complex. In 2019, 31% of our claims were what we'd class as straightforward to deal with, mainly mis-sold PPI. That number is now approximately 5%. Meanwhile, the proportion of more complex claims, mainly linked to customers' retirement savings, has increased from around a third to two-thirds of our claims workload. This has resulted in the amount of evidence we receive per claim increasing by 89% since 2021/22. At the same time, we are dealing with larger and more multi-faceted self-invested personal pension (SIPP) operator failures that require more documentation, time, expertise and resource to investigate.

Since joining FSCS I have established collaborative relationships with counterparts across the regulators, trade bodies and other stakeholders with an interest in our work. I'm grateful for their support, challenge and commitment to our mission.

Most of all, I'd like to thank our amazing colleagues. I'm proud to be custodian of an organisation full of such purposeful, resourceful and talented people – each of whom has helped lay robust foundations for an exciting and challenging year ahead.

Martyn Beauchamp
Interim Chief Executive
Financial Services Compensation Scheme

Strategic and performance report

Our strategy

Our mission

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

Our strategy for the 2020s

Outside of our statutory objectives, which are to pay compensation and make recoveries, our strategy provides the direction to set annual objectives and prioritise improvement activity.

Prepare
FSCS must be able to protect consumers in a crisis, or in the event of major failures, to maintain public confidence and financial stability.

Protect
FSCS is known and trusted for protection that puts people back on track through outstanding customer experience.

Prevent
FSCS collaborates with its regulatory and industry stakeholders to prevent future failure, and to reduce compensation costs.

Promote
The full range of FSCS protection is known about and trusted.

Prepare

Ensuring FSCS is prepared to handle firm failures of any size and complexity is crucial in fulfilling our mission.

During the year, we delivered a number of significant projects aimed at future proofing our processes and preparing us for changes to our operating model. These projects included:

- completing the first phases of transitioning to a new operating model for our core claims service and customer contact centre. This included procurement activity to prepare for the end of our outsourced contracts in 2025. It also included recruitment and training of new in-house contact centre staff, who started working in our London office from 1 April 2024;
- procuring and embedding two new tools to support some of our most critical business processes. The first was a new financial planning system for our compensation and levy forecasting, alongside our cost allocations across FSCS. The second was a new integrated risk and resilience tool that links work that was previously done separately; and
- investing in new technology to process and track all insurance and funeral plan claims. We completed the functional requirements for the new system ready for the build to start from April 2024. The new platform will go live in 2025.

Protect

Constantly paying attention to our customers' experience when they claim with us is crucial if we are to continue to provide a trusted compensation service. Our quality assurance activity and customer satisfaction surveys have driven improvements, alongside more significant changes to respond to shifting requirements. During 2023/24 this included:

- supporting our regulatory partners to improve outcomes for depositors in the event of a bank or building society insolvency. In December 2023, we completed the build of an electronic payment portal for customers. In the event of a deposit taker failure, we can now pay compensation directly into an account the customer has with another bank or building society. It also means, in some instances, we can offer electronic payment as an alternative to a cheque; and
- responding to changes to the Financial Conduct Authority's (FCA) guidance for calculating redress, in cases where consumers transferred their defined benefit pension. We implemented 50 changes to our pension processes. This included work to support the FCA's British Steel redress scheme.

Promote

After the high-profile resolution of Silicon Valley Bank Ltd and acquisition of Credit Suisse in March 2023, consumer interest in financial protection increased. We responded by producing online content to reassure consumers and direct them to where they could check their protection.

During the year we continued our pensions protection awareness campaign, accompanied by activity promoting our free claims service and protection available for other financial products and services. In 2023/24:

- our pensions protection awareness campaign entered its third year, with a new creative approach from November 2023. It proved our most effective yet, with awareness and understanding of FSCS increasing by 13% and 15% respectively, among our target audience;
- members of our Executive team spoke at a range of events and conferences. This included speeches and appearances where we discussed FSCS's role in consumer protection, digital customer journeys, trust and confidence in financial services, and protecting people against fraud;
- there were more than 53,000 engagements with our social media content, contributing to over half a million visits to our protection checkers; and
- we produced 16 episodes of our educational podcast, focusing on subjects including FSCS protection, our claims process and how to spot scams.

Prevent

We continued to play our part alongside the financial regulators, and other relevant bodies, in addressing consumer harm. During the year:

- we considered 19 major policy papers from the regulators and government, making formal submissions to five that were deemed closely relevant to our work. This included the Advice Guidance Boundary Review and the FCA's consultation on Capital Deduction for Redress linked to Personal Investment Firms;
- our recoveries activity allowed us to return approximately £2m to customers who had previously had their compensation capped due to losing more than the compensation limit that applied to their claim. A further £52m was used to offset future levy costs, reducing the burden on firms;
- we provided the FCA with discrete pieces of insight, evidence and advice to help with its supervision and investigations, linked to our broader cooperation with members of the Wider Implications Framework; and
- we were elected to the Executive Council of the International Association of Deposit Insurers (IADI) for a three-year term. Throughout the year we worked closely with other compensation schemes to share best practice and discuss areas of mutual focus, such as consumer awareness, technology, and risk and resilience.

A year of transition

As we approach the halfway point of the 2020s, next year (2024/25) will mark a vital transition year for us. As detailed in our recent levy publications, we have made the strategic decision to increase our in-house claims processing resource. This will ensure we are using our internal expertise to handle the more complex types of claims that now make up much of our work.

Our strategic focus during 2024/25 will be on our Prepare and Protect pillars. We will recruit and embed new teams, strengthen our core claims service, and ensure we continue to be ready for any failure that requires us to step in to protect consumers.

We will continue to work on the important agendas under Promote and Prevent. This includes a refresh of the 'FSCS Protected' brand that deposit takers use to promote FSCS protection to their customers. It also includes a continued focus on making recoveries, which helps to reduce the levy for industry and can allow us to pay additional compensation to customers.

What are complex claims?

Some firm failures, or claims as part of a firm failure, need additional investigation before the claims can be assessed and decisions made for our customers. These investigations include when claims can't be assessed using our standard procedures. They often involve consulting with a number of third parties to gather information and seeking expert guidance.

As a result of these investigations we can pay compensation using bespoke guidance produced for the claims teams, so that they are able to assess the claims. Alternatively, it may be found that the claims aren't eligible for protection under the rules that govern us.

Usually, these investigations happen before the firm is declared in default, but sometimes they can happen afterwards. For example, if it's a new type of claim being made against an existing failed firm.


Support

Our customer 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 free for customers to claim directly with us, and we aim to make it as quick and easy as possible to make a claim through our online claims service.

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

Sarah Marin,
Chief Customer Officer

"Our focus in 2023/24 was not only on continuing to provide an effective claims service for today, but also on determining how we best serve our customers of tomorrow. The work we delivered in 2023/24 has laid the foundations for enhancing our readiness for future firm failures. This will continue to be a priority in 2024/25."

During 2023/24, our key achievements included:

Protecting our customers of today

- **Helping 19,008 customers get back on track:** This included paying compensation or enabling customers to transfer to a new provider for their investment or insurance policy.
- **Automatically paying compensation to 5,545 customers of two credit union failures (6 Towns Credit Union Ltd and Hastings and Rother Credit Union Ltd):** We did this within seven days of these firms failing, for most customers.
- **Making 21,275 payments (including returning premiums) to insurance customers:** This covered £160m in losses claimed against failed insurance providers.
- **Closing out 14 complex firm investigations that each averaged 15 months of work:** Following these investigations, all but one resulted in the decision that FSCS compensation may be owed. This included for significant failures such as Rowanmoor Personal Pensions Ltd, which had more than 1,500 claims against it when it was declared in default in December 2023.
- **Compensating customers who had experienced losses from 447 different authorised financial services firms:** This included some of the 51 we declared in default in 2023/24.

Preparing for our customers of tomorrow

- **Expanding our in-house expertise to best manage the complex claims and enquiries that now make up the majority of our work:** During the year we completed the planning and transition to an in-house customer contact centre, which went live on 1 April 2024. We also began increasing our internal claims-handling capacity.
- **Operating new regulatory rules, effective from 1 April 2023, for calculating redress for non-compliant pensions transfer advice from failed firms:** This change focused on consumers who experienced financial loss after receiving advice to transfer from a defined benefit to a defined contribution pension scheme.
- **Adjusting our processes for continued efficiency and accuracy:** This included introducing a new appeals policy in February 2024. Around five in 100 customers who disagree with our decision regarding their compensation ask us to review our decision. The new policy, which includes a three-month appeals timeline, will help us use our resources more efficiently and bring final decisions sooner for customers.

What is a firm default?

FSCS must declare a firm in default before it can pay compensation to customers. We declare a firm in default when we believe two things are true:

1. There are valid claims against the firm that FSCS can pay compensation for.
2. The firm cannot meet the costs of any claims itself – for example the firm may already be going through, or have gone through, insolvency.

'In default' is a technical term, so we sometimes refer to a firm having 'failed'.

Deposits, insurance and our claims service

Do all customers need to make a claim to receive compensation?

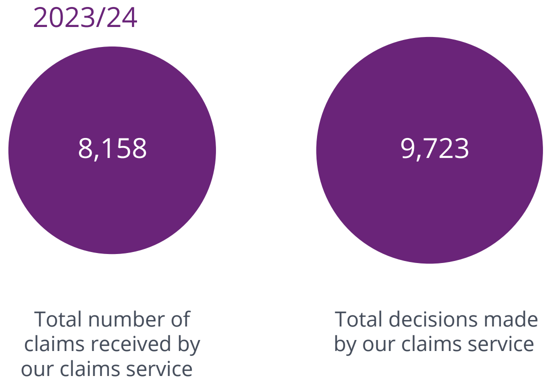
Compensation payments for deposits are made when a deposit taker such as a credit union or bank goes out of business. Typically, these customers do not need to make a claim with us to receive their compensation. In these instances, we can use the data held by the failed firm to make automatic payments.

Insurance compensation is similar in that customers don't need to contact us to make a claim. We pay policyholders based on the information provided by the insolvency practitioner and the run-off agent who is handling the affairs of the failed insurer. If we are unable to transfer the customer to a different insurer, compensation includes refunds for unused insurance premiums and covering valid claims against insurance policies.

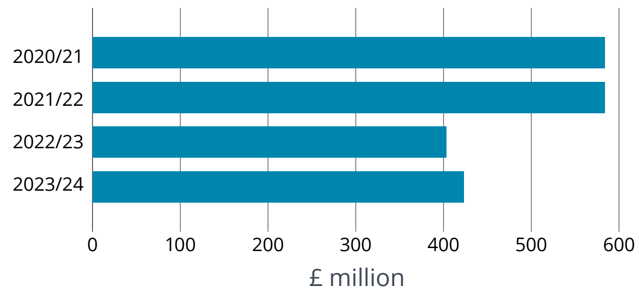
Our claims service handles compensation for other products such as investments, pensions and mortgages. These cases usually require customers to come to us to make a claim and provide supporting evidence. These claims are typically brought against a firm for negligence for a regulated activity such as providing financial advice or arranging investments.

Overall performance

New claims and decisions on claims

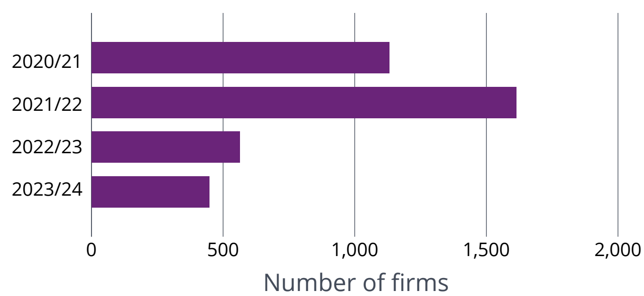


Total compensation paid

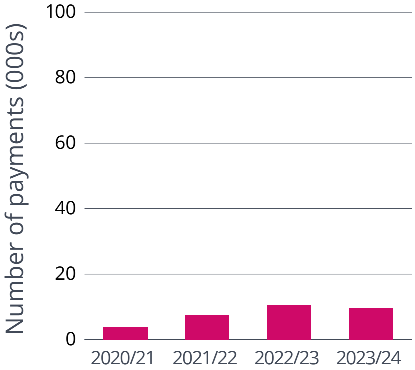


No. of firms declared in default

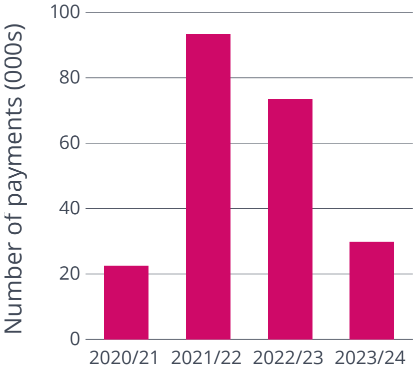
No. of firms we paid out compensation for



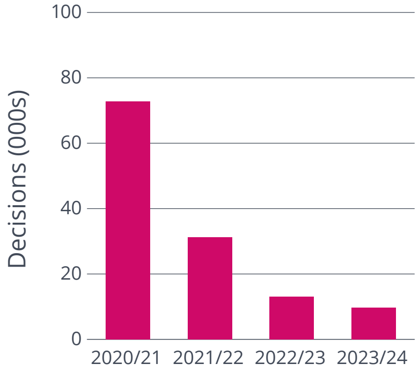
Deposits payments



Insurance payments

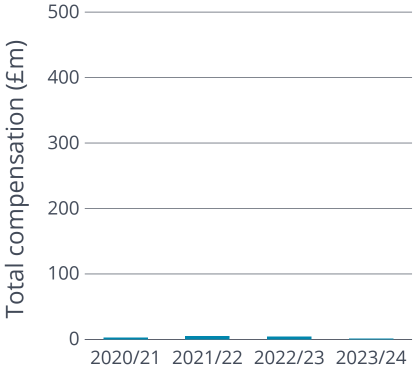


Claims service decisions

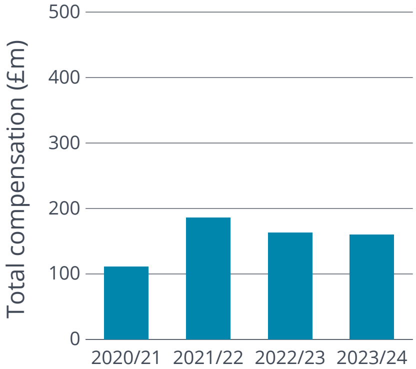


Total compensation (£m)

