Financial Services
Compensation Scheme

Budget **Update**

January 2026

www.fscs.org.uk

Contents

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.

Chief Executive's statement

As we approach the close of this financial year, I am pleased to present the 2026/27 FSCS Budget Update. This publication outlines our management expenses, plans for the year ahead, and our ongoing commitments to both transparency and being a responsible steward of levy payer funds.

You can see further details on our levy and compensation forecasts for 2026/27 in last November's Outlook publication. We'll provide our next full levy update in the spring.

Latest 2025/26 forecast

I am pleased to confirm that we remain on track to be within our budget of £103.6m for 2025/26. Our overall costs remain flat, and we're continually driving efficiencies to deliver value for levy payers, while delivering good outcomes for customers.

Our proposed 2026/27 budget

Our budget ensures we can effectively discharge our core statutory responsibilities. This includes providing compensation to get customers back on track quickly when firms fail and pursuing recoveries to help reduce levies for firms. As part of our wider duties, it now also includes providing funds to the Bank of England to recapitalise failing deposit taking institutions, further strengthening confidence in UK financial services.

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) are consulting on a total Management Expenses Levy Limit (MELL) for FSCS of £113m. This includes a core budget of £97m, plus an additional £11m to support an enhanced revolving credit facility (RCF). This enhanced RCF ensures FSCS can continue paying compensation quickly, as well as support the Bank of England's new recapitalisation power, reducing the risk that public funds will be needed in a firm default.

The additional cost (£11m) in 2026/27 will be allocated to the Deposits class and distributed in proportion to each firm's level of protected deposits.

An additional £5m in unlevied reserves, which is unchanged on 2025/26, is also included on top of our main budget (£108m).

Balancing delivery and cost

Our disciplined approach to cost management and drive for efficiencies means our overall budget for 2026/27 is broadly in line with inflation. Excluding the additional costs for the enhanced RCF, our core budget for the coming year represents a reduction of 6% compared to 2025/26, and 11% in real terms.

Including the additional RCF costs, our budget reflects a 4% (£4.4m) increase. However, this still aligns with inflation as we've absorbed most of the additional RCF costs and also expect a reduction in advice claims next year.

In 2026/27, we'll be taking the opportunity to further streamline and enhance our processes, improving productivity and speeding up claims handling for our customers.

The revolving credit facility (RCF) and recapitalisation

The RCF is a borrowing facility, available within one business day, that gives FSCS fast access to private credit from commercial banks, enabling faster payouts to customers if there is a significant, or multiple firm failures. It helps ensure that FSCS can access funds quickly rather than waiting to raise a supplementary levy or relying on compensation funds already allocated to other classes.

Following recent regulatory developments, including the Bank Resolution (Recapitalisation) Act and an increase to the deposit protection limit, FSCS is working closely with HM Treasury and the Bank of England to increase its current RCF. This will ensure FSCS can continue paying compensation quickly, as well as provide sufficient funds to the Bank of England to enable speedy resolution of a failing deposit taking institution.

The new recapitalisation powers and enhanced RCF help better protect public funds if a major default occurs, supporting the stability of the UK's financial services sector.

Investing for a resilient future

Investing in our future is essential for delivering our strategic initiatives and ensuring FSCS remains resilient. We're absorbing much of the required investment in 2026/27, resulting in a moderate rise of £0.5m to investment costs. This targeted investment will enable further enhancements to our depositor protection programme and strengthen our insurance claims readiness – both of which reinforce our ability to manage failures and meet the evolving needs of the industry and our customers.

FSCS is one of the central pillars of stability in the UK's financial system. Our ability to compensate customers quickly when firms fail and provide the necessary funds for the swift and orderly resolution of deposit taker failures, helps ensure the UK remains a trusted place to do business.

Martyn Beauchamp
Chief Executive

Budget Update

In this report we present our management expenses.

