HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Dame Meg Hillier MP
Chair
Committee of Public Accounts

Rt Hon Mel Stride MP
Chair
Treasury Select Committee

House of Commons
London
SW1A 0AA

10 June 2022

Dear Meg and Mel,

As Chairs of the Public Accounts Committee and the Treasury Select Committee, I am writing to ensure the Committees are informed about the process that has been undertaken regarding a contingent liability which was created in March 2021, in respect of Reclaim Fund Ltd (RFL).

The undertaking of this liability was outside of HM Treasury's control due to the reclassification of RFL by the Office of National Statistics (ONS) to central government, and subsequent incorporation of RFL as an arm's length body (ALB) of HM Treasury. Although Annex 5.4.35 of Managing Public Money states that there is not usually a requirement to notify Parliament of instances where a contingent liability arises due to events outside of a department or an ALB's control, I wanted to provide you with an update.

The Dormant Assets Scheme (the Scheme) provides for funds in dormant bank and building society accounts to be transferred to good causes across the UK. RFL facilitates this, receiving dormant funds from participating banks and building societies and transferring a portion to the National Lottery Community Fund to be distributed to selected charities.

Under the Dormant Bank and Building Society Accounts Act 2008, RFL is required to manage dormant account funds in such a way as to enable them to meet whatever repayment claims it is prudent to anticipate. A core principle of the Scheme is that asset owners should be able, at any point, to reclaim the full amount owed to them. RFL currently reserves 40% of the funds to meet this requirement. Reclaim rates are currently around 5% per annum.

At the start of the Scheme in 2010, RFL was established as a wholly owned subsidiary of Co-operative Banking Group. However, in September 2019 HM Treasury received notification from the Office of National Statistics (ONS) of their decision to classify RFL as a central government body. We therefore established RFL as an arm's length body of HM Treasury.

Prior to the ONS notification, the Scheme was protected through the Financial Services Compensation Scheme (FSCS) so that, should RFL become unable to meet its reclaims, consumers looking to reclaim would remain able to do so. Scheme participants (i.e. banks and building societies) were required to pay a levy to cover the cost of the compensation scheme.

Following RFL's reclassification to central government, we removed its FSCS protection as it would have been inappropriate for a publicly owned body to continue to be protected by levies from the private sector. HM Treasury therefore recognised a new contingent liability with a maximum exposure of £945.069m to replace the FSCS protection. HM Treasury has taken a power in the Dormant Assets Act 2022 to enable it to provide RFL with a loan in the event it is or looks likely to become insolvent. The contingent liability has been recognised in HM Treasury's accounts since March 2021, and the relevant sections of the Dormant Assets Act 2022 commenced on 6 June of this year.

HM Treasury has recognised this as a new contingent liability in Note K of the 2021-2022 Main Supply Estimates and in the 2020-2021 Annual Report and Accounts.

As set out, though formal notification of this contingent liability is not required, I wanted to make sure the Committees were updated on this. I hope you find this information helpful.

JOHN GLEN