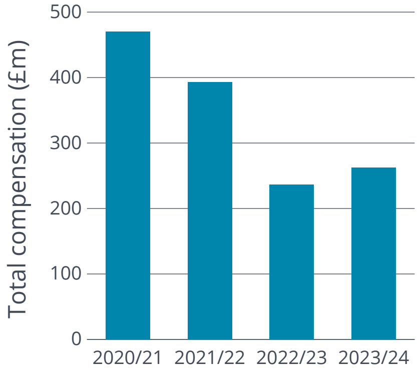
Deposits



Insurance

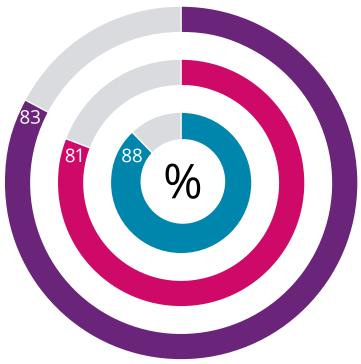


Claims service



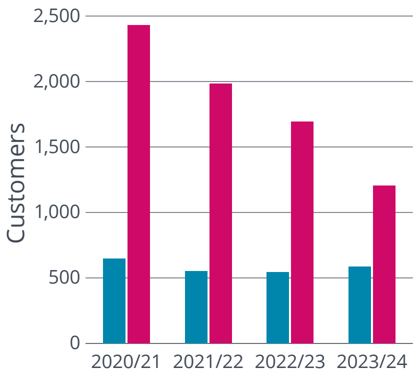
Customer service

Response



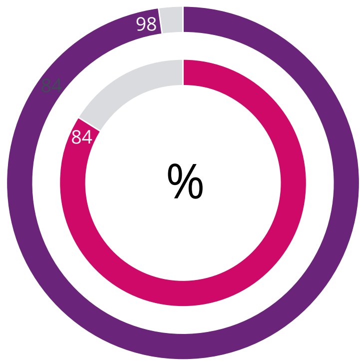
- No. of complaints responded to within 20 days[1]
- Calls answered within 60 seconds
- Webchats responded to within 60 seconds

Complaints



- Complaints received
- Requests to review claims decisions

Claims



- No. of claims made online
- Customer satisfaction score

[1] 15 working days average response time.

Annual report of the Independent Investigator

April 2023 to March 2024

FSCS provides a review mechanism to complainants who remain dissatisfied with the actions of FSCS and have exhausted all internal review options. This is my fifth year serving as Independent Investigator for that review mechanism.

During the year, four cases were referred to me, of which I accepted three. The fourth asked me to look at issues outside of my remit and was declined on that basis. I fully upheld all three of the 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.

Historically, 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. In this instance, two of the three claims had not reached the decision stage and the complainants' primary concern was the length of time being taken to arrive at an outcome.

I met with the Head of Operations and the Complaints Manager on several occasions to review progress on addressing recommendations contained within my earlier reports. This is now a standard quarterly process and enables me to monitor adoption of my recommendations. In addition, I accepted a number of specialist briefings on subjects directly pertinent to potential referrals.

I am pleased that previous recommendations to extend the call recording retention period have been acted on. Recent referrals have highlighted the need to improve FSCS's monitoring of, and interventions on, aged cases with outsource partners.

I did not meet with the Board formally this year, but exercised the option to highlight a number of critical issues arising from recent referrals in a written briefing.

Caroline Trewhitt
Independent Investigator

Our people

As echoed across this year's report, 2023/24 was a year when preparation was at the forefront of our minds.

For the People team, our focus has been on the foundations of our practice – ensuring the organisation is structured in the right way and has the skills needed to deliver our objectives. We have been gearing up for a significant change in our operating model, with readiness activity taking place across recruitment, learning and development.

At the same time we haven't lost sight of our commitment to diversity, inclusion and wellbeing.

Fiona Kidy,
Chief Financial and People Officer

"We continue to be recognised for our family-friendly policies which support our people at some of the most important points in their lives. I'm proud that FSCS has been included in the Inclusive Top 50 Employers list for a fifth year running."

Awards and recognition

- WM People Top Employer Awards - Best for Family Support
- Corporate and Financial Awards 2023 - Most innovative financial communications: Gold
- Top 50 Inspiring Workplaces EMEA 2023

> "The judges felt FSCS took a broad approach to family support, including elder care as well as parental support, embedded in a caring culture. It had also demonstrated the business benefits of providing good family support and of helping employees to sustain their careers across different life transitions."
>
> *WM People Top Employer Awards 2024 webpage*

Flexible working and parental leave

We are committed to creating a workplace where our staff can balance their business and home lives through flexible working. This includes offering all staff flexibility around when and where they work.

We are also committed to being an employer of choice for working parents and carers. In reflecting this commitment, we offer a range of support to our current staff, and to attract future employees. This includes providing 26 weeks parental leave at full pay, which is offered from the first day of employment.

During leave periods, we provide regular keeping-in-touch days for employees to help ensure they feel supported when they return to work. In 2023, we worked with The Parent Mentor and DaddiLife to train staff as mentors to support expectant and new parents across the organisation.

During 2023/24, our policies and practices culminated in recognition at the WM People Top Employer Awards where we were presented with the award for Best for Family Support.

Wellbeing

We support our people by recognising that FSCS plays an important role in creating a positive environment that allows everyone to feel like they belong. Our strategy during 2023/24 focused on five key elements for our colleagues' wellbeing: physical, emotional, social, financial and career.

In May 2023, our work in this area was recognised when we were named as one of the Top 50 Inspiring Workplaces for Europe, the Middle East and Africa.

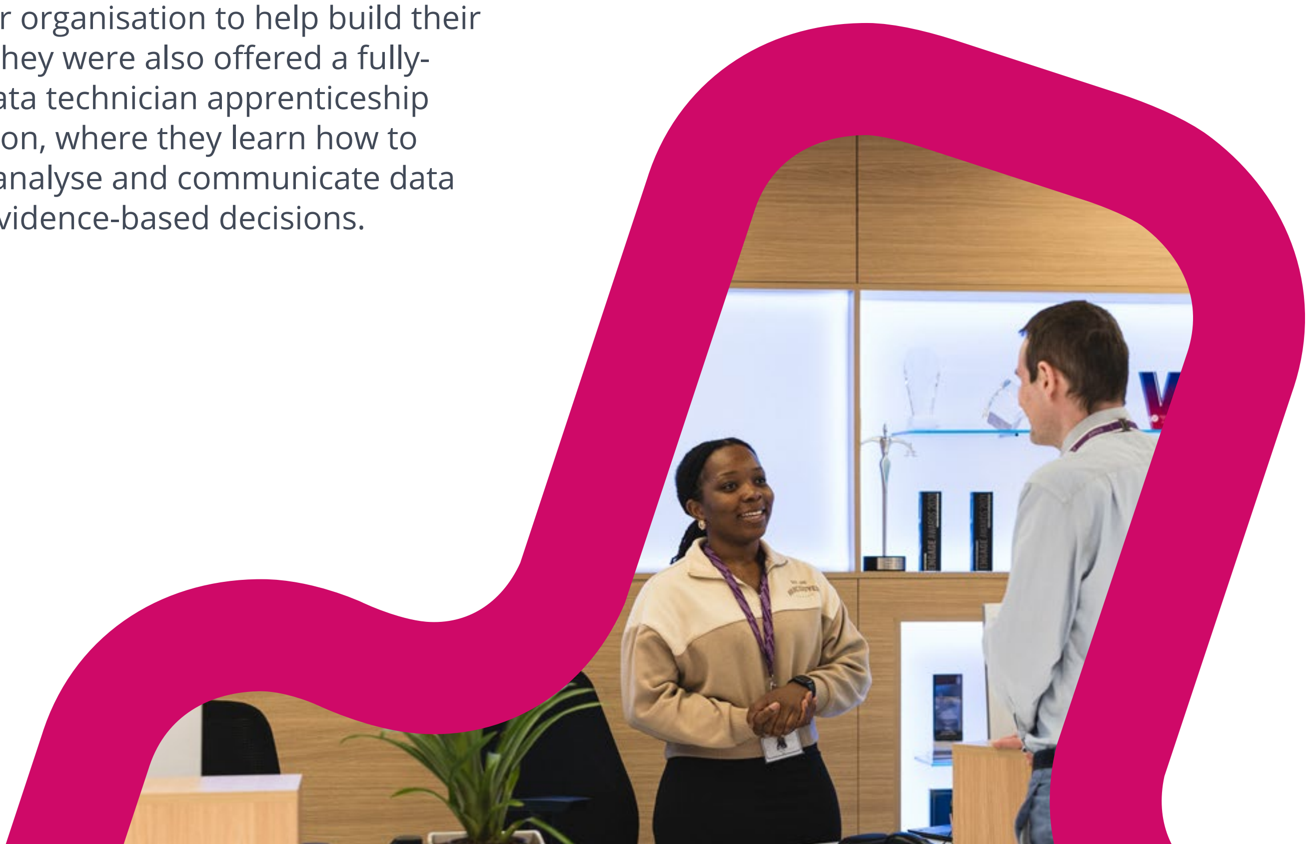
Early career apprenticeships

At FSCS, we understand that apprenticeships create a positive impact – not only for the people seeking career opportunities, and the organisations offering these openings, but also for local communities and the wider economy.

During 2023/24, our apprentices were exposed to a number of areas and projects across our organisation to help build their careers. They were also offered a fully-funded data technician apprenticeship qualification, where they learn how to prepare, analyse and communicate data to drive evidence-based decisions.

"My experience at FSCS has really surprised me in the best way possible! I came here not having any experience working in an office environment let alone the industry. [In] my first few weeks I felt like I had imposter syndrome, but now eight months in I can say I am on top of my game learning and expanding my skills and knowledge."

FSCS Apprentice Scheme participant, February 2024



Learning and development

We support our employees with their learning and development during their time with us. This includes when they start a role at FSCS, helping them grow within a current role, and learning new skills to move into a different role.

Our managers use our learning and development programmes to highlight talent, and provide opportunities to engage their teams and improve employee experience.

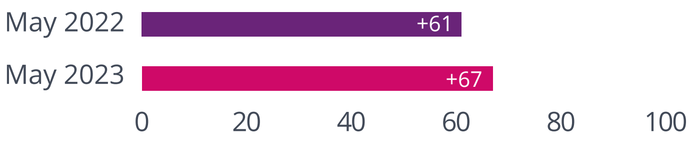
"Working at FSCS has been incredibly rewarding. The supportive and collaborative environment allows for growth and encourages innovation. FSCS values employee opinions and provides opportunities for personal development."

FSCS employee, February 2024

Staff engagement:

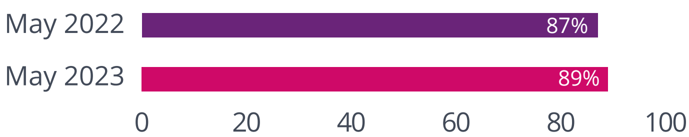
People survey results

Net Promoter Score (eNPS)

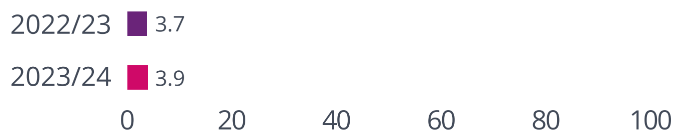


Above 40 is considered outstanding

Overall staff engagement score on questions we asked staff about loyalty and pride

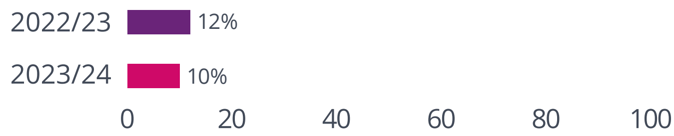


Average working days lost to sickness



The UK average is 7.8 days (2023)

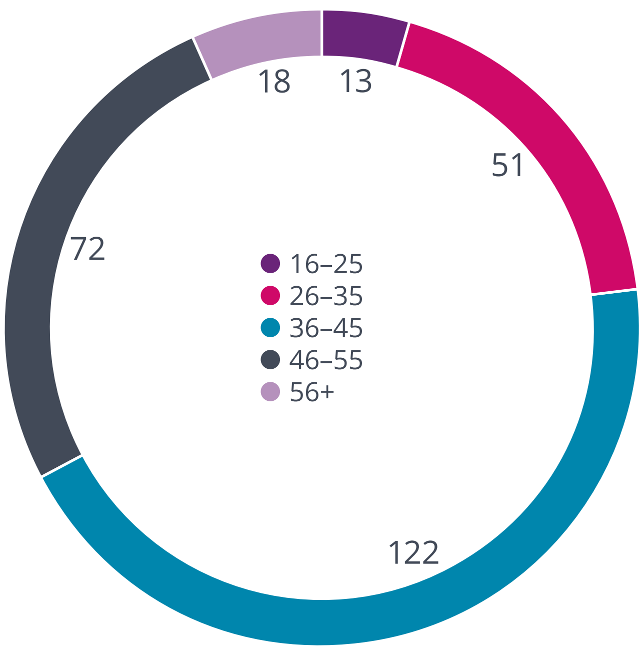
Employee turnover



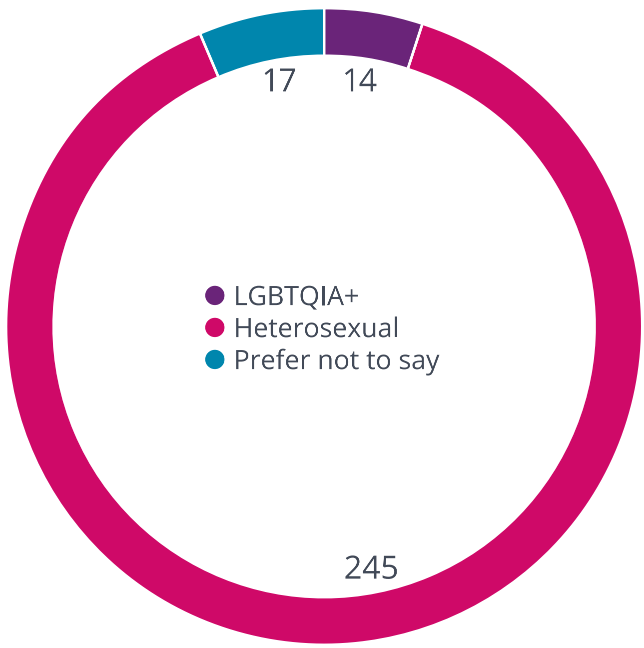
The potential attrition rate for the UK is 20% (2024)