Our total management expenses include:

- **controllable costs** such as rent and expenses related to critical business support functions including HR, IT and our revolving credit facility (RCF), which are not affected by changes in the number or type of claims we receive;
- **volume and complexity-driven costs** that are sensitive to changes in the number and types of claims we receive;
- **organisational investment** in ongoing system and process improvements, essential for ensuring we remain equipped to meet evolving industry and customer needs; and
- **unlevied reserve**, a key element of our contingency planning. This reserve enables us to raise additional funds at short notice to cover unforeseen costs when the management expenses were originally set. The unlevied reserve is not included in the FSCS levy bill and is only invoiced to firms if needed.

Alongside this information, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are consulting on our 2026/27 budget as part of the Management Expenses Levy Limit (MELL) consultation. The consultation closes on Tuesday 10 February 2026.

Further details on the overall levy forecast for 2026/27 are available in our latest November Outlook.

Budget update for 2025/26

We remain broadly in line with our original forecast of £103.6m, with a slight reduction expected. This is due to savings made across our claims processing and resourcing.

We do not anticipate invoicing firms for the 2025/26 unlevied reserve (£5m). Any surplus from this year's budget will be used to offset the levy for the relevant classes in 2026/27.

Table 1: 2025/26 budget

Category	Latest forecast for 2025/26				Original budget for 2025/26				Variance			
	Latest forecast (£m)	Controllable costs (£m)	Volume & complexity-driven costs (£m)	Investment costs (£m)	**Budget (£m)**	Controllable costs (£m)	Volume & complexity-driven costs (£m)	Investment costs (£m)	**Total variance (£m)**	Controllable costs (£m)	Volume & complexity-driven costs (£m)	Investment costs (£m)
Staff costs	**41.4**	26.7	14.1	0.6	**40.6**	26.6	13.0	1.0	**(0.7)**	(0.1)	(1.1)	0.5
Non-project contractor costs	**16.5**	2.3	12.4	1.8	**18.2**	0.6	15.0	2.6	**1.7**	(1.7)	2.6	0.8
Facilities	**3.6**	3.6	0.0	0.0	**2.6**	2.6	–	–	**(1.0)**	(1.0)	0.0	0.0
IT	**7.6**	6.2	1.1	0.3	**7.8**	6.7	1.2	–	**0.3**	0.5	0.1	(0.3)
Communications	**2.5**	2.5	–	–	**2.8**	2.8	–	–	**0.3**	0.3	–	–
Legal fees	**5.4**	3.6	1.5	0.3	**4.6**	3.3	1.2	–	**(0.8)**	(0.3)	(0.3)	(0.3)
Professional fees	**7.4**	5.7	0.1	1.5	**6.0**	4.6	0.1	1.3	**(1.3)**	(1.1)	0.0	(0.2)
External providers	**0.5**	0.4	0.1	–	**0.5**	0.4	0.1	–	**0.0**	0.0	0.0	–
Depreciation	**0.6**	0.6	–	–	**1.5**	1.5	–	–	**0.9**	0.9	–	–
Other / contingency	**0.5**	0.5	0.0	–	**0.5**	0.5	–	–	**0.0**	0.0	0.0	–
Outsourced claims-handling	**10.0**	–	10.0	–	**11.6**	–	11.6	–	**1.6**	–	1.6	–
Outsourced printing and scanning services	**0.7**	0.4	0.3	–	**0.4**	0.4	0.1	–	**(0.3)**	0.0	(0.3)	–
Bank charges	**6.9**	6.9	–	–	**7.0**	7.0	–	–	**0.0**	0.0	–	–
Interest income	**(0.9)**	(0.9)	–	–	**(0.5)**	(0.5)	–	–	**0.4**	0.4	–	–
Management expenses	**102.7**	**58.6**	**39.7**	**4.5**	**103.6**	**56.4**	**42.2**	**5.0**	**0.9**	**(2.2)**	**2.5**	**0.5**

The proposed budget for 2026/27

We expect an annual operating budget of £108m in order to deliver our statutory responsibilities. This includes paying compensation to customers and recovering costs to help reduce the levy for financial services firms.

