



Financial Services
Compensation Scheme

Budget Update

January 2024

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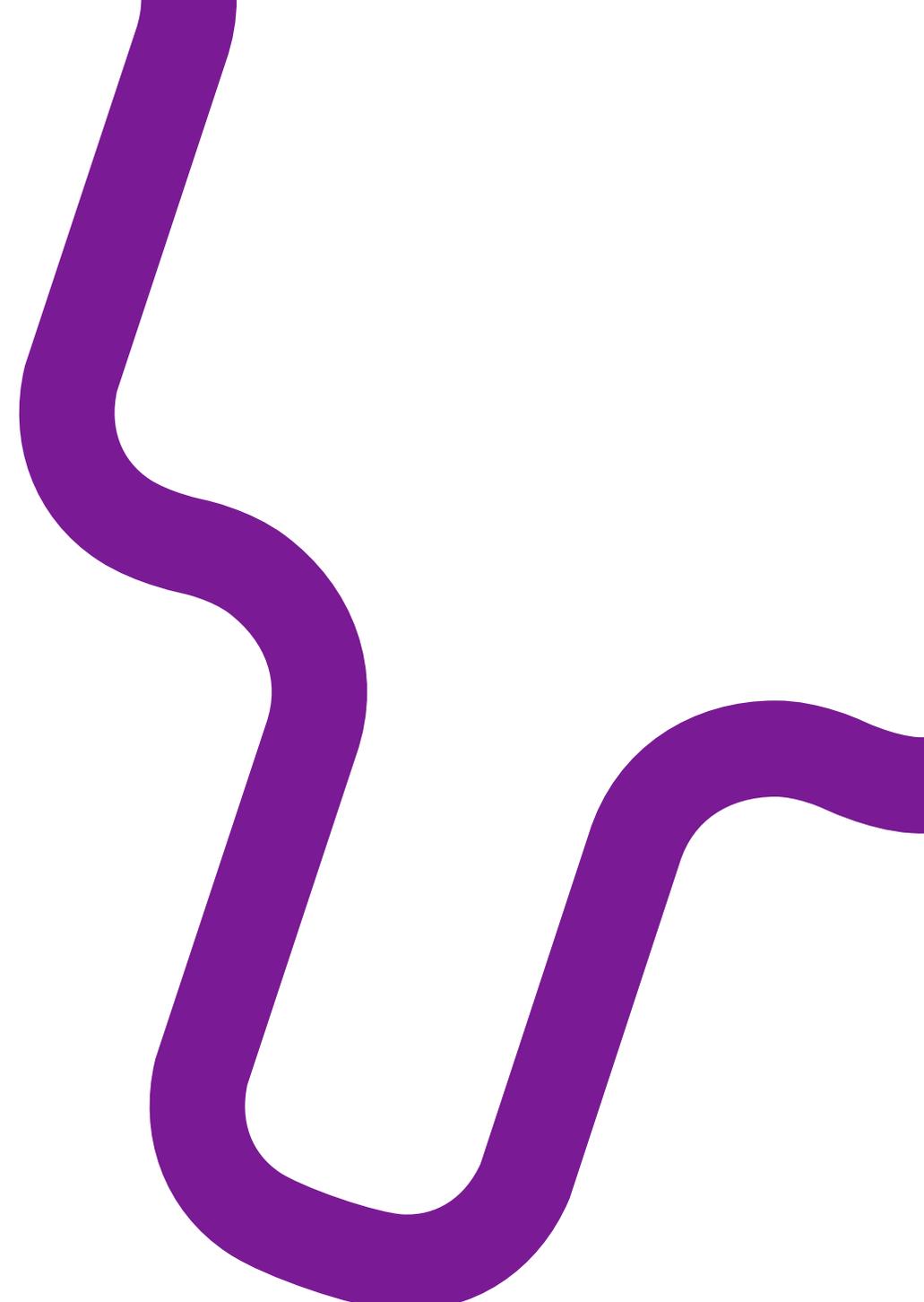
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About FSCS

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 the upcoming year.

As a reminder, you can find our full 2024/25 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 2023/24 forecast

Our management expenses forecast for 2023/24 now stands at £99.7m. This is approximately £0.2m less than when we first published the management expenses budget in January 2023. This reduction is due to FSCS incurring lower claims processing costs than previously anticipated.

Our proposed 2024/25 budget

We are proposing a management expenses budget of £103.1m for next year. Overall, this is an increase of 3% on the 2023/24 budget.