Our people as at 31 March 2024

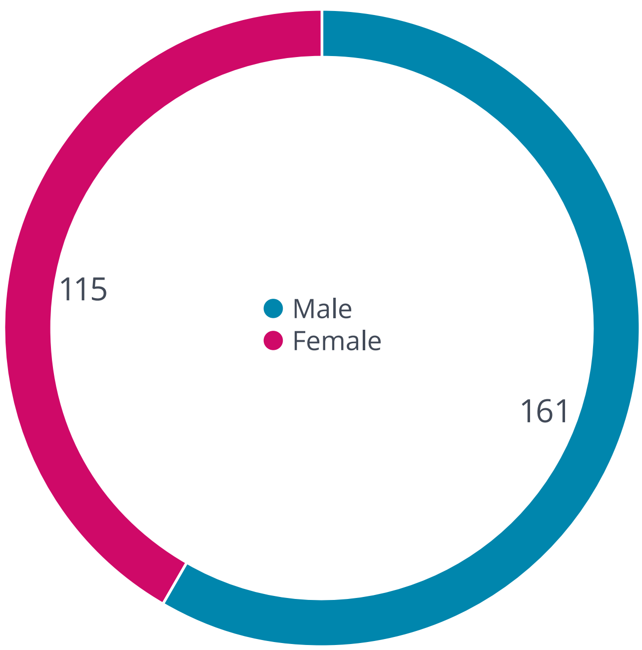
Age



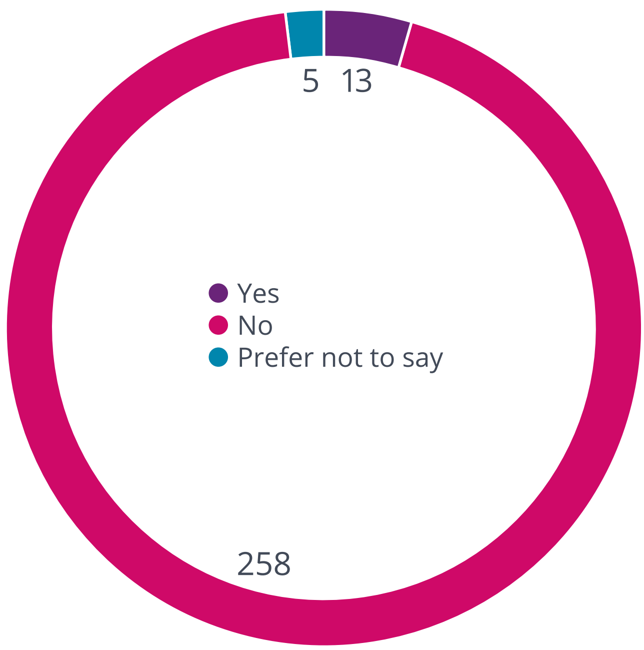
Sexual identity

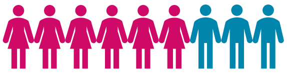


Gender



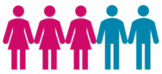
Individuals with disabilities





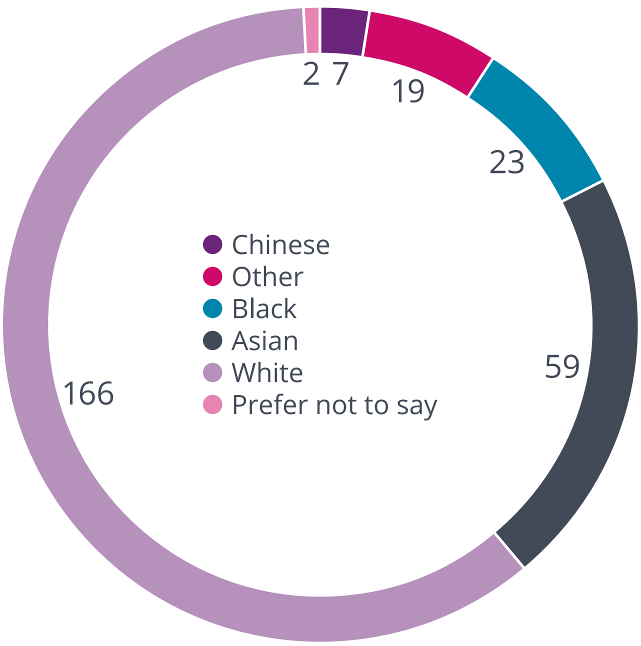
Our Board comprises six women and three men (including non-executive and executive directors).

Our Executive team comprises three women and two men.



276
Total number of employees (excluding Board members)

Ethnicity

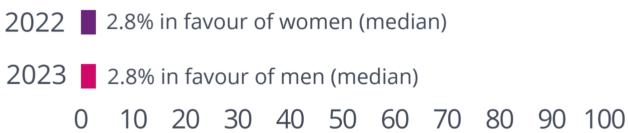


Fiona Kidy, Chief Financial and People Officer

"For 2023/24, we are pleased to have maintained our gender split target at senior levels of 50% (+/-5%), but recognise that there is more to do. In 2023/24, our gender pay gap was 2.8% in favour of men. This is below the national average, and well below that of the financial services sector as a whole, nonetheless we recognise that we must continue our efforts to make positive changes."

Pay

Gender pay gap



The median hourly pay for full-time employees was 7.7% less for women than for men (2023)

Ethnicity pay gap

Environmental impact

FSCS recognises that serious and measurable action must be taken to limit the impacts of climate change. This includes reducing all transport, electricity and gas-related emissions.

We are committed to improving our energy efficiency, reducing our carbon dioxide emissions and achieving net zero by 2050. Each year we review progress against our targets.

Our net zero strategy milestones:

2022/23

CO_2

reduction targets set – these form the basis of our five-year carbon dioxide reduction strategy.

2023/24

100%

of waste diverted away from landfill and converted into renewable energy.

100%

of our electricity provided via a renewable energy tariff.

35%

increase in courier deliveries by electrical vehicles.

2027/28

100%

of our courier deliveries by electrical vehicles.

Responsible procurement

Where applicable, environmental and social considerations are factored in to how we choose our suppliers. Each year, we also ask our key suppliers to carry out a survey confirming their adherence to the Modern Slavery Act 2015.

Our key suppliers must support us in our environmental pledges by:

- confirming they have a carbon dioxide reduction strategy;
- reporting each month on FSCS waste diverted from landfill before conversion into renewable energy and recycling waste streams (this is for our waste management contractor specifically);
- diverting all unwanted office furniture away from landfill to be either reused or recycled; and
- providing mugs and glasses for our hot and cold vending machines to reduce plastic usage.

Our environmental progress in 2023/24 also included:

11%
reduction in electricity usage, compared with 2022/23.

64%
decrease in waste that needed to be recycled, compared with 2022/23.

100%
of paper used recycled (the equivalent of approximately 56 trees).

100%
of non-recyclable waste diverted away from landfill and converted into 3,960 kilowatt hours of renewable energy.

35%
increased use of electrical vehicles for courier deliveries, compared with 2022/23.

96%
of stationery products purchased classified as environmentally friendly.

75%
of vending machine products classified as sustainable.

James Darbyshire,
Chief Counsel

"Each year, we will continue with our energy consumption reduction strategies that include what colleagues can do to help reduce energy consumption in the workplace."

Carbon dioxide emissions

Using the Department for Energy Security and Net Zero's conversion factors 2023, our total carbon dioxide emissions for 2023/24 were 190.34 tonnes. This is a decrease of 14.29 tonnes (approximately 7%) on 2022/23.

The scopes in the table below refer to carbon dioxide emissions that are controlled by us (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 carbon dioxide emissions can be found on the Greenhouse Gas (GHG) Protocol website at www.ghgprotocol.org

Scope	Performance	2020/21	2021/22	2022/23	2023/24
Scope 1	Refrigerants and car fleet usage	103.15	0	0	0
Scope 2	Electricity usage using UK Government GHG conversion factors	102.49	91.58	91.72	81.31
Scope 3	Well-to-tank (production, transportation, transformation and distribution of fuel to power vehicles)	15.7	29.89	21.94	23.92
	Electricity transmission and distribution to our office	8.81	8.2	10.40	7.03
	Transferral of waste to recycling sites	0.05	1.13	1.15	0.14
	Van travel (courier services)	10.44	12.99	19.43	11.44
	Rail (staff travel)	0.25	1.23	1.28	1.04
	Flights (staff travel)	2.7	2.12	43.44	18.55
	Home working	28.77	28.95	15.27	46.91
Total	**Carbon dioxide**	**272.36**	**176.09**	**204.63**	**190.34**
Metric	**Tonnes of carbon dioxide per employee**	**1.09**	**0.73**	**0.82**	**0.68**

There are also some unquantified carbon dioxide emissions that could not be included in the table above, for example our water and gas usage. This is due to the current environmental reporting limitations of our building, which is not within our control.

Paper consumption	Sheets of paper used	2,500	10,000	25,000	42,500[1]
	Annual cost of paper	£33.31	£110.96	£337.49	£508.43

[1] We acknowledge that there was an increase in paper consumption on previous financial years. We plan to reduce this during 2024/25 by internal awareness campaigns and other initiatives that encourage our colleagues not to print where possible.

Financial review

Our financial strategy supports our delivery of an efficient and effective compensation service that helps to build people's confidence and contributes to the UK's financial stability.

Business planning and budgets

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

Each year, the Financial Conduct Authority and the Prudential Regulation Authority approve our annual budget, after carrying out a public consultation on our management expenses.

Annual reporting

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

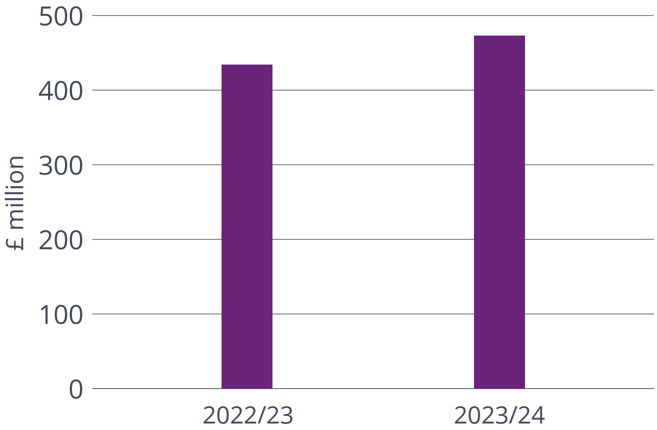
Our accounts are added into the Whole of Government Accounts, which is a consolidated set of financial statements for the UK public sector. We provide HM Treasury with appropriate reassurance on the systems, controls and processes that underpin our accounts within relevant levels of materiality (relevant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

Fiona Kidy, Chief Financial and People Officer

"As much as we focus on positive outcomes for consumers, we're also conscious of our responsibility to our levy payers and demonstrating effective cost control."

Summary of financial performance

Levy income

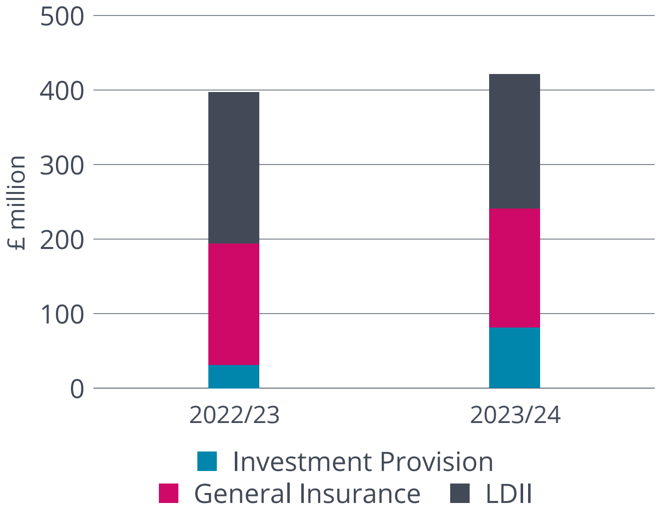


During 2023/24, our service was funded by levies provided by 41,826 regulated financial services firms.

Our total levy income was £473m in 2023/24 which was £39m higher than in 2022/23. A retail pool or supplementary levy was not required from firms in 2023/24.

For more information regarding levies for the separate funding classes during the financial year, please see pages 8-18 of the Class Statements report.

Compensation costs



During 2023/24, the total compensation costs were £423m. This was £20m higher than in 2022/23.