It includes a core budget of £97m, and additional funding readiness costs of £11m to enhance FSCS's existing RCF. The enhanced RCF is necessary to ensure that FSCS can continue paying compensation quickly, as well as support the Bank of England's new recapitalisation power, strengthening confidence in the UK's financial services sector.

Excluding the additional funding readiness costs, the proposed budget for 2026/27 represents a 6% (£6.6m) reduction compared to 2025/26. When the additional RCF costs are included, the budget reflects a 4% (£4.4m) increase, meaning our overall budget remains broadly in line with inflation.

Controllable costs

Next year, we anticipate an increase of £13.4m, driven primarily by costs for the enhanced RCF.

By driving cost efficiencies, and excluding the costs of the enhanced RCF, we anticipate that there will be an inflationary increase of £2.4m on the 2025/26 budget for our controllable costs.

Funding readiness

Following recent regulatory developments, including the Bank Resolution (Recapitalisation) Act and increase to FSCS's deposit protection limit, we are working closely with HM Treasury and the Bank of England in increasing our existing revolving credit facility. The projected uplift is from £1.45bn to £3bn, starting within the 2026/27 financial year.

The budget allocated for the enhanced facility in 2026/27 is £18m, which represents an £11m increase on 2025/26. This additional cost (£11m) will be allocated to the Deposits class only and distributed in proportion to each firm's level of protected deposits.

Through reductions and efficiencies across our total budget, even with this additional cost, our overall budget remains broadly in line with inflation.

Volume and complexity-driven costs

We expect costs linked to claims volumes to fall by £9.5m compared to 2025/26, reflecting claims volumes reductions, savings from recent internal investments and continued focus on efficiency.

While overall claims volumes are expected to reduce, the proportion of complex cases are expected to increase. This shift reflects an anticipated reduction in Section 27 claims against self-invested personal pension (SIPP) operators (which are typically bulk processed) and a rise in claims requiring first-time decisions, compared to 2025/26.

Investment costs

We expect a £0.5m increase in investment compared to the 2025/26 budget. This is to fund strategic initiatives and ensure we remain future-fit and resilient in an ever-changing claims environment. Initiatives include further improvements to the depositor protection programme and our insurance readiness, strengthening our ability to manage future failures and maintain robust preparedness.

This increase would be absorbed through reductions and efficiencies across our total budget, ensuring that even with this slight rise, our overall budget remains broadly in line with inflation.

Unlevied reserve

The FCA and the PRA are consulting on a total MELL of £113m. As mentioned earlier in this report, this includes a core budget of £97m and additional funding readiness costs of £11m.

It also includes a proposed unlevied reserve of £5m. This reserve ensures we can raise additional funds, if needed, to process a significant increase in claims for any unexpected large firm failures. This proposed reserve (£5m) remains unchanged from 2025/26.