The majority of our budget covers claims-handling costs. It also funds essential work including pursuing recoveries, raising awareness of FSCS protection and investing in our systems to ensure we continue being fit for the future.

The overall proposed Management Expenses Levy Limit (MELL) is £108.1m, which includes a £5m unlevied reserve on top of the core budget. This reserve, which is £5m less than proposed in January 2023, has now returned to its pre-pandemic level. In the previous three financial years, the reserve was higher due to elevated levels of uncertainty around firm failure.

How we've balanced the budget

I'm conscious that day-to-day costs are rising across the board for individuals and businesses, and we have worked hard to keep the rise in our own management expenses below inflation.

However, we do anticipate a nominal increase in our costs next year due to the strategic decision to reduce our outsourcing. We believe that increasing our in-house expertise is the best way to manage the complex claims and enquiries that currently make up the majority of FSCS's work.

We're forecasting an £8.7m increase in our operational budget as part of this necessary transition. This includes recruitment, training and a short period of overlap to ensure continuity for our customers and others we work with.

To offset this increase, we'll be making savings across the business through an organisation-wide re-prioritisation exercise. This will enable us to keep our proposed management expenses below the rate of inflation, whilst also

funding our investment in claims-handling capability.

Last year, we commenced the first year of a three-year plan to invest in our people and systems, which is necessary for FSCS to continue providing an efficient and effective compensation service. For 2024/25, we expect to require less investment in this area and as such, we propose reducing our investment budget by an estimated £2.9m in 2024/25. Next year's budget will exclusively fund critical statutory and operations projects including updating our IT infrastructure for insurance claims. It also includes work on depositor protection – supporting both electronic payments in the event of insolvency, and [the government's proposed enhancements to the special resolution regime](#).

The FCA and the PRA are jointly consulting on our budget, and you can find this consultation on their respective websites. The [MELL consultation](#) closes on Monday 12 February, 2024.



Martyn Beauchamp
Interim Chief Executive

Budget Update

In this report we present our management expenses.

It includes our:

- volume and complexity driven costs that are sensitive to changes in type and number of claims we receive;
- controllable costs such as business function costs that are not impacted by the type and number of claims we receive; and
- organisational investment for ongoing system and process improvements.

Alongside this information, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are consulting on our 2024/25 budget as part of the [Management Expenses Levy Limit \(MELL\) consultation](#). The consultation closes on Monday 12 February, 2024.

Although FSCS is operationally independent, we are accountable to the FCA and the PRA and each year they carry out a public consultation to set our operating costs. This is relevant to all FCA and PRA authorised firms as these costs form part of the overall FSCS levy.

More information regarding the overall levy forecast for 2024/25 can be found in our [November Outlook](#) report.

Budget update for 2023/24

The management expenses forecast for 2023/24 is currently £99.7m and we expect to end this financial year approximately £0.2m below budget. This is due to lower volume and complexity claims related costs than previously expected. As outlined in last [November's Outlook](#), we now anticipate processing fewer claims during 2023/24, mainly within the Life Distribution & Investment Intermediation class.

We do not expect to invoice firms for the 2023/24 unlevied reserve (£10m). Any budget surpluses (approximately £0.2m) will be used to offset the levy for the relevant classes in 2024/25.

