



Financial Services  
Compensation Scheme

# Budget Update

January 2025

[www.fscs.org.uk](http://www.fscs.org.uk)

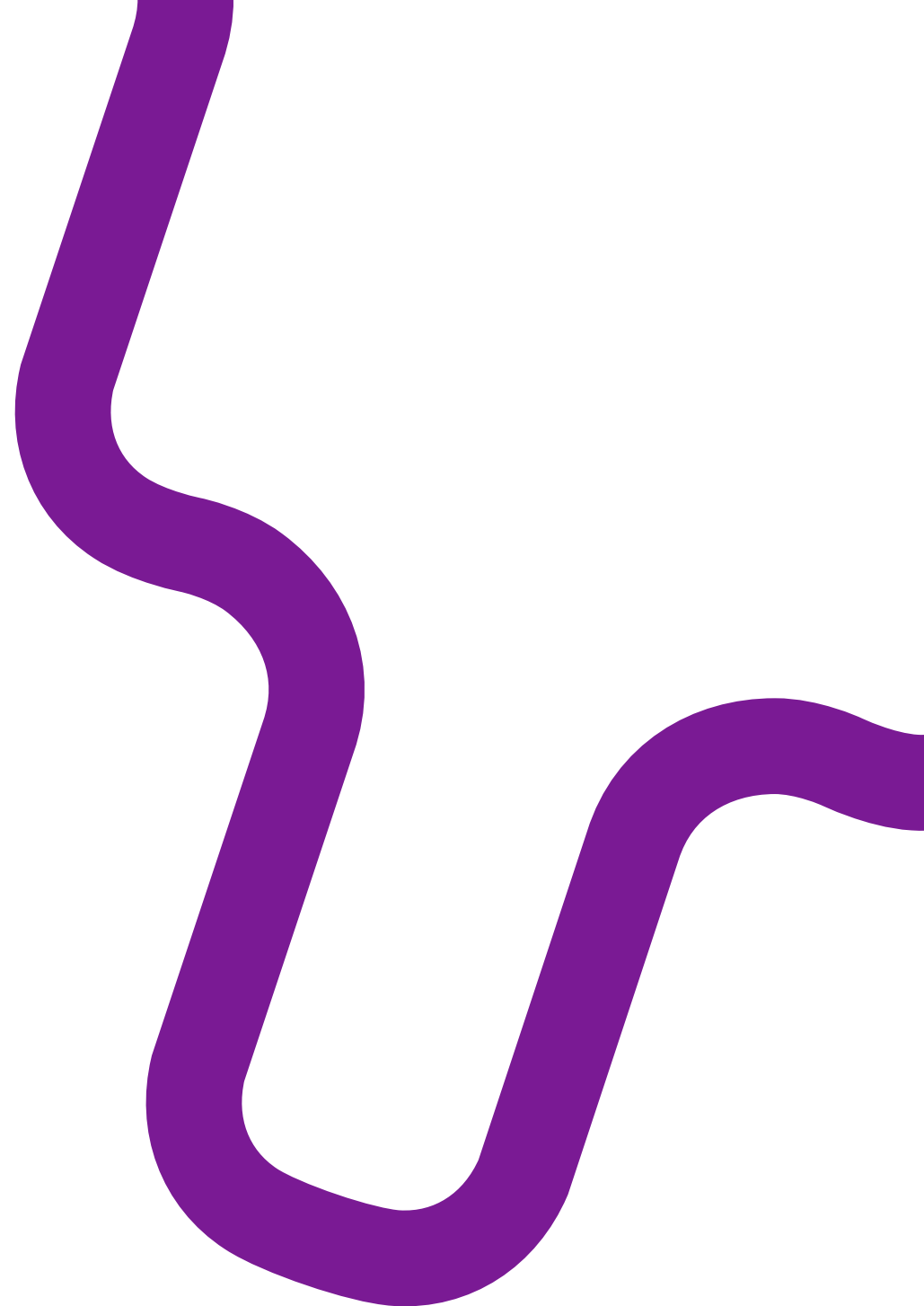
# Contents

Interim Chief Executive's statement.....	3
Budget Update .....	5
The proposed budget for 2025/26 .....	7
Contact us.....	11

## About FSCS

FSCS is the UK's financial compensation scheme that protects customers of authorised financial services firms if they fail or have stopped trading.