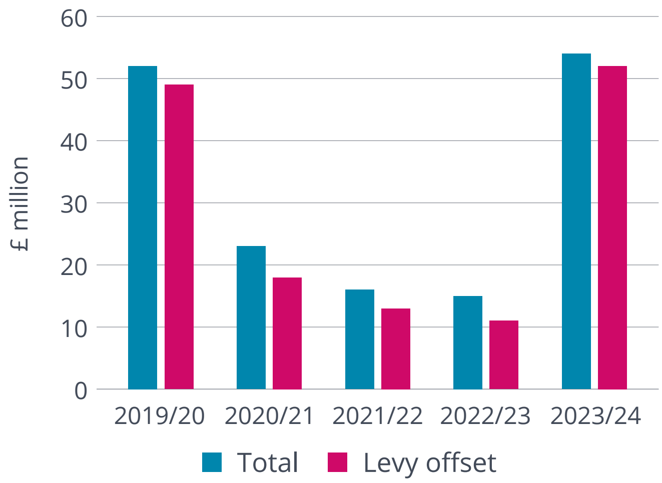
As in prior financial years, the main drivers behind compensation during 2023/24 included claims we paid within the Life Distribution & Investment Intermediation (LDII), General Insurance Provision and Investment Provision classes.

In the LDII class, compensation costs were £180m in 2023/24, which is £23m lower than in 2022/23. This decrease was mainly due to:

- receiving 34% less new claims in comparison with 2022/23; and
- upholding fewer claims. The uphold rate decreased from 67% in 2022/23 to 60% in 2023/24. This was due to a greater number of 'no loss' outcomes (where it was determined that the customer did not lose money) for pension claims.

Recoveries

Amounts recovered, past five years



Compensation costs in the General Insurance Provision class were £160m, which was broadly similar to the previous financial year (£163m). There were no new insurance firm failures in 2023/24, and all compensation costs for this class were for firm failures from previous financial years.

Compensation costs in the Investment Provision class totalled £81m in 2023/24, which was a £50m increase on the previous financial year. A large portion, and approximately half of the compensation (£38m) in this class, was for a Special Administration Regime (SAR) failure during the year.

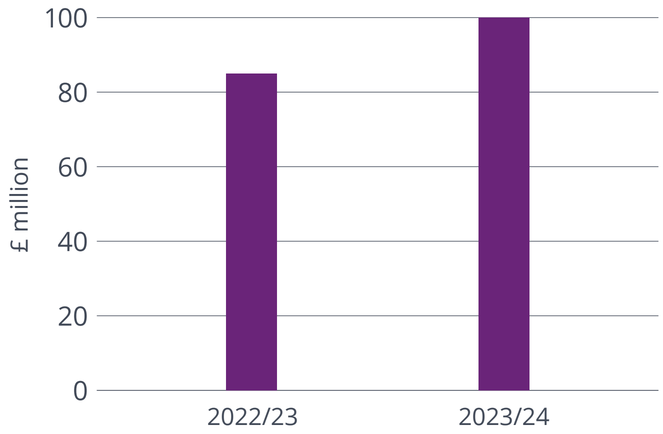
For more information on the compensation costs for the separate funding classes in 2023/24, please see pages 8-18 of the Class Statements report.

Where possible and cost effective, we pursue recoveries against failed financial services firms or other third parties with a legal responsibility for customers' losses. Our recoveries help offset the levies financial services firms pay, and can provide additional compensation for customers whose claims are above our limits.

In 2023/24, we recovered a total of £54m, of which approximately £52m was used to offset our levies. The remaining £2m was passed on to customers whose claims were above our compensation limits.

Under International Financial Reporting Standards (IFRS), our recoveries for 2023/24 totalled £40m. This is different from the above (£54m) figure as under IFRS rules, some cash and recovery amounts were recognised as income in 2022/23 and earlier.

Administration expenses



Our administration expenses increased from £85m in 2022/23 to £100.1m in 2023/24.

This increase was, in part, due to increased claims-handling contractor resource needed to process a continued rise in complex claims. Additional staff, including contractors, were also required as part of a strategic transition to reduce outsourcing. This transition recognises that increasing our in-house expertise will be the most efficient and cost-effective way to manage the increase in complex claims and enquiries that currently make up the majority of our work.

Additional investment and costs were also required during 2023/24 for essential customer service and technology programme improvements to boost our readiness and capabilities. This included:

- enhancing our in-house tools so that we are able to handle more claims internally;
- upgrading our financial planning forecasting software;
- completing the build of an electronic payment portal to support our regulatory partners improve outcomes for depositors in the event of a bank or building society insolvency; and
- carrying out design work to optimise our insurance payments tracker system.

Our 2023/24 administration expenses also included:

- legal costs associated with new claims, including General Insurance funding class claims that required substantial legal advice; and
- costs for investigating firms and establishing whether claimants were entitled to FSCS compensation.

Our 2023/24 administration expenses were partially offset by interest income earned on cash balances during the year, and decreased communications costs associated with strategic reprioritisation.

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 at year-end.

During the year, we incurred fewer costs than expected in certain classes when the levy was raised, which resulted in surpluses for those classes. In most classes with surpluses, we are expecting these funds to be required in 2024/25. These surpluses have been carried forward to offset the levy for that financial year.

Recovering the cost of compensation

James Darbyshire, Chief Counsel

"We're passionate about delivering the best outcomes for customers and our levy payers. Recovering money from failed financial firms helps us reduce the FSCS levy and helps ensure those responsible for financial harm are held to account."

Where possible and cost effective, we pursue recoveries against failed financial services firms or other third parties with a legal responsibility for customers' losses. In 2023/24, we successfully recovered over £54m from failed firms. The majority of this was used to offset the cost of the FSCS levy on authorised financial firms. Approximately £2m was passed to customers who may have lost more than the FSCS compensation limit (which is typically up to £85,000).

FSCS usually pursues recoveries against a firm by making a claim in the firm's insolvency. We can also pursue recoveries against any relevant third parties who may carry legal responsibility for customers' losses, for example professional indemnity insurers.

Increasingly, we are taking more complex recoveries actions, often working with authorities and insolvency practitioners across international jurisdictions. During 2023/24 our recoveries work included litigation in Denmark to ensure our claim in the insolvency of a failed insurer was suitably recognised. We also pursued recoveries related to numerous high-risk, illiquid investments worldwide that customers had often been badly, or fraudulently, advised to enter into. Further, we pursued recoveries through the sale of various asset types, including the recent sale of farmland in Western Australia.

An additional example during 2023/24 included our claim in the insolvency of Gibraltar insurance firm, Green Realisations 123 Ltd, formerly known as MCE Insurance Company Ltd. The specialist motorbike and car insurance firm was placed into administration in late 2021, resulting in FSCS paying out approximately £90m in compensation to the firm's customers. Through our recoveries process, we have successfully secured £23m from the firm's estate, and we continue to work closely with the firm's administrators to recover as much money as possible and further reduce the impact of compensation on our levy payers.

More information on our policy on recoveries, including the rules that govern how we operate, can be found at www.fscs.org.uk/about-us/funding/recoveries.

Customer stories

Stuart[1], self-employed, North West

Stuart's final salary pension from his job of 22 years had a cash-equivalent value of around £200,000. He decided to move it to a scheme that was more flexible and where he was advised the benefits might be better for his family.

After receiving some initial advice, he decided to get in touch with a pension specialist. However, Stuart wasn't aware it was a broker he was dealing with and that they were based in Scotland, and not located near him.

Stuart first noticed an issue when he received a letter which told him there was a problem with the corporate finance bond he held. Stuart didn't know about this investment, which a third of his pension had been invested in. Stuart later discovered the company he had transferred his pension over to had gone into liquidation. This left approximately £85,000 of his investment at risk and he feared he would no longer be able to retire when he had planned to. Around the same time, Stuart's son sadly, passed away.

The administrators dealing with the liquidation told Stuart about FSCS and he got in touch. Before this, Stuart had never heard of FSCS.

Not long after making his claim with FSCS, Stuart found out he would get £85,000 in compensation for the unsuitable advice he received to transfer his final salary pension. He described it as a massive weight off his shoulders. Stuart said that his FSCS case handler was "superb". "Based on my experience my advice to others is, please think very carefully before moving any pension funds, things can still go seriously wrong even when you think you are in safe hands. Thankfully FSCS was there to help me through this stressful ordeal, I am very grateful for their assistance in this very complex matter."

[1] Identity changed for privacy and photo used is iStock imagery.

Approval of the strategic and performance report

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

- Our strategy
- Our customer performance
- Our people
- Diversity and inclusion
- Environmental impact
- Financial review

This report was approved by the FSCS Board on 18 June 2024 and signed on its behalf by:

Martyn Beauchamp
Interim Chief Executive
Financial Services Compensation Scheme

19 July 2024

Accountability report

Corporate governance

This section of our annual report sets out how we are governed. It describes our corporate governance arrangements, as well as our key governance activities since our last annual report.

We are committed to meeting high standards of corporate governance and the following information is reported in line with the requirements of the Accounts Direction issued by HM Treasury.

The Board

Our Board sets the organisation's overall direction, culture and strategy. It ensures that there are appropriate policies, procedures and delegations in place for FSCS to fulfil its responsibilities and obligations.

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are responsible for appointing and removing our Board members. The appointment and removal of both our Chair and the Chief Executive must also be approved by HM Treasury. All FSCS 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 FSCS Nomination and Governance Committee.

We work 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 being an inclusive organisation and actively promote all forms of diversity on our Board. All our non-executive directors are considered to be independent.

Operation of the Board

The Board has a formal schedule of matters reserved for its decision, which is available on our website at www.fscs.org.uk/about-us/org-info/our-gov/committees. This sets out the coverage of the Board's activities and responsibilities. Certain responsibilities are also delegated to committees of the Board.

The Board held nine formal meetings during the year. 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.

Induction and development

New directors receive a comprehensive induction 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 any 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.

During the year, the Board carried out an internal review of its effectiveness. A third-party tool was used to help provide feedback and insight into the Board's performance. The results showed that the Board was strongly effective when it came to strategy development, risk management, board development, meeting management and board composition. It was agreed that continued attention would be given to the Board taking stakeholders' views into account when making decisions and staying informed of external developments.

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 integrated 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;
- FSCS Annual Report and Accounts and Class Statements and making recommendations to the Board. Following this, 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 data protection, fraud, money laundering, quality assurance and corporate insurances; and
- the effectiveness of the Committee and its terms of reference.

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

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 organisation's risk management and internal control systems. Information regarding our risk and control arrangements is provided in the risk section of this report.

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;
- risks associated with specific operational areas, including pension claims planning and information security;
- our resilience profile, including contingency planning and disaster recovery arrangements; and
- the effectiveness of the Committee and its terms of reference.

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 and People Officer;
- salary budget recommendations;
- recognition and reward;
- equity, diversity and inclusion;
- succession planning;
- employee turnover and exit interviews;
- learning and development;
- people survey;
- 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;
- proposals for appointing an Interim Chief Executive;
- FSCS's corporate governance arrangements benchmarked against external guidance; and
- the effectiveness of the Committee and its terms of reference.

Our Board

Non-executive directors

Marshall Bailey OBE
Chair
Appointed – 1 April 2018

Helen Parker
Deputy Chair and Senior Independent Director[1]
Appointed – 1 July 2017

Richard Parkin
Appointed – 1 July 2019

Rt Hon Baroness Morgan of Cotes (Nicky Morgan)
Appointed – 1 September 2020

Wendy Williams CBE
Appointed – 1 September 2020

Alyson Levett
Appointed – 1 July 2023

Cathryn Riley
Appointed – 1 February 2021

Executive directors

Martyn Beauchamp
Interim Chief Executive
Appointed – 18 October 2023

Fiona Kidy
Chief Financial and People Officer
Appointed – 1 July 2020

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

Attendance at Board and committee meetings

	Board	Audit Committee	Remuneration and People Committee	Nomination and Governance Committee	Risk Committee
Number of meetings held	9	4	4	3	4
Number of meetings attended by each committee member:					
Marshall Bailey	9 of 9		4 of 4	2 of 3	
Martyn Beauchamp	4 of 4			2 of 2	
Alyson Levett	7 of 7	3 of 3			3 of 3
Fiona Kidy	8 of 8				
Nicky Morgan	9 of 9	4 of 4			4 of 4
Patrick Neville	2 of 2	1 of 1			1 of 1
Helen Parker	9 of 9		4 of 4	3 of 3	
Richard Parkin	8 of 9	3 of 4	4 of 4		4 of 4
Caroline Rainbird	1 of 1				
Cathryn Riley	8 of 9	3 of 4			4 of 4
Wendy Williams	7 of 9		4 of 4	3 of 3	

Note: Caroline Rainbird left the Board on 5 June 2023 and Patrick Neville left the Board on 30 June 2023. Alyson Levett joined the Board on 1 July 2023 and Martyn Beauchamp joined the Board on 18 October 2023.

Customer stories

Omari[1], retired long distance lorry driver, Sunderland

In 2011, Omari was advised to move his existing pension into a new self-invested personal pension (SIPP) when a representative from a SIPP provider visited his workplace.

Like a lot of people, Omari didn't worry about his pension and assumed it was safe. When he reached 65 years old and didn't hear from his pension provider, he got in touch with them to talk about retiring. It was then he discovered that he had just 11p left in his SIPP.

After consulting with Citizen's Advice, he took his case to the Financial Ombudsman Service who ruled in his favour. However, the SIPP provider didn't pay him so he had to wait until the company went out of business in 2023 before he could make a claim with FSCS for compensation.

When FSCS contacted him to let him know that his claim was successful, Omari said it was "like winning the lottery… all our savings had gone as we had to use them to keep above water and we would have had to sell our house if we hadn't got the compensation."
He found the service provided by FSCS to be "impeccable – everything was in plain English, no gibberish; they couldn't have helped more."

Omari said that he wouldn't hesitate recommending FSCS to other people in his situation.

[1] Identity changed for privacy. Photo used is iStock imagery.

Section 172 statement: taking into account the interests of stakeholders

Under Section 172 of the Companies Act 2006, our directors must act in accordance with a general set of duties. These duties include promoting the success of the company, taking into account the views of our stakeholders.

Our 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 fostering 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 people, if an authorised financial services firm they have been doing business with fails, our Board always considers the implications decisions will have on our customers. This includes the quality of service that we provide and 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, our Board takes the interests of levy payers into account when making decisions that will impact them. Our Board also considers feedback from levy payers, including when significant changes in compensation forecasts may result in additional levies. The potential impact on levy payers is also considered when discussing firm failures, or other issues, which might result in significant levies or have other levy implications. Directors are also mindful that our service should be cost-effective and we consider pursuing recoveries that are likely to be reasonably possible and cost effective to pursue.