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

Table 2: 2026/27 management expenses proposal and 2025/26 budget

Category	Budget 2026/27				Budget 2025/26				Variance			
	Budget (£m)	Controllable costs (£m)	Volume & complexity-driven costs (£m)	Investment costs (£m)	**Budget (£m)**	Controllable costs (£m)	Volume & complexity-driven costs (£m)	Investment costs (£m)	**Total variance (£m)**	Controllable costs (£m)	Volume & complexity-driven costs (£m)	Investment costs (£m)
Staff costs	**43.6**	29.5	13.6	0.5	**40.6**	26.6	13.0	1.0	**(2.9)**	(2.9)	(0.6)	0.6
Non-project contractor costs	**11.2**	0.9	7.3	3.1	**18.2**	0.6	15.0	2.6	**7.0**	(0.3)	7.7	(0.5)
Facilities	**2.3**	2.3	–	–	**2.6**	2.6	–	–	**0.3**	0.3	–	–
IT	**8.3**	6.7	1.2	0.4	**7.8**	6.7	1.2	–	**(0.4)**	0.0	(0.1)	(0.4)
Communications	**2.2**	2.2	–	–	**2.8**	2.8	–	–	**0.6**	0.6	–	–
Legal fees	**4.0**	2.5	1.2	0.2	**4.6**	3.3	1.2	–	**0.6**	0.8	0.0	(0.2)
Professional fees	**6.7**	5.2	0.1	1.4	**6.0**	4.6	0.1	1.3	**(0.7)**	(0.6)	0.0	0.0
External providers	**0.6**	0.5	0.1	–	**0.5**	0.4	0.1	–	**(0.1)**	(0.1)	–	–
Depreciation	**2.1**	2.1	–	–	**1.5**	1.5	–	–	**(0.5)**	(0.5)	–	–
Other / contingency	**0.6**	0.6	–	–	**0.5**	0.5	–	–	**(0.1)**	(0.1)	–	–
Outsourced claims-handling	**8.9**	–	8.9	–	**11.6**	–	11.6	–	**2.7**	–	2.7	–
Outsourced printing and scanning services	**0.6**	0.4	0.3	–	**0.4**	0.4	0.1	–	**(0.2)**	–	(0.2)	–
Bank charges	**7.0**	7.0	–	–	**7.0**	7.0	–	–	**–**	–	–	–
Interest income	**(0.9)**	(0.9)	–	**–**	**(0.5)**	(0.5)	–	–	**0.4**	0.4	–	–
Management expenses (excl. additional funding/ readiness costs)	**97.0**	**58.8**	**32.7**	**5.5**	**103.6**	**56.4**	**42.2**	**5.0**	**6.6**	**(2.4)**	**9.5**	**(0.5)**
Additional funding costs/ readiness costs	**11.0**	11.0	–	–	**–**	–	–	–	**(11.0)**	(11.0)	–	–
Management expenses	**108.0**	**69.8**	**32.7**	**5.5**	**103.6**	**56.4**	**42.2**	**5.0**	**(4.4)**	**(13.4)**	**9.5**	**(0.5)**
Unlevied reserve	**5.0**	–	5.0	–	**5.0**	–	5.0	**–**	**–**	–	–	–
Management expenses including unlevied reserve	**113.0**	**69.8**	**37.7**	**5.5**	**108.6**	**56.4**	**47.2**	**5.0**	**(4.4)**	**(13.4)**	**9.5**	**(0.5)**

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: 2026/27 and 2025/26 management expenses budget split by PRA and FCA classes

	Budget 2026/27			Budget 2025/26			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)	**36.6**	**18.3**	**18.3**	**36.9**	**18.5**	**18.5**	**-1%**	**-1%**	**-1%**
Specific costs									
Deposits	25.9	25.9	–	14.4	14.4	–	80%	80%	–
General Insurance Provision	6.9	6.9	–	7.6	7.6	–	-9%	-9%	–
Life & Pensions Provision	0.0	0.0	–	0.0	0.0	–	0%	0%	–
General Insurance Distribution	0.9	–	0.9	1.2	–	1.2	-28%	–	-28%
Life Distribution & Investment Intermediation (LDII)	32.5	–	32.5	35.3	–	35.3	-8%	–	-8%
Investment Provision	5.1	–	5.1	8.0	–	8.0	-36%	–	-36%
Home Finance Intermediation	0.2	–	0.2	0.3	–	0.3	-26%	–	-26%
Debt Management	0.0	–	0.0	0.0	–	0.0	0%	–	0%
Funeral Plans	0.0	–	0.0	0.0	–	0.0	0%	–	0%
Specific costs total	**71.4**	**32.8**	**38.6**	**66.7**	**22.0**	**44.7**	**7%**	**49%**	**-14%**
Management expenses total	**108.0**	**51.1**	**56.9**	**103.6**	**40.4**	**63.2**	**4%**	**26%**	**-10%**

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