FSCS is independent and can pay compensation if an authorised firm fails and is unable to pay back money it owes its customers. FSCS's service is completely free to use and is funded by the financial services industry.



# Interim Chief Executive's statement

As we approach the end of the current financial year, I'm pleased to introduce our latest FSCS Budget Update. This publication focuses on our management expenses, and our plans for April 2025 to March 2026.

As a reminder, you can find our full 2025/26 levy forecast, including the compensation we expect to pay over the year, in last November's [Outlook](#). We'll provide our next full levy update in the spring.

## Latest 2024/25 forecast

For 2024/25 we remain on track to be within the management expenses budget of £103.1m. We have made some budget savings, with lower claims-processing costs than previously anticipated. You can see more details about compensation costs for the year in our [Outlook](#) publication.

## Our proposed 2025/26 budget

For 2025/26 we are proposing a management expenses budget of £103.6m, which is an increase of 0.5% on the 2024/25 budget.

The majority of our budget covers claims-handling costs. It also funds other essential activities, including pursuing recoveries, investments to improve the efficiency of the organisation and promoting consumer awareness of FSCS protection and our claims service which is free to customers at the point of use.

The overall proposed Management Expenses Levy Limit (MELL) is £108.6m, which includes a £5m unlevied reserve on top of the core budget. This reserve is the same as the 2024/25 financial year.

## Balancing delivery and cost

We have continued to ensure we absorb as many inflationary rises as possible, keeping our expected management expenses in line with the current financial year.

We have invested in staff to enhance our team of experts and strengthen our internal capabilities. We are funding this

investment in expertise with savings from reductions in outsourced claims-handling costs and professional fees.

The increasing complexity of the claims that now make up the majority of FSCS's work could lead to increased cost and means claims often require more specialist resource and deeper investigation. For example, the amount of data that we receive on average per claim has increased by 89% in the last two years.

We're continually working hard to identify areas where we can optimise the time taken to complete a claim without significantly increasing costs.

Despite these challenges, during the first half of 2024/25, we increased claims decisions by 18% year-on-year

and maintained our high customer satisfaction and quality scores.

Next year we come to the end of our three-year plan to build our in-house claims-handling capability. This major change to our operating model has given us greater control and flexibility to handle the variety of claims we receive each day.

This transition is progressing well, continuity of service has been maintained, and we are on schedule to be fully embedded in the 2025/26 financial year.

In 2025/26 we will keep the level of investment the same as in this financial year. This will enable us to build on the existing positive changes, to lay the foundations for future advice claims transformation and deliver further enhancements to depositor protection.

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are jointly consulting on our 2025/26 budget as part of the MELL consultation, and you can find this consultation on their respective websites. The MELL consultation closes on Friday 7 February 2025.



**Martyn Beauchamp**  
Interim Chief Executive

# Budget Update

In this report we present our management expenses.

The report includes our:

- volume- and complexity-driven costs that are sensitive to changes in the number and types of claims we receive;
- controllable costs such as rent, and costs associated with our critical business support functions such as HR and IT. These costs are not sensitive to changes in the number and types of claims we receive; and
- organisational investment for ongoing system and process improvements.

Alongside this information, the FCA and the PRA are consulting on our 2025/26 budget as part of the [MELL consultation](#). The consultation closes on Friday 7 February 2025.

More information regarding the overall levy forecast for 2025/26 can be found in our [November Outlook report](#).

## Budget update for 2024/25

The management expenses forecast for 2024/25 is currently within the budget of £103.1m. We have made some budget savings, with lower claims-processing costs than previously anticipated.

We do not expect to invoice firms for the 2024/25 unlevied reserve (£5m). Any budget surpluses will be used to offset the levy for the relevant classes in 2025/26.