Regulators – Our 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 to the regulators on our work and matters considered by our Board. If our Chief Executive (or Interim Chief Executive) knows about certain views expressed by the regulators or HM Treasury on particular matters, the directors are informed so that they can consider those views when making decisions. Our Board also aims to run a cost-effective and efficient compensation scheme, in line with relevant laws and rules, and it reports our proposed budget to the regulators.

Partners and suppliers – Our 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 supplier contracts, including the values and standards expected when dealing with third parties. Our Board also approves our Modern Slavery Statement annually. You can view this statement on our website at www.fscs.org.uk/about-us/modern-slavery/

Our people – Our directors consider the effect their decisions could have on FSCS 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 of staff representatives with the Chair of the Remuneration and People Committee. 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 for the Board's workforce engagement, with this Committee overseeing and receiving associated reports.

Directors’ remuneration

Certain parts of this section are subject to audit, and these parts are marked ‘(audited)’.

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

Directors’ remuneration 2023/24 (audited)

	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	0.2	–	–	75–80
Alyson Levett[5]	20–25	3.6	–	–	25–30
Nicky Morgan	20–25	1.5	–	–	25–30
Patrick Neville[5]	5–10	5.2	–	–	10–15
Helen Parker	30–35	1.7	–	–	35–40
Richard Parkin	25–30	–	–	–	25–30
Cathryn Riley	20–25	0.8	–	–	25–30
Wendy Williams[6]	0–5	–	–	–	0–5
Executive directors					
Martyn Beauchamp[5]	180–185	12.6	15–20	15	225–230
Fiona Kidy	265–270	2.4	20–25	23	320–325
Caroline Rainbird[5,7]	235–240	0.6	–	6	240–245

Directors' remuneration 2022/23 (audited)

	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
Alyson Levett[5]	–	–	–	–	–
Nicky Morgan	20–25	1.0	–	–	25–30
Patrick Neville[5]	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[6]	0–5	–	–	–	0–5[5]
Executive directors					
Martyn Beauchamp[5]	–	–	–	–	–
Fiona Kidy	225–230	2.4	15–20	21	265–270
Caroline Rainbird[5,7]	325–330	2.3	20–25	30	380–385

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 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 banded 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 provided in the 'Directors' remuneration framework' section.

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 employee benefits taken up by executive directors, as explained 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. These figures include associated income tax and National Insurance liability, which we pay in line with HM Revenue & Customs guidelines.

3 Banded performance-related bonus is shown for the financial year it is earned in. More details on this are provided under 'Bonuses'.

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 Caroline Rainbird left the Board on 5 June 2023 and Patrick Neville left the Board on 30 June 2023. Alyson Levett joined the Board on 1 July 2023 and Martyn Beauchamp joined the Board on 18 October 2023.

6 By mutual agreement with the Home Office, Wendy Williams took up her role as an FSCS director on a pro bono basis while she remained employed by the Home Office and did not receive Board fees during the year.

7 Caroline Rainbird received payment in lieu of notice on leaving FSCS, which is included in the 'banded fees and salary' column. Caroline also received a payment in respect of compensation for loss of office. This is not included in the above table. Details are outlined under 'Compensation for loss of office'.

Pay multiples (audited)

The table below shows the relationship between the remuneration of the highest paid director and the remuneration of the workforce. The 50th percentile is also known as the median, which is the midpoint of our salary range.

For the purposes of this section, 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.

Pay ratios

Remuneration of the highest-paid director compared to the remuneration of the workforce (excluding highest-paid director):

Year	25th percentile pay ratio	Median (50th percentile) pay ratio	75th percentile pay ratio
2023/24	4.8	4.0	3.2
2022/23	6.1	5.1	3.9

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
2023/24	£61,895	£55,650	£74,293	£65,221	£94,129	£84,525
2022/23	£56,593	£51,500	£68,698	£61,790	£89,610	£81,000

Percentage change in the remuneration of the highest-paid director from 2022/23 to 2023/24:		Average percentage change in workforce remuneration as a whole, from 2022/23 to 2023/24 (excluding highest-paid director):	
Salary and allowances	Performance pay and bonuses	Salary and allowances	Performance pay and bonuses
-15.5%	0.0%	1.2%	39.2%

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

The Annual Scheme Performance Bonus for eligible employees was set at a higher level in 2023/24 than in the previous financial year, following a review of FSCS's performance. The former Chief Executive left FSCS in June 2023, and an Interim Chief Executive was appointed in October 2023. This meant that the remuneration paid to the highest paid director during 2023/24 was less than the remuneration paid to the highest paid director in 2022/23. These changes are reflected in the table above. There were no other significant changes to our employment models or methodology during 2023/24.

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 2023/24 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 2022/23.

The Chair of the Board was also the Chair of the Nomination and Governance Committee, but does not receive an additional fee for this additional 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 the following principles when reviewing the remuneration of executive directors:

- Any increase in the salaries of individual executive directors should take account of external benchmarks. This is in line with the remuneration approach across our workforce. 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 than the market.
- Executive directors receive 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. This is to reflect specific market pressures or recruitment challenges for certain roles, or where the loss of critical people and skills 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 rise in salaries, as agreed by the Remuneration and People Committee and the Board.

In 2023/24 the salaries of executive directors were reviewed and set as per 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 for 2023/24. These bonuses are not available to non-executive directors.

A key principle of our bonus system is that bonuses should be non-consolidated awards. That is, they should be one-off payments that do not count towards pension entitlements. The bonus should also reflect the contribution the executive director has made towards the performance of the organisation.

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 year and at year-end, along with other aspects of individual performance.

Compensation for loss of office (audited)

Caroline Rainbird left FSCS on 5 June 2023. She received a compensation payment for loss of office of £105,707.

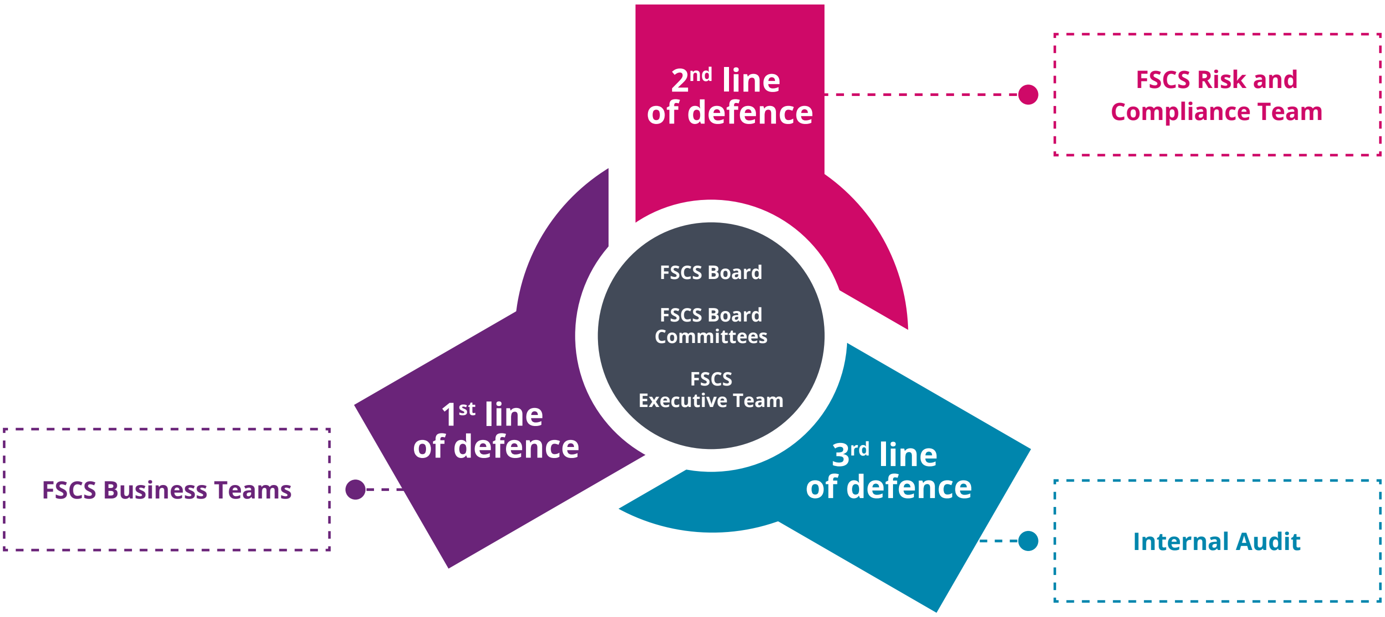
Other benefits

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. Salary sacrifice is where the director’s salary is reduced by the amount of the benefit and tax is only paid 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



The FSCS Board sets the level of risk that we are prepared to accept (our risk appetite) so that we can achieve our mission and role. The Board is also responsible for setting and maintaining risk management and internal control systems to support our overarching risk appetite.

Through our Risk Management Framework, which is based on the three lines of defence model, we adopt a holistic view of risk. This includes how we identify, monitor, manage and report risks, as well as how we examine emerging threats and seek improvement opportunities.

To promote progress, and drive greater efficiencies, we recognise that risks can be positive. We do not seek to remove all risks, rather, we make informed decisions to improve the experience and outcomes for all our stakeholders.

Our risk appetite

During 2023/24, we adopted a low to cautious risk appetite in fulfilling our statutory responsibilities, which includes paying eligible customers compensation.

Recognising that risk and the associated opportunities continue to evolve, we operate separate risk categories (Strategic, Governance, Financial, Information Technology and Data, Operational and People) and risk appetites for each area of our organisation. If an appetite threshold is assessed as outside of our agreed appetite levels, it is reported to the Risk Committee and plans are developed to return the risk to within the agreed appetite level. The Risk Committee meets every three months and reports to the FSCS Board after each meeting regarding our risk position. More information regarding our risk appetites is provided in the table overleaf.

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 we are a statutory body, we have a cautious to moderate risk appetite towards our strategic risks. Where we can influence change to the benefit of our customers, a moderate risk appetite is adopted. When working with our strategic and regulatory partners to deliver the best possible service to our customers, we are willing to accept the higher risks that can be associated with a collaborative approach.	
Governance	We have a low to cautious risk appetite, with a low appetite for any risks potentially related to non-compliance with our legal requirements. Compliance is essential for us to promote integrity and confidence in our services.	
Financial	We have a low appetite for risks associated with costs that are not in-line with the rules that govern us. For risks associated with any unanticipated costs, whether they be compensation (including levy payments) or management expenses, we have a cautious appetite. This means that, as much as possible, our financial forecasts avoid any additional or unexpected costs.	

Risk category	Description	Appetite
Information Technology and Data	We recognise the importance of innovation in our IT and security systems, and for systems that support non-critical business functions, we accept a moderate level of risk. However, we have a low to cautious risk appetite for any external access to our systems in relation to our critical business functions.	
Operational	Overall, our operational risk appetite is low to moderate. This reflects our low appetite for any risks that would compromise the quality of our customer service. We do, however, adopt a more moderate risk appetite for developing and enhancing our internal processes and systems.	
People	We adopt a low to cautious risk appetite towards upskilling our staff and for external recruitment. However, we accept a higher level of risk in ensuring the availability of sufficiently skilled staff and their retention.	

Themes during 2023/24

The table below summarises our key themes for risk management during the financial year, including our responses.

Theme	Response
Third-party management (Strategic, Governance, Financial, Information Technology and Data, Operational) On Friday, 31 March 2023, we became aware of a cyber security incident involving one of our claims handling partners, Capita. The impact of this event temporarily reduced our claims decisions rate and, consequently, the amount of compensation paid to customers during this period.	During the incident, we used our resilience plans to make sure we could continue serving our customers. As part of our contract management process, a full review was carried out into the root cause of the cyber security incident. We have now built in additional technical controls for how our systems can be accessed by third parties. We have also reviewed our controls to ensure we remain in charge of our claims processing capabilities if one of our suppliers experiences a security threat.

Theme	Response
Governance (Governance, People) Following changes to the senior management team, opportunities were taken to review and refine our governance approach.	A principles-based governance review to evolve our approach to timely and effective decision making, that complements our existing Board level governance approach, was carried out. The outcome of this review will inform our approach to environmental, social and governance assessments. This is so we can balance our financial performance and sustainability risks – including responsible business and compliance-related activities.
Change management (Strategic, Financial) Following a comprehensive review of our approach to change management, we identified opportunities to improve how we measure success, our governance and how we communicate change to our Board.	We adopted a balanced and agile approach to change management, which reflects the needs of the organisation. This approach allows the ownership of key projects to sit with the right people and teams, enabling cross-organisation discussion for best project outcomes. We will continue reviewing and evolving our change management approach in line with best practice. We are also developing the 'enterprise' approach which includes unifying teams across the business to maximise our resources and delivery.
Policy changes (Strategic, Governance, Financial, Information Technology and Data, Operational) We saw an increased volume of policy changes which we had to respond to. For example, the Improving Depositor Outcomes in Bank or Building Society Insolvency initiative and changes related to the protection of e-money institutions.	We engaged with our regulatory partners to establish a policy priority order and delivery approach for the following financial year (2024/25). We will continue working with our regulatory partners to make sure we have early visibility of potential policy changes that affect our work. This is so that we can continue effectively prioritising business decisions and provide the best outcomes for our customers and stakeholders.

