I am writing as mentioned at the TSC hearing on 4 March, to set out how the PRA has performed against the budgetary commitment I previously gave to the Treasury Committee, and how we expect to get to a steady state for the cost of regulation.

At my appointment hearing as Deputy Governor of the Bank of England almost two years ago, I said that the PRA’s annual approach to setting its budget would be to ensure that it is no higher than the flat real cost of operation. This flat real cost commitment applies to our annual regular, recurrent costs, excluding any new responsibilities or temporary projects. On this basis, the FSA counterfactual estimate for the costs in our first year of operation was £234 million. This does not include the transition costs which were incurred by the Bank of England in the establishment of the PRA.

Using an assumption of an average inflation rate of 2%, this would imply a third year constraint of £243.5 million. We are currently consulting with our fee payers on the levy for 2015/16, our third year in operation. It is proposed that the recurrent cost of ongoing supervision will be £243 million.

As you are aware, within this period the PRA has had a large number of post crisis reform initiatives and policy to both formulate and implement. This implementation continues in 2015/16 with reforms such as the Senior Managers Regimes for Banking and Insurance and Structural Reform (ring-fencing). There have also been multi-year programmes to implement European Directives, most notably CRDIV and Solvency II. Where it has made sense, we have charged for the one-off costs of formulating and implementing these reforms outside the recurrent budget and these charges will fall back to zero as we reach implementation. For example, we expect that this will be the last year we raise a Special Project Fee for Solvency II.

To ensure we are operating at our most efficient and minimise the overall cost of regulation we are undertaking a review during 2015 of how we allocate resources across the PRA. The outcome of this review will ensure that we can continue to plan on the basis on which I have previously committed.