Table 1: Latest forecast and 2024/25 budget

Category	2024/25 latest forecast				2024/25 budget				Variance			
	Latest forecast (£m)	Controllable costs (£m)	Volume- and complexity-driven costs (£m)	Investment (£m)	Budget (£m)	Controllable costs (£m)	Volume- and complexity-driven costs (£m)	Investment (£m)	Total variance (£m)	Controllable costs (£m)	Volume- and complexity-driven costs (£m)	Investment (£m)
Staff costs	34.5	24.1	9.6	0.7	38.9	25.1	13.1	0.7	4.5	1.0	3.4	-
Non-project contractor costs	21.6	3.1	15.8	2.7	17.2	1.0	13.5	2.7	(4.4)	(2.1)	(2.2)	-
Facilities	2.5	2.5	0.0	-	2.5	2.5	-	-	(0.0)	(0.0)	(0.0)	-
IT	7.1	6.2	0.9	-	7.3	6.5	0.8	-	0.2	0.3	(0.1)	-
Communications	2.8	2.8	-	-	3.0	3.0	-	-	0.3	0.3	-	-
Legal fees	4.5	3.6	1.0	-	5.0	3.6	1.4	-	0.4	0.0	0.4	-
Professional fees	8.0	5.0	1.4	1.6	6.6	4.7	0.3	1.6	(1.4)	(0.2)	(1.2)	-
External providers	0.5	0.4	0.1	-	0.6	0.5	0.1	-	0.2	0.1	0.1	-
Depreciation	1.4	1.4	-	-	1.5	1.5	-	-	0.1	0.1	-	-
Other / contingency	0.6	0.5	0.1	-	0.5	0.5	-	-	(0.1)	(0.1)	(0.1)	-
Outsourced claims-handling	12.1	-	12.1	-	13.4	0.0	13.4	-	1.3	0.0	1.3	-
Outsourced printing and scanning services	0.4	0.4	0.0	-	0.4	0.4	0.1	-	0.1	(0.0)	0.1	-
Bank charges	7.0	7.0	-	-	7.0	7.0	-	-	(0.0)	(0.0)	-	-
Pension deficit funding	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	(1.5)	(1.5)	-	-	(0.9)	(0.9)	-	-	0.6	0.6	-	-
<b>Management expenses</b>	<b>101.4</b>	<b>55.4</b>	<b>41.0</b>	<b>5.0</b>	<b>103.1</b>	<b>55.4</b>	<b>42.7</b>	<b>5.0</b>	<b>1.7</b>	<b>0.0</b>	<b>1.7</b>	<b>-</b>

## The proposed budget for 2025/26

To ensure we have the funding to meet our running costs and carry out our core functions of paying compensation to customers of failed firms and making recoveries where possible and cost-effective, we anticipate needing an annual operating budget of £103.6m.

This is a 0.5% increase on the budget from the 2024/25 financial year, and an overall cost increase below inflation.

### Controllable costs

Next year, we anticipate that there will be an estimated £1m increase on the 2024/25 budget for controllable costs. FSCS has sought efficiencies across the business which has allowed us to self-fund much of the increase to our costs, keeping the overall rise below inflation.

### Volume- and complexity-driven costs

This expected increase in controllable costs is partially offset by a £0.5m reduction in volume- and complexity-driven costs compared to the 2024/25 budget.

Overall, we will see a small increase in claims decision volumes in 2025/26, although outsourced advice claims

decisions will reduce by around 35% in line with the new operating model.

This, together with the impact of increased productivity after the end of the transition period will deliver the £0.5m reduction mentioned on the previous page.

## **We also propose an unlevied reserve of £5m for 2025/26**

The FCA and the PRA are consulting on an overall MELL of £108.6m. This includes a core budget of £103.6m and an unlevied reserve or contingency fund of £5m.

The unlevied reserve ensures we can raise additional funds, if needed, to process a significant increase in claims for any unexpected large firm failures. This £5m reserve is unchanged from the contingency fund in 2024/25.

The unlevied reserve, which is not included in the FSCS levy bill, is only invoiced to firms if necessary.