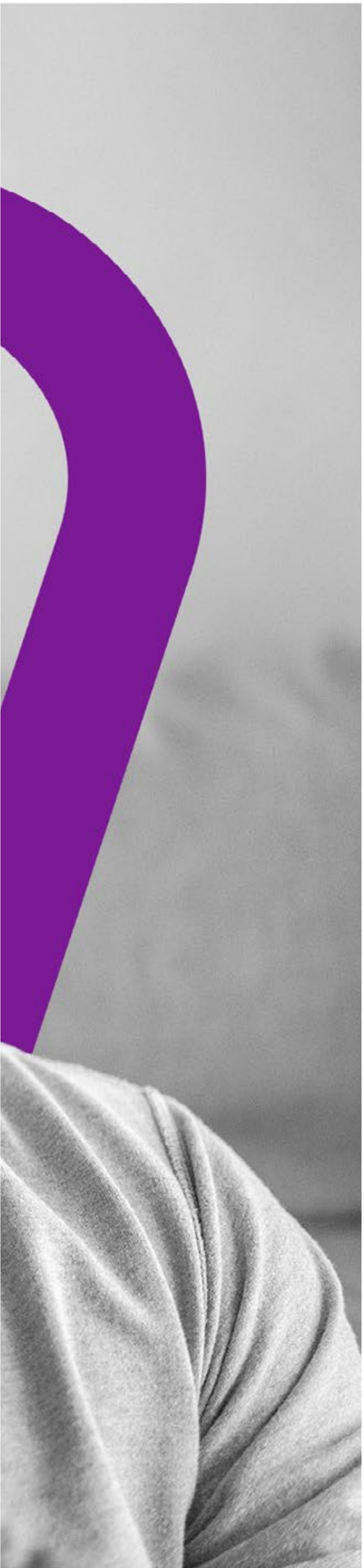
Emerging risks

We regularly challenge ourselves to make sure we are capturing the right risks for our business. This includes horizon scanning to identify emerging risks and operating a risk management framework that is appropriate for our organisation.

As we move into the next financial year, we will continue:

- refining our ways of working by further improving our claims service (this includes increasing our in-house expertise);
- strengthening our core business areas by using our resources efficiently and effectively;
- enhancing our readiness systems and being prepared for future firm failures; and
- seeking recoveries to help offset our levies.

These activities will feed into a review, by the Board in 2024/25, of our overarching risk appetite thresholds, and ensure that we continue operating in a suitably controlled manner.



Directors' summary

For the year ending 31 March 2024, the FSCS directors present this report, together with the audited financial statements on pages 85 to 124.

The directors have prepared the financial statements in line with International Financial Reporting Standards (IFRS). This has been done to enhance the quality of the financial information, increase transparency and make the financial statements easier to compare and understand internationally.

The directors

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

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

Directors' remuneration

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

Directors' indemnity and insurance

We maintain insurance to indemnify our directors and officers against claims arising from our business. We also grant 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 2024 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 duties. 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 directors, at the date of this report, confirms that:

- as far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the necessary steps to be aware of any relevant audit information, and to ensure that the company'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' summary and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to 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 company's income or expenditure for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and 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 the company’s transactions and that disclose with reasonable accuracy the company’s financial position, and enable them to ensure that the financial statements comply with the Companies Act 2006;
- safeguarding the company’s assets and taking reasonable steps for preventing and detecting fraud and other irregularities; and
- maintaining the integrity of the company’s 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 report. Information on the company’s use of financial instruments 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.

Going concern

The directors are satisfied that FSCS can 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 FSCS’s statutory auditor.

Approval of the accountability report

The accountability report is made up of the following:

- Corporate governance
- Section 172(1) statement: taking into account the interests of stakeholders
- Directors' remuneration
- Risk management
- Directors' summary

This report was approved by the FSCS Board on 18 June 2024 and signed on its behalf by:

Martyn Beauchamp
Interim Chief Executive
Financial Services Compensation Scheme

19 July 2024

Customer stories

Helen[1], retired, Wiltshire.

In 2015, Helen took advice to consolidate some of her retirement savings into a self-invested personal pension (SIPP). Shortly after doing this, she started noticing that the statements she received each year were consistently showing a fall in the value of her pension pot. Helen wasn't worried at first, as she had a number of years before retirement.

When Helen turned 60, she discovered she could start claiming her local authority pension and it prompted her to look again at her personal pension. When she looked at the SIPP, she found that the money had been invested in a number of unsuitable high-risk investments, such as car parks and overseas hotels. She also discovered that she wouldn't be able to fully access her SIPP until she was 75.

Helen spoke to a financial adviser and managed to withdraw some money, but couldn't access the remainder and her adviser suggested she contacted FSCS as she may have been mis-sold the SIPP.

Helen said the process took less time than she had expected. Having submitted her claim in September 2022, she received her compensation in January 2023. Helen explained that "I had always planned to retire at 60 but without the compensation from FSCS, I wouldn't have been able to do this. I would have had to continue working for longer."

Her advice to anyone in her situation is "don't be daunted, FSCS did a brilliant job and it was far easier than I thought it would be". For those worried that they might not be able to claim directly she says: "you definitely don't need to go through anyone else" if you need to make a claim.

[1] Identity changed for privacy. Photo used is iStock imagery.

Auditor's report

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

Opinion on financial statements

I have audited the financial statements of Financial Services Compensation Scheme Limited (Financial Services Compensation Scheme) for the year ended 31 March 2024 under the Financial Services and Markets Act 2000.

The financial statements comprise the Financial Services Compensation Scheme's:

- Statements of Financial Position as at 31 March 2024;
- 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 2024 and its surplus for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards;
- have been properly 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 Report 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 Report 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 Report, 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 the 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 and 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; Financial Services and Markets Act 2023; Companies Act 2006; the FSCS 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; and
- 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.

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 sufficient appropriate evidence 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

26 July 2024

Financial statements of FSCS for the year ended 31 March 2024

Statement of comprehensive income

	Note	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Income:			
Levy income in respect of compensation costs		383,180	349,235
Other levy income		90,148	85,028
Total levy income	4	473,328	434,263
Recoveries	5	40,054	54,248
Recharges to HM Treasury in respect of LCF	20	–	102
Bank interest received		18,174	6,137
Total income		531,556	494,750
Expenditure:			
Compensation costs	6	(423,234)	(403,483)
Administrative expenses	7, 8	(100,051)	(85,394)
Interest payable	15	(102)	(112)
Net interest on defined benefit pension scheme	22	534	416
Total expenditure		(522,853)	(488,573)
Surplus/(deficit) before tax		**8,703**	**6,177**
Corporation tax		(4,543)	(1,166)
Surplus/(deficit) after tax		**4,160**	**5,011**
Other comprehensive income			
Remeasurements on defined benefit pension scheme	22	(4,160)	(5,011)
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 88 to 124 form part of these financial statements.

Statement of financial position

of FSCS as at 31 March 2024

	Note	2024 £'000	2023 £'000
ASSETS			
Non-current assets			
Property, plant and equipment, and right of use assets		7,023	8,153
Employee benefit assets	*22*	7,796	11,056
Financial assets	*12*	65,493	60,619
		80,312	**79,828**
Current assets			
Trade and other receivables	*11*	29,920	52,383
Cash and cash equivalents	*13*	309,388	509,902
Financial assets	*12*	27,609	46,701
		366,917	**608,986**
Total assets		**447,229**	**688,814**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		**–**	**–**
Non-current liabilities			
Other non-current financial liabilities	*14*	73,289	71,675
Provisions	*16*	516	516
Lease liabilities	*15*	5,648	6,589
		79,453	**78,780**
Current liabilities			
Bank overdraft	*13*	17,137	511
Trade and other payables	*14*	259,616	569,074
Provisions	*16*	90,081	39,522
Lease liabilities	*15*	942	927
		367,776	**610,034**
Total liabilities		**447,229**	**688,814**
Total equity and liabilities		**447,229**	**688,814**

The notes on pages 88 to 124 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 85 to 87 were approved by the Board of Financial Services Compensation Scheme Limited (registered number 3943048) on 18 June 2024 and signed on its behalf on 19 July 2024 by:

Martyn Beauchamp
Interim Chief Executive, Financial Services Compensation Scheme

Statement of cash flows of FSCS

for the year ended 31 March 2024

	Note	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Operating activities			
Net cash generated from operations	*19*	(230,684)	175,112
Corporation tax paid		(3,336)	–
Net cash flows from operating activities		**(234,020)**	**175,112**
Investing activities			
Bank interest received		18,174	6,137
Purchases of property, plant and equipment		(261)	(890)
Net cash flows used in investing activities		**17,913**	**5,247**
Financing activities			
Lease payments	*15*	(1,033)	(538)
Net cash flows used in financing activities		**(1,033)**	**(538)**
Net increase/(decrease) in cash and cash equivalents		(217,140)	179,821
Cash and cash equivalents at 1 April	*13*	509,391	329,570
Cash and cash equivalents at 31 March	*13*	**292,251**	**509,391**

Notes to the financial statements for FSCS for the year ended 31 March 2024

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 and Pensions Provision; Life Distribution and Investment Intermediation; Investment Provision; Home Finance Intermediation; Debt Management; and Funeral Plans.

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 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 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 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 refund or a reduction in the following 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 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 firms authorised by the FCA and the PRA 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.

Interest income

FSCS receives interest on bank deposits. The interest received is credited to the classes in proportion to their relative fund balance.

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 taker defaults, Special Administration Regime (SAR) defaults, insurance provider return of premium cases, and funeral plan cover, these do not generally require a decision to be made by FSCS as to whether they are a valid claim; 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

Financial assets are classified under IFRS 9 as amortised cost, or fair value through profit or loss depending on the entities business model for managing the financial assets and the contractual cash flow characteristics of the instruments. As FSCS generally holds financial assets in order to collect the contractual cash flows, it has determined the classification of recoveries receivable assets by assessing whether the terms of the instrument met the solely payments of principal and interest (SPPI) test required for amortised cost recognition. Since no interest is received on this class of assets this fails to meet the SPPI test, so recoveries receivable has been classified as fair value through profit or loss.

Recoveries receivable are initially measured at fair value. Gains and losses arising from subsequent changes in fair value are recognised within recoveries income. 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. Refer to Note 17 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 rate 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. These are measured at amortised cost.

Borrowings

Borrowings are recognised in the statement of financial position when 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, using the effective interest rate method. 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 taker defaults, Special Administration Regime (SAR) defaults, return of insurance premium cases and funeral plan cover as these do not require a decision to be made by FSCS as to whether there is a valid claim, 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 bank deposits is credited to the compensation class fund balances, 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 International Accounting Standard (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 2023 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 2023 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 2024	Year ended 31 March 2023
	£'000	£'000
Levy income recognised in SoCI		
Levy income in respect of compensation costs	**383,180**	**349,235**
Other levy income		
Levy income in respect of base costs	37,898	31,791
Levy income in respect of specific costs	62,448	54,419
Levy income in respect of interest payable	102	112
Levy income in respect of pension obligations	3,260	3,791
Offset from bank interest received net of tax	(13,631)	(4,971)
Offset from exchange (gains)/losses	71	(114)
	90,148	**85,028**
Total levy income	**473,328**	**434,263**

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 2024	Received	Movements in recoveries receivable	Year ended 31 March 2023
	£'000	£'000	£'000	£'000	£'000	£'000
Funding class						
Deposits	806	–	806	2,424	–	2,424
General Insurance Provision	32,635	(4,337)	28,298	9,960	36,948	46,908
General Insurance Distribution	2,426	–	2,426	(6)	–	(6)
Life & Pensions Provision	–	–	–	–	–	–
Life Distribution & Investment Intermediation	16,547	(8,004)	8,543	(448)	5,404	4,956
Investment Provision	(19)	–	(19)	(26)	–	(26)
Home Finance Intermediation	–	–	–	(8)	–	(8)
Debt Management	–	–	–	–	–	–
Funeral Plans	–	–	–	–	–	–
	52,395	**(12,341)**	**40,054**	**11,896**	**42,352**	**54,248**

6. Compensation costs

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

	Year ended 31 March 2024	Year ended 31 March 2023
	£'000	**£'000**
Funding class		
Deposits	1,403	4,496
General Insurance Provision	160,026	162,921
General Insurance Distribution	629	1,670
Life Distribution & Investment Intermediation	179,536	202,733
Investment Provision	81,443	30,988
Home Finance Intermediation	197	676
Debt Management	–	(1)
Funeral Plans	–	–
Total compensation costs	**423,234**	**403,483**

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 2024	Year ended 31 March 2023
	£'000	£'000
Deposits	13,719	13,156
General Insurance Provision	6,650	6,226
General Insurance Distribution	1,615	1,769
Life & Pensions Provision	76	190
Life Distribution & Investment Intermediation	31,741	29,009
Investment Provision	7,623	3,318
Home Finance Intermediation	964	863
Debt Management	18	–
Funeral Plans	144	–
Base costs	37,898	31,791
IAS 19 pension adjustments	(366)	(804)
LCF Government Scheme administration costs	–	102
Other – interest payable	(102)	(112)
Less exchange (gains)/losses	71	(114)
Total administrative expenses	**100,051**	**85,394**
Other – interest payable	102	112
Total administrative expenses and interest payable	**100,153**	**85,506**

8. Administrative expenses

	Note	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Staff costs	*9*	26,337	23,001
Accommodation and office services		2,331	2,023
IT maintenance costs		6,411	6,289
Outsourced claims-handling costs		11,096	11,559
Contractors		14,417	9,955
Change including IT development costs		10,013	7,777
Depreciation		1,394	1,030
Press and communications		2,945	3,660
Auditor's remuneration			
Statutory audit of the financial statements		160	148
Other audit services[1]		17	17
Legal and professional fees		11,898	8,239
Bank charges		7,066	6,711
LCF Government Scheme administration costs	*20*	–	102
Other		5,966	4,883
		100,051	**85,394**

1 Agreed upon procedures on the Class Statements.

9. Staff costs

	Year ended 31 March 2024	Year ended 31 March 2023
	£'000	**£'000**
Wages and salaries, including the executive directors	21,237	18,535
Social security costs	2,583	2,331
Pension costs	2,517	2,135
	26,337	**23,001**

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 2024	Year ended 31 March 2023
		(restated)
Average number of employees		
Executive Team	7	8
Operations	167	153
Other	93	82
	267	**243**

Other includes all other teams such as Technology, Finance, Legal and People teams.