Table 1: Latest forecast and 2023/24 budget

| Category | 2023/24 latest forecast | | | | 2023/24 budget | | | | Variance | | | |
|---|-------------------------|-------------------------|-----------------------------------|------------------|----------------|-------------------------|-----------------------------------|------------------|---------------------|-------------------------|-----------------------------------|------------------|
| | Latest forecast (£m) | Controllable costs (£m) | Volume and complexity driven (£m) | Investments (£m) | Budget (£m) | Controllable costs (£m) | Volume and complexity driven (£m) | Investments (£m) | Total variance (£m) | Controllable costs (£m) | Volume and complexity driven (£m) | Investments (£m) |
| Staff costs | 30.5 | 23.3 | 6.7 | 0.5 | 32.2 | 25.2 | 6.7 | 0.3 | 1.7 | 1.9 | 0.0 | (0.2) |
| Non-project contractor costs | 17.3 | 3.0 | 11.6 | 2.6 | 13.2 | 0.7 | 10.1 | 2.4 | (4.1) | (2.2) | (1.6) | (0.2) |
| Facilities | 2.7 | 2.7 | - | 0.0 | 2.4 | 2.4 | - | - | (0.3) | (0.3) | - | (0.0) |
| IT | 6.3 | 5.8 | 0.6 | 0.0 | 6.5 | 5.9 | 0.6 | - | 0.1 | 0.1 | 0.0 | (0.0) |
| Communications | 3.5 | 3.5 | - | - | 4.4 | 4.2 | 0.3 | - | 1.0 | 0.7 | 0.3 | - |
| Legal and professional | 18.8 | 11.1 | 3.1 | 4.6 | 16.7 | 8.9 | 2.7 | 5.2 | (2.0) | (2.2) | (0.4) | 0.5 |
| External providers | 0.6 | 0.5 | 0.1 | - | 0.6 | 0.5 | 0.0 | - | (0.0) | 0.0 | (0.0) | - |
| Depreciation | 1.4 | 1.4 | - | - | 1.4 | 1.4 | - | - | (0.1) | (0.1) | - | - |
| Other / contingency | 0.6 | 0.6 | 0.0 | - | 0.5 | 0.5 | - | - | (0.1) | (0.1) | (0.0) | - |
| Outsourced claims handling | 11.9 | 0.0 | 11.9 | - | 13.6 | - | 13.6 | - | 1.7 | (0.0) | 1.7 | - |
| Outsourced printing and scanning services | 0.4 | 0.4 | 0.1 | - | 0.5 | 0.4 | 0.1 | - | 0.0 | (0.0) | 0.0 | - |
| Bank charges | 7.0 | 7.0 | - | - | 8.0 | 8.0 | - | - | 0.9 | 0.9 | - | - |
| Pension deficit funding | 0.5 | 0.5 | - | - | 0.8 | 0.8 | - | - | 0.3 | 0.3 | - | - |
| Interest income | (2.0) | (2.0) | - | - | (0.9) | (0.9) | - | - | 1.1 | 1.1 | - | - |
| Management expenses | 99.7 | 57.9 | 34.0 | 7.8 | 99.8 | 57.9 | 34.0 | 7.9 | 0.2 | 0.1 | 0.0 | 0.1 |

The proposed budget for 2024/25

To ensure we have adequate funding to meet our running costs and carry out our core function of getting customers back on track as quickly as possible, we anticipate needing an annual operating budget of £103.1m.

This is a 3% (£3.3m) increase on the budget confirmed by the FCA and the PRA for the 2023/24 financial year.

Volume and complexity driven costs

Next year, we anticipate that there will be an £8.7m increase in volume and complexity driven costs. This is due to a strategic decision to build our in-house claims processing expertise. This transition, which will include recruitment and training for internal staff, will ensure we can continue effectively managing the increasing number of complex claims we are currently receiving.

Reducing controllable costs and organisational investment

To help offset the expected increase in our volume and complexity claims driven costs, a rigorous process of identifying cost savings across the business has been carried out. Savings in 2024/25 will include an estimated:

- £2.9m reduction in organisational investment on the 2023/24 budget, as we turn our attention exclusively towards statutory and critical operations projects; and
- £2.5m reduction in controllable costs on the 2023/24 budget, for costs associated with our business support functions.

We also propose an unlevied reserve of £5m for 2024/25

The FCA and the PRA are consulting on an overall MELL of £108.1m. This includes a core budget of £103.1m and an unlevied reserve of £5m.

The reserve fund (£5m) ensures we can raise additional funds, if needed, to process a significant increase in claims for any unexpected firm failures. This reserve, which is £5m less than proposed in January 2023, has now returned to pre-pandemic levels. In the previous three financial years, the reserve was higher due to the elevated uncertainty during COVID-19. This uncertainty created additional challenges when it came to forecasting firm failures and claims volumes, therefore a larger reserve fund was essential.