Table 2: 2025/26 management expenses budget proposal and 2024/25 budget

Category	2025/26 budget				2024/25 budget				Variance			
	Budget (£m)	Controllable costs (£m)	Volume- and complexity-driven costs (£m)	Investment (£m)	Budget (£m)	Controllable costs (£m)	Volume- and complexity-driven costs (£m)	Investment (£m)	Total variance (£m)	Controllable costs (£m)	Volume- and complexity-driven costs (£m)	Investment (£m)
Staff costs	40.6	26.6	13.0	1.0	38.9	25.1	13.1	0.7	(1.7)	(1.5)	0.1	(0.3)
Non-project contractor costs	18.2	0.6	15.0	2.6	17.2	1.0	13.5	2.7	(1.0)	0.4	(1.5)	0.1
Facilities	2.6	2.6	-	-	2.5	2.5	-	-	(0.1)	(0.1)	-	-
IT	7.8	6.7	1.2	-	7.3	6.5	0.8	-	(0.5)	(0.1)	(0.3)	-
Communications	2.8	2.8	-	-	3.0	3.0	-	-	0.2	0.2	-	-
Legal fees	4.6	3.3	1.2	-	4.6	3.4	1.2	-	(0.0)	0.0	(0.0)	-
Professional fees	6.0	4.6	0.1	1.3	7.0	4.9	0.4	1.6	1.0	0.3	0.4	0.3
External providers	0.5	0.4	0.1	-	0.6	0.5	0.1	-	0.1	0.2	(0.0)	-
Depreciation	1.5	1.5	-	-	1.5	1.5	-	-	-	-	-	-
Other / contingency	0.5	0.5	-	-	0.5	0.5	-	-	-	-	-	-
Outsourced claims-handling	11.6	-	11.6	-	13.4	-	13.4	-	1.9	-	1.9	-
Outsourced printing and scanning services	0.4	0.4	0.1	-	0.4	0.4	0.1	-	0.0	-	0.0	-
Bank charges	7.0	7.0	-	-	7.0	7.0	-	-	-	-	-	-
Pension deficit funding	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	(0.5)	(0.5)	-	-	(0.9)	(0.9)	-	-	(0.4)	(0.4)	-	-
<b>Management expenses</b>	<b>103.6</b>	<b>56.4</b>	<b>42.2</b>	<b>5.0</b>	<b>103.1</b>	<b>55.4</b>	<b>42.7</b>	<b>5.0</b>	<b>(0.5)</b>	<b>(1.0)</b>	<b>0.5</b>	<b>0.0</b>
Unlevied reserve	5.0	-	5.0	-	5.0	-	5.0	-	-	-	-	-
<b>Management expenses including unlevied reserve</b>	<b>108.6</b>	<b>56.4</b>	<b>47.2</b>	<b>5.0</b>	<b>108.1</b>	<b>55.4</b>	<b>47.7</b>	<b>5.0</b>	<b>(0.5)</b>	<b>(1.0)</b>	<b>0.5</b>	<b>0.0</b>

Note: The table above is split by an account categories view. To view this table split by Activity Based Costing categories, please see the [MELL consultation paper](#).

Table 3: 2025/26 and 2024/25 management expenses budget split by PRA and FCA classes

	2025/26			2024/25			Movement		
	FSCS total costs (£m)	Fee block allocation		FSCS total costs (£m)	Fee block allocation		FSCS total costs (%)	Fee block allocation	
		PRA (£m)	FCA (£m)		PRA (£m)	FCA (£m)		PRA (%)	FCA (%)
Base costs total (split 50:50)	36.9	18.5	18.5	37.1	18.5	18.5	0%	0%	0%
<b>Specific costs</b>									
Deposits	14.4	14.4	-	14.8	14.8	-	-3%	-3%	-
General Insurance Provision	7.6	7.6	-	7.3	7.3	-	5%	5%	-
Life & Pensions Provision	0.0	0.0	-	0.0	0.0	-	0%	0%	-
General Insurance Distribution	1.2	-	1.2	0.8	-	0.8	43%	-	43%
Life Distribution & Investment Intermediation (LDII)	35.3	-	35.3	35.6	-	35.6	-1%	-	-1%
Investment Provision	8.0	-	8.0	7.3	-	7.3	9%	-	9%
Home Finance Intermediation	0.3	-	0.3	0.3	-	0.3	3%	-	3%
Debt Management	0.0	-	0.0	0.0	-	0.0	0%	-	0%
Funeral Plans	0.0	-	0.0	0.0	-	0.0	0%	-	0%
<b>Specific costs total</b>	<b>66.7</b>	<b>22.0</b>	<b>44.7</b>	<b>66.1</b>	<b>22.1</b>	<b>44.0</b>	<b>1%</b>	<b>0%</b>	<b>2%</b>
<b>Management expenses total</b>	<b>103.6</b>	<b>40.4</b>	<b>63.2</b>	<b>103.1</b>	<b>40.6</b>	<b>62.5</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>

# Contact us



## Contact us

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