10. Directors' remuneration

As at 31 March 2024, there were seven independent non-executive directors (2023: seven) and two executive directors (2023: 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 2024	Year ended 31 March 2023
	£'000	**£'000**
Aggregate remuneration	1,084	825
Pension contributions	44	51
	1,128	**876**

Retirement benefits during the year accrued to no directors (2023: none) under FSCS's defined benefit scheme and two under the money purchase scheme (2023: two).

The highest paid director, the former Chief Executive (2023: former Chief Executive), received aggregate remuneration of £341,271 (comprising basic salary of £59,555, compensation for loss of office of £105,707, pay in lieu of notice of £167,097, and other emoluments of £8,912) (2023: £351,394 (comprising basic salary of £318,280, bonus of £23,871 and other emoluments of £9,243)). Payments of £5,757 have been made for pension (2023: £29,643). The former 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 (2023: £75,000) and the fees paid to the independent non-executive directors are set at £24,500 per annum (2023: £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 (2023: £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 £12,933 (2023: £11,019) 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

	Note	31 March 2024 £'000	31 March 2023 £'000
Amounts due from the FCA	*20*	15,863	45,078
Levies receivable			
General Insurance Provision		4,109	184
General Insurance Distribution		74	–
Life Distribution & Investment Intermediation		484	502
Investment Provision		34	–
Home Finance Intermediation		–	3
In respect of base costs		189	120
Net amounts due from levy payers in the following classes:			
Life and Pensions Provision		555	461
Funeral Plans		146	–
In respect of base costs		–	279
Other receivables		179	75
Prepayments		8,287	5,681
		29,920	**52,383**

See Note 17 for details on credit risk.

12. Financial assets

	As at 31 March 2024	As at 31 March 2023
	£'000	**£'000**
Financial assets (current)		
Recoveries receivable	27,609	46,701
	27,609	**46,701**

	As at 31 March 2024	As at 31 March 2023
	£'000	**£'000**
Financial assets (non-current)		
Recoveries receivable	65,493	60,619
	65,493	**60,619**

Total recoveries receivable of £93,102,000 (2023: £107,320,000) include £76,976,000 (2023: £81,313,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class and £16,126,000 (2023: £26,007,000) from firms declared in default in the Life Distribution and 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 movements in recoveries receivable can be found in Note 5.

Recoveries receivable are categorised as level 3 within the fair value hierarchy (see Note 17), 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	–	(5,958)	(11,529)
Discount rate	+1%	(2,792)	(9,339)	(15,405)
	+2%	(5,408)	(12,498)	(19,006)

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

As at 31 March 2024, FSCS had bank facilities of £1,500m, comprising a Revolving Credit Facility of £1,450m (2 year facility from 12 March 2024), and an overdraft facility of £50m. Any drawdown of the Revolving Credit Facility is subject to Board approval.

	31 March 2024	31 March 2023
	£'000	**£'000**
Cash at bank	309,388	509,902
	309,388	**509,902**
Bank overdraft	(17,137)	(511)
	292,251	**509,391**

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 2024, 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.

See Note 17 for details on liquidity risk.

14. Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2024 £'000	31 March 2023 £'000
Compensation payable		8,698	1,203
Net amounts held on behalf of levy payers			
Deposits		13,112	22,417
General Insurance Provision		50,678	57,268
General Insurance Distribution		6,103	5,485
Life Distribution & Investment Intermediation		44,600	93,812
Investment Provision		12,757	118,363
Home Finance Intermediation		1,527	7,412
Debt Management		1	498
Payments on Account		78,383	202,271
Social security and other taxes		795	728
Corporation tax		2,373	1,166
Accruals		6,440	7,215
Deferred income in respect of base costs		1,119	–
Distribution of surplus owed to customers	*12*	706	2,109
Net amounts due to levy payers in respect of recoveries receivable	*12*	26,903	44,592
Other payables		5,421	4,535
		259,616	**569,074**

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

	Note	31 March 2024 £'000	31 March 2023 £'000
Net amounts due to levy payers in respect of recoveries receivable	12	64,890	59,542
Distribution of surplus owed to customers	12	603	1,077
Amounts due to levy payers in respect of pension surplus		7,796	11,056
		73,289	**71,675**

Under revised funding rules that took effect on 1 April 2018, the FCA instructed the largest c.1,000 levy payers to make payments on account for FSCS's 2024/25 levy. These firms were invoiced in February, with a due date of 1 April 2024. As at 31 March 2024, invoices totalling £102,097,000 (2023: £242,432,000) were issued, of which £74,376,000 (2023: £201,685,000) was collected, leaving amounts due from levy payers of £27,720,000 (2023: £40,746,000). The amounts received are held to the credit of those individual firms rather than to any particular funding class and are shown separately as payment on account – in Note 14 and in the Class Statements. These funds will be applied to reduce the payments of these firms when the 2024/25 annual levies are invoiced in July 2024, 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 and IAS 32.

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 2024	31 March 2023
	£'000	£'000
Lease liabilities movements		
Brought forward	7,516	7,942
Lease remeasurement	5	–
Payments during the year	(1,033)	(538)
Interest expense on lease liabilities	102	112
Lease liabilities at 31 March	**6,590**	**7,516**

	31 March 2024	31 March 2023
	£'000	£'000
Lease liabilities fall due as follows:		
Within 1 year	942	927
Within 2 to 5 years	3,246	3,247
Within 6 to 10 years	2,402	3,342
Greater than 10 years	–	–
Lease liabilities at 31 March	**6,590**	**7,516**

The net book value of right of use assets, at 31 March 2024, was £6,098,000 (2023: £6,916,000).

See Note 17 for details on liquidity risk.

16. Provisions

	As at 31 March 2023	Additional provisions made in the period	Unused amounts reversed during the period	Utilised in the year	As at 31 March 2024
	£'000	£'000	£'000	£'000	£'000
Compensation cost	36,287	82,625	(3,341)	(25,490)	90,081
Levy provision	3,235	378		(3,613)	–
Other	516	–	–	–	516
Total provisions	**40,038**	**83,003**	**(3,341)**	**(29,103)**	**90,597**
Current	39,522	83,003	(3,341)	(29,103)	90,081
Non-current	516	–	–	–	516
	40,038	**83,003**	**(3,341)**	**(29,103)**	**90,597**

Compensation cost provision

The provision for compensation costs of £90,081,000 (2023: £36,287,000) includes estimates for return of funds, return of premiums, and general insurance claims 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.

There were three new failures during the year which resulted in additional provisions, WealthTek LLP, IBP Markets Ltd, and Blankstone Sington Ltd. Significant judgements had to be made by the administrators in arriving at estimates, such as the timing of the return of remaining client assets on some estates and their own administration costs, 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. The cost of shortfalls and associated costs for FSCS was estimated as £40,894,000, £21,578,000, and £9,860,000 respectively.

This provision also includes a remaining estimate of £850,000 for Strand Capital Ltd and £6,514,000 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. The remaining provision for Reyker Securities plc was £4,359,000 in 2022/23. This was increased by £3,714,000 in light of the latest information from the administrators. We also made interim payments totalling £1,560,000 during 2023/24, leaving a provision of £6,514,000 remaining for Reyker Securities plc.

Provisions of £3,807,000 remain for the return of premiums on the failures of Enterprise Insurance Company plc, Elite Insurance Company Ltd, and Alpha Insurance A/S. This provision was 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 £6,579,000 (2023: £8,838,000) for other general insurance claims. This is an estimate of unpaid compensation claims that were accepted on or before 31 March 2024. 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 2024. 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.

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 its liquidity requirements 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 Revolving Credit Facility of £1,450m (2-year facility from 12 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 2024						
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	12,656	246,960	73,289	–	332,905
Lease liabilities	–	–	942	3,246	2,402	6,590
Loan interest payable	–	–	–	–	–	–
Overdraft	17,137	–	–	–	–	17,137
	17,137	**12,656**	**247,902**	**76,535**	**2,402**	**356,632**
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	–	–	–	–	–	–
Overdraft	511	–	–	–	–	511
	511	**12,478**	**557,523**	**74,922**	**3,342**	**648,776**

Included within the trade and other payables balance is £128,778,000 (2023: £305,255,000) 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 the forecast for the coming year shows these balances will be utilised in the upcoming year and so, 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.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables (trade and other receivables and financial assets) which amounted to £123,022,000 and cash of £309,388,000. A loan commitment of £16,400,000 has also been made, but as no amounts were drawn from this facility, there was no credit risk exposure at the reporting date.

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. Costs are predominantly incurred in GBP and levies are also billed in GBP, so 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 to arrive at the present value. 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 2023	Received in year	Recognised or issued in year	Recoveries	Compensation costs	As at 31 March 2024
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets at fair value through the income statement						
Recoveries receivables	104,134	(52,395)	–	40,054	–	91,793
Loans	–	–	–	–	–	–
	104,134	**(52,395)**	**–**	**40,054**	**–**	**91,793**
Financial liabilities						
Loan commitments	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**

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

	31 March 2024 Income statement			31 March 2023 Income statement		
	Recoveries	Compensation costs	Total	Recoveries	Compensation costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Recoveries receivables	(12,341)	–	(12,341)	42,354	–	42,354
Loans	–	–	–	–	–	–
Loan commitments	–	–	–	–	–	–
	(12,341)	**–**	**(12,341)**	**42,354**	**–**	**42,354**

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 2024, 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 2024, there was no exposure to defaults, so no ECL has been recognised.

In accordance with IFRS 9, the fair value adjustment at initial recognition, which is the difference between the transaction value of the loans and their fair value, should be deferred and either amortised or recognised when a gain or loss is crystallised. FSCS will defer this loss until drawdown occurs and recognise a percentage of this loss in the statement of comprehensive income. The percentage of loss to be recognised will be based on the amount drawn over the total facility available.

19. Reconciliation of the profit/(loss) on ordinary activities before interest and tax to net cash generated 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 2024 £'000	Year ended 31 March 2023 £'000
Surplus/(deficit) on ordinary activities		4,160	5,011
Adjustments for:			
Interest payable		102	112
Interest received		(18,174)	(6,137)
Depreciation		1,394	1,030
Loss on disposal		2	–
Decrease/(increase) in receivables	*11*	22,463	(31,625)
Increase/(decrease) in payables	*14*	(304,508)	262,643
Decrease/(increase) in financial assets	*12*	14,218	(42,726)
Difference between pension charge and cash contributions		(900)	(1,220)
Increase/(decrease) in provisions for liabilities and charges	*16*	50,559	(11,976)
Net cash generated from operating activities		**(230,684)**	**175,112**

The decrease 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 judgement, 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 £141,931,000 (2023: £621,101,000) during the year. Collections of £151,201,000 (2023: £701,013,000) were received from levy payers. The fee for the agency service was £388,000 (2023: £353,000).

Overall, payments of £180,416,000 (2023: £669,425,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2024 of £15,861,000 (2023: £45,076,000). 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 £15,863,000.

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.

On 1 April 2023, the remaining balance held on behalf of HM Treasury was £38,000. During the year, FSCS made compensation payments totalling £27,000 to eligible bondholders of this scheme and interest received net of bank changes amounted to £2,000. As at 31 March 2024, this leaves an amount of £13,000 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 2024 and 31 March 2023, 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 2024 and 31 March 2023, 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 the Financial Services and Markets Act 2000 (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. We are now moving to process customer claims on a case-by-case basis. Our focus at present is to assess claims where Avacade, an unauthorised introducer affecting a large number of customers, has been involved in the relevant SIPP arrangements for historic SIPP operator defaults. At the same time, we are working to identify other relevant unauthorised introducers that may have played a similar role to Avacade in relation to potentially impacted customers. We expect to have made good progress with the assessment of the cohort of Avacade claims by the autumn of 2024.

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.

Given the relatively small number of claims that have been processed to date, it is not possible to provide a reliable estimate of the total cost of these claims given that this will depend on an assessment of the particular facts in each claim.

Judicial review challenge

FSCS is currently subject to a judicial review challenge in relation to its decision in July 2022 to impose a cut-off date for certain appeals on claims against SIPP operators under Section 27 of FSMA. A court hearing is scheduled for October 2024. If the judicial review is unsuccessful, FSCS will not be required to reopen and consider any more appeals than it is already doing. However, if the judicial review is successful: (i) it is possible that FSCS could be ordered to reopen the three claimants' claims to consider an appeal looking at whether there is Section 27 liability, and if so, whether any additional compensation is payable (above that already paid to the claimants); (ii) it is possible that FSCS could be ordered to reopen any claims where relevant appeals were received by FSCS within a certain period of time (deemed by the court to be 'reasonable') following the cut-off date. It cannot be known what period of time the court might deem as 'reasonable'. Likewise, it cannot be known whether any claims reopened on appeal would ultimately be upheld, or whether compensation (in addition to that already paid) would be payable. FSCS does not have sufficient data on the uphold rate or amount payable for Section 27 claims to be able to estimate the potential liability under either of the two possibilities set out above.

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 £3,698,000, and £316,000 was outstanding to be paid at 31 March 2024 (2023: £2,824,000 and £322,000 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 2024 % (p.a.)	**31 March 2023 % (p.a.)**
Discount rate	4.85	4.75
RPI inflation assumption	3.20	3.25
CPI inflation assumption	2.80	2.55
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	3.10	3.15
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	2.35	2.25

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 2022, 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 2024**	**31 March 2023**
Life expectancy at 60 for male aged 60	27.5	28.0
Life expectancy at 60 for female aged 60	29.3	29.8
Life expectancy at 60 for male aged 45	28.5	29.0
Life expectancy at 60 for female aged 45	30.3	30.8

For the 31 March 2024 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 2024. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

The assumptions were chosen by FSCS, with professional advice.