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

Table 2: 2024/25 management expenses budget proposal and 2023/24 budget

| Category | 2024/25 budget | | | | 2023/24 budget | | | | Variance | | | |
|---|----------------|-------------------------|-----------------------------------|------------------|----------------|-------------------------|-----------------------------------|------------------|---------------------|-------------------------|-----------------------------------|------------------|
| | Budget (£m) | Controllable costs (£m) | Volume and complexity driven (£m) | Investments (£m) | Budget (£m) | Controllable costs (£m) | Volume and complexity driven (£m) | Investments (£m) | Total variance (£m) | Controllable costs (£m) | Volume and complexity driven (£m) | Investments (£m) |
| Staff costs | 38.9 | 25.1 | 13.1 | 0.7 | 32.2 | 25.2 | 6.7 | 0.3 | (6.7) | 0.1 | (6.4) | (0.4) |
| Non-project contractor costs | 17.2 | 1.0 | 13.5 | 2.7 | 13.2 | 0.7 | 10.1 | 2.4 | (4.0) | (0.3) | (3.4) | (0.3) |
| Facilities | 2.5 | 2.5 | - | - | 2.4 | 2.4 | - | - | (0.1) | (0.1) | - | - |
| IT | 7.3 | 6.5 | 0.8 | - | 6.5 | 5.9 | 0.6 | - | (0.9) | (0.6) | (0.2) | - |
| Communications | 3.0 | 3.0 | - | - | 4.4 | 4.2 | 0.3 | - | 1.4 | 1.2 | 0.3 | - |
| Legal fees | 4.6 | 3.4 | 1.2 | - | 5.4 | 3.4 | 2.0 | - | 0.9 | 0.0 | 0.8 | - |
| Professional fees | 7.0 | 4.9 | 0.4 | 1.6 | 11.3 | 5.5 | 0.7 | 5.2 | 4.3 | 0.6 | 0.3 | 3.6 |
| External providers | 0.6 | 0.5 | 0.1 | - | 0.6 | 0.5 | 0.0 | - | (0.1) | (0.0) | (0.1) | - |
| Depreciation | 1.5 | 1.5 | - | - | 1.4 | 1.4 | - | - | (0.1) | (0.1) | - | - |
| Other / contingency | 0.5 | 0.5 | - | - | 0.5 | 0.5 | - | - | 0.0 | 0.0 | - | - |
| Outsourced claims handling | 13.4 | 0.0 | 13.4 | - | 13.6 | - | 13.6 | - | 0.1 | (0.0) | 0.2 | - |
| Outsourced printing and scanning services | 0.4 | 0.4 | 0.1 | - | 0.5 | 0.4 | 0.1 | - | 0.0 | - | 0.0 | - |
| Bank charges | 7.0 | 7.0 | - | - | 8.0 | 8.0 | - | - | 1.0 | 1.0 | - | - |
| Pension deficit funding | - | - | - | - | 0.8 | 0.8 | - | - | 0.8 | 0.8 | - | - |
| Interest income | (0.9) | (0.9) | - | - | (0.9) | (0.9) | - | - | 0.0 | 0.0 | - | - |
| Management expenses | 103.1 | 55.4 | 42.7 | 5.0 | 99.8 | 57.9 | 34.0 | 7.9 | (3.3) | 2.5 | (8.7) | 2.9 |
| Unlevied reserve | 5.0 | - | 5.0 | - | 10.0 | - | 10.0 | - | 5.0 | - | 5.0 | - |
| Management expenses including unlevied reserve | 108.1 | 55.4 | 47.7 | 5.0 | 109.8 | 57.9 | 44.0 | 7.9 | 1.7 | 2.5 | (3.7) | 2.9 |

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: 2024/25 and 2023/24 management expenses budget split by PRA and FCA classes

| | 2024/25 | | | 2023/24 | | | 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) | 37.1 | 18.5 | 18.5 | 38.3 | 19.2 | 19.2 | -3% | -3% | -3% |
| Specific costs | | | | | | | | | |
| Deposits | 14.8 | 14.8 | | 14.1 | 14.1 | | 5% | 5% | - |
| General Insurance Provision | 7.3 | 7.3 | | 7.6 | 7.6 | | -4% | -4% | - |
| Life and Pension Provision | 0.0 | 0.0 | | - | - | | - | - | - |
| General Insurance Distribution | 0.8 | | 0.8 | 1.7 | | 1.7 | -51% | - | -51% |
| Life Distribution and Investment Intermediation (LDII) | 35.6 | | 35.6 | 30.3 | | 30.3 | 17% | - | 17% |
| Investment Provision | 7.3 | | 7.3 | 7.0 | | 7.0 | 3% | - | 3% |
| Home Finance Intermediation | 0.3 | | 0.3 | 0.8 | | 0.8 | -64% | - | -64% |
| Debt Management | 0.0 | | 0.0 | - | | - | - | - | - |
| Funeral Plans | 0.0 | | 0.0 | - | | - | - | - | - |
| Specific costs total | 66.1 | 22.1 | 44.0 | 61.5 | 21.7 | 39.8 | 7% | 2% | 10% |
| Management expenses total | 103.1 | 40.6 | 62.5 | 99.8 | 40.8 | 59.0 | 3% | -1% | 6% |

Contact us



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