As at 31 March 2024, 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:

As at 31 March 2024	Quoted £'000	Unquoted £'000	Total £'000
Index-linked gilts	15,653	–	15,653
UK corporate bonds	12,762	–	12,762
Cash and net current assets	1,346	–	1,346
Total assets	**29,761**	**–**	**29,761**

As at 31 March 2023	Quoted £'000	Unquoted £'000	Total £'000
Index-linked gilts	17,799	–	17,799
UK corporate bonds	13,576	–	13,576
Cash and net current assets	1,096	–	1,096
Total assets	**32,471**	**–**	**32,471**

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 2024 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 2024	31 March 2023
	£'000	£'000
Fair value of assets	29,761	32,471
Present value of obligations	(21,965)	(21,415)
Funded status	**7,796**	**11,056**
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling')	–	–
Net defined benefit asset/(obligation)	**7,796**	**11,056**

	Year ended 31 March 2024	Year ended 31 March 2023
Movement in net defined benefit asset/(obligation) over the year	£'000	£'000
Net defined benefit asset/(obligation) at beginning of the year	11,056	14,847
Employer contributions	824	1,369
Income/(expense) recognised in income statement	76	(149)
Remeasurement gain/(loss) recognised in other comprehensive income	(4,160)	(5,011)
Net defined benefit asset/(obligation) at end of the year	**7,796**	**11,056**

Changes in present value of the defined benefit obligation	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Opening defined benefit obligation	21,415	31,256
Past service cost	13	264
Interest cost	1,004	839
Distributions	(569)	(331)
Experience (gains)/losses	639	1,061
Actuarial (gains)/losses arising from change in financial assumptions	(185)	(11,674)
Actuarial (gains)/losses arising from change in demographic assumptions	(352)	–
Closing defined benefit obligation	**21,965**	**21,415**

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		21,965
Discount rate reduced by	0.25% p.a.	22,883
Discount rate increased by	0.25% p.a.	21,101
Inflation increased by[1]	0.25% p.a.	22,570
Inflation reduced by[1]	0.25% p.a.	21,260
Life expectancy increased by	1 year	22,566
Life expectancy reduced by	1 year	21,360

1 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 2024, 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 2024	Year ended 31 March 2023
Changes in fair value of the Pension Scheme assets	**£'000**	**£'000**
Opening fair value of assets	32,471	46,103
Contributions paid by employer	824	1,369
Interest income	1,538	1,255
Return on Scheme assets excluding interest income	(4,058)	(15,624)
Distributions	(569)	(331)
Administration expenses	(445)	(301)
Closing fair value of assets	**29,761**	**32,471**

	Year ended 31 March 2024	Year ended 31 March 2023
Expenses recognised in the income statement	**£'000**	**£'000**
Past service cost	13	264
Administration expenses	445	301
Net interest on the net defined benefit obligation/(asset)	(534)	(416)
Total expense/(income)	**(76)**	**149**

	Year ended 31 March 2024	Year ended 31 March 2023
Remeasurement effects recognised in other comprehensive income	**£'000**	**£'000**
Return on Pension Scheme assets excluding interest income	(4,058)	(15,624)
Experience gains/(losses) on Pension Scheme obligations	(639)	(1,061)
Actuarial gains/(losses) arising from change in financial assumptions	185	11,674
Actuarial gains/(losses) arising from change in demographic assumptions	352	–
Net actuarial gains/(losses) recognised in the period	**(4,160)**	**(5,011)**

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

	£'000
Expected future benefit payments	
Year ending 31 March 2025	484
Year ending 31 March 2026	617
Year ending 31 March 2027	636
Year ending 31 March 2028	928
Year ending 31 March 2029	900
Five years ending 31 March 2034	5,765

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 formal valuation of the Scheme at 1 April 2021 showed that the Scheme is in surplus on its Technical Provisions basis, which means that FSCS is not required to continue to make deficit reduction contributions towards the Scheme. However, since the completion of the valuation FSCS continued to make contributions to target buy-out. Effective from 28 March 2024, the Schedule of Contributions was formally revised to cease all contributions from FSCS.

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 17 years.

23. Other disclosures

FSCS was issued with an updated Accounts Direction in April 2024, 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 2024**	**Year ended 31 March 2024**	**Year ended 31 March 2024**	**Year ended 31 March 2023**	**Year ended 31 March 2023**	**Year ended 31 March 2023**
≤ £10,000	–	–	–	–	–	–
£10,001–£25,000	1	2	3	–	–	–
£25,001–£50,000	–	3	3	1	–	1
£50,001–£100,000	1	3	4	2	–	2
£100,001–£150,000	–	1	1	–	–	–
£150,001–£200,000	–	–	–	–	–	–
Over £200,001	–	1	1	–	–	–
Total number of exit packages by type	**2**	**10**	**12**	**3**	**–**	**3**
Total resource cost (£'000)	**82**	**765**	**847**	**207**	**–**	**207**

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 £445,653 (2023: £671,537) during the year to 31 March 2024. 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 789 overpayments during the year to 31 March 2024, representing a gross value of £875,995 (compared to 283 overpayments and a value of £1,121,258 during 2022/23). The total net value of overpayments at 31 March 2024 was £434,708, of which £319,371 is being pursued for recovery.

In respect of advice claims, there were 51 overpayments totalling £264,363. This is a significant reduction of 38 overpayments and £534,618 from the previous year, resulting from improvements made to reduce processing errors. The environment that FSCS operates in continues to have a high proportion of complex claims. Complex (home finance and pension) claims (as a proportion of FSCS decisions) increased by 2.8% to 56.1% (from 53.3% in the previous year) and positively the value of overpayments made in comparison to compensation paid reduced significantly by 63% to 0.13% (from 0.35% in the previous year). FSCS has already recovered or is seeking to recover £149,026 of these overpayments and £115,337 has been written off. The write offs were mainly due to the personal circumstances of the payee and their inability to repay.

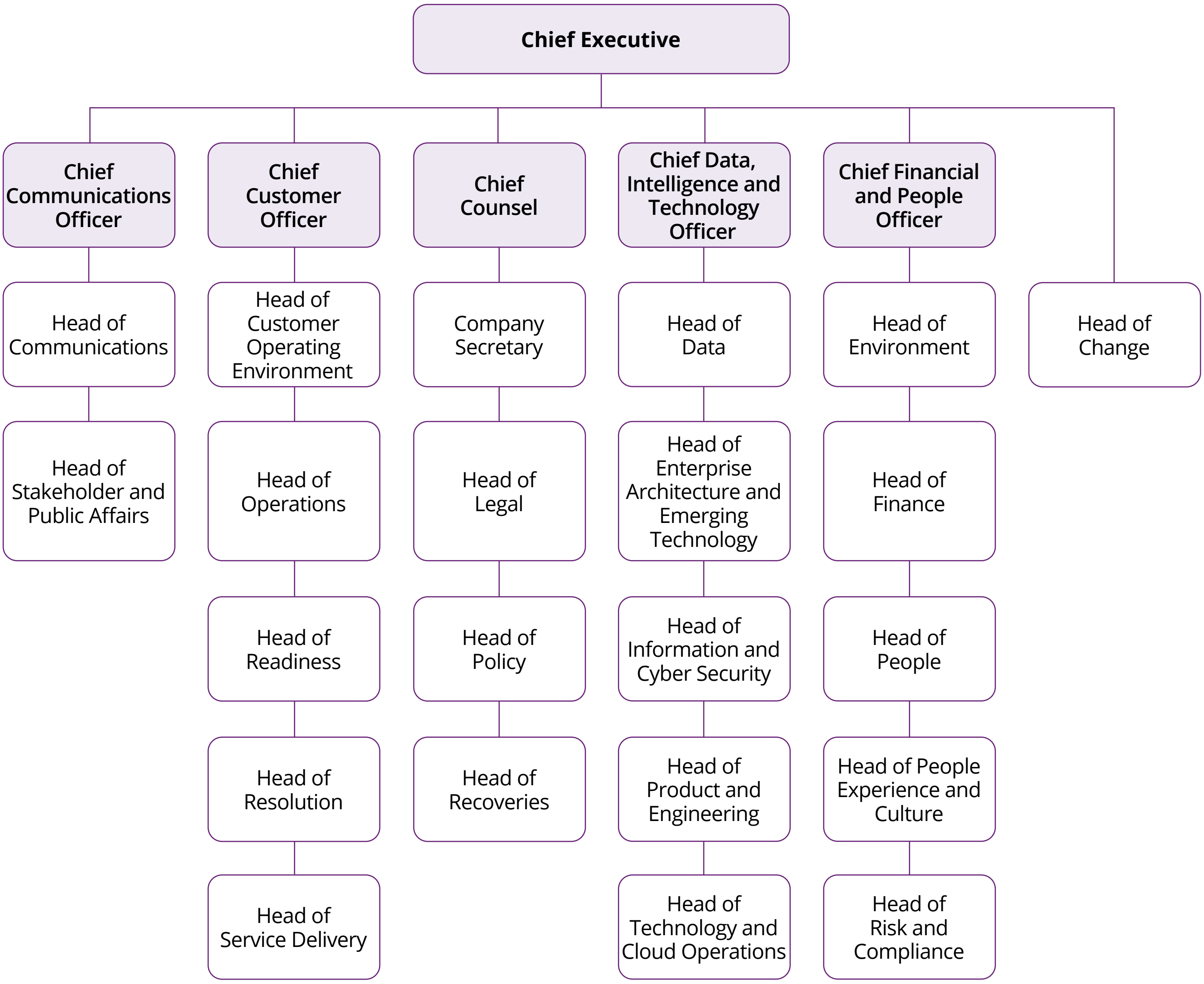
In respect of insurance overpayments, there were 738 totalling £611,631, of which £395,124 has been recovered (compared to 194 overpayments with a value of £322,277 last year). One specific estate accounted for 629 overpayments totalling £333,972. After an investigation, FSCS established unprotected claims handling costs were included on a proportion of the claims processed within the estate. The error has been corrected and the payments are expected to be fully recovered as they were made to third parties (e.g., law firms) and not customers, with £126,515 recovered to date. The balance of £207,457 will be recovered in early 2024/25. Had the balance been recovered before 31 March 2024, the net overpayments for 2023/24 would be below the £300,000 threshold.

24. Events after the reporting period

There were no material events after the reporting period. The Board authorised these financial statements for issue on 26 July 2024.

Appendix

FSCS organisation chart



Firm defaults

From 1 April 2023 to 31 March 2024, FSCS declared the following 51 firms in default:

Name of authorised firm	Date declared in default
Deposit-taking firms	
6 Towns Credit Union Ltd	05/09/2023
Hastings & Rother Credit Union Ltd	08/08/2023
Other firms	
Pension Advice Specialists Ltd trading as Ashworth Wealth	26/03/2024
Abbey Lane Financial Associates Ltd	25/03/2024
Aqua Financial Services Ltd formerly Aqua IFA Ltd	25/03/2024
Strategic Investment Solutions Ltd formerly Cobco (291) Ltd trading as Denton Mortgages & Loans	25/03/2024
Fresh Financial Solutions LLP	25/03/2024
A.P. Financial Services UK Ltd trading as Pella Associates, GW Financial Planning Services	08/03/2024
Hartley Pensions Ltd	21/02/2024
Frodsham Financial Planning Ltd formerly Tom Carroll Associates Financial Planning Ltd	13/02/2024
Sterling Green Ltd trading as Sterling Green Loans, beyondcomparison	09/02/2024
Abana Unipessoal Lda formerly Abana Lda	08/02/2024
Dial4aloan Ltd	06/02/2024
Smith Holdings Ltd trading as Life Time Independent	23/01/2024
Niche Independent Financial Advisers Ltd	17/01/2024
D & G Financial Services Ltd trading as D&G Insurance Services, AWC Insurance Services	09/01/2024
The Chambers Partnership Ltd	20/12/2023
Rowanmoor Personal Pensions Ltd trading as Rowanmoor	15/12/2023
Houghton Edwards LLP	15/12/2023
IFS Aegis Ltd formerly Authorised Financial Advisors Ltd	14/12/2023
Bluesky Wealth Management Ltd trading as Pensions Matter	12/12/2023
Quadros Financial Solutions Ltd	01/12/2023
F M L Insurance Services Ltd trading as Entertainment Insurance Services	15/11/2023
D.C. Financial Ltd formerly SystemCover Ltd	09/11/2023

Name of authorised firm	Date declared in default
Retirement Direct Ltd formerly Read Independent Financial Advisers Ltd	20/10/2023
Marvell Enterprises Ltd	13/10/2023
Blankstone Sington Ltd trading as BS CFDs	13/10/2023
Cavendish Incorporated Ltd	12/10/2023
Core Cover Ltd formerly Study Safe Ltd trading as Lifecover.com, Secured-Loan.online	10/10/2023
David Craig	25/09/2023
Mike Norris Financial Services Ltd	22/09/2023
Focus Oxford LLP trading as Focus Independent Financial Advisers and Independent Insurance Consultants	14/09/2023
Leslie & Swallow LLP trading as Aston Collie	14/09/2023
Crosbie Carr Morris Ltd	14/09/2023
MLM Wealth Management Ltd trading as MLM Financial Services	02/09/2023
Chryson Ltd trading as IQ Money, Chryson Wealth Management, Sharewatch UK	23/08/2023
Consero Capital LLP trading as Green-ifisa.com, Renewable-bonds.com	23/08/2023
The Financial Planning Practice Ltd	11/08/2023
Arrow Financial Services UK Ltd trading as Arrow Asset Management	09/08/2023
Temple Park Financial Services	28/07/2023
Cheshire Trafford U.K. Ltd formerly Cheshire Trafford (Yorkshire) & Co. Ltd	21/07/2023
Maymont Wealth Ltd formerly GWM Investment Management Ltd trading as Discover Wealth	21/07/2023
Prism Independent Financial Advisers Ltd	11/07/2023
Wealthmasters Financial Management Ltd trading as Gryphon Capital, Invictus Wealth, Sydney Charles UK	11/07/2023
MacFarlaine & Brooks IFA Ltd	28/06/2023
Thomas Financial Ltd	08/06/2023
Pacific IFA Ltd	26/05/2023
Wellington Court Financial Services Ltd	23/05/2023
Old Park Capital Ltd	23/05/2023
SQ Wealth Ltd formerly Quays Wealth Management Ltd	06/04/2023
WealthTek LLP	06/04/2023

There were no insurance firms declared in default during 2023/24.

Contact us

Contact us

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