

COUNCIL
Final Budget 2015/16

Meeting: 11 February 2015

Status: for decision

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Purpose

1. This paper sets out the final budget for **2015/16**. On the basis of this paper Council will be asked to agree the budget for **2015/16**. Council are asked to consider the final budget set out in Annex 1 which would deliver income of **£7.7m**, expenditure of **£7.6m**, a contribution from reserves of **£112k** and an outturn of **£150k** surplus.
2. Council are asked to:
 - 2.1 **note** the work undertaken to develop the budget;
 - 2.2 **note** the items included in the budget listed in paragraph 36 and the need to consider further resourcing requirements in-year;
 - 2.3 **note and endorse** the intention to carry out longer term financial planning work;
 - 2.4 **consider and agree** the final assumptions set out in Annex 2 which have been used to underpin the formulation of the final budget; and
 - 2.5 **consider and agree** the final budget for **2015/16** as set out in Annex 1.

Strategic Objective

3. The strategic objective of setting the budget is to support our employees, Council and committee members to deliver all of our organisation aims.
4. It ensures that our systems and processes are efficient and cost effective.
5. The budget impacts on the level of the organisation's reserves and our long term financial sustainability.

Background

6. In line with the Executives' plan to align fee setting, business plan and budget setting processes of the organisation, the final budget for 2014/15 is presented at Annex 1 for Council's approval.
7. Council are required to set a budget each year in order to adequately manage the resources to run the business and deliver services in a sustainable way.

8. This final budget is the result of a large amount of time and energy invested by all budget holders and their respective Directors. These figures represent the sixth and final draft of the budget. The Executive would like to extend their sincere thanks to all employees who have worked so hard in preparing this final budget.
9. Details of past financial performance and fee levels are set out in the table below:

	2015/16 Budget	2014/15 Forecast	2013/14	2012/13	2011/12	2010/11
	£000	£000	£000	£000	£000	£000
Income	7,723	6,819	6,286	5,850	5,806	6,479
Expenditure	7,685	6,039	6,026	6,797	5,297	5,157
Surplus/ (deficit)	38	781	260	(947)	508	1,322
Planned TFR to/from reserves	112	(500)	N/A	N/A	N/A	N/A
Fee levels						
OO	£310	£290	£260	£260	£270	£325
DO	£310	£290	£260	£260	£270	£280
CO	£310	£290	£260	£260	£270	£280
ST	£25	£25	£20	£20	£20	£20
LIF	£210	£190	£160	£160	£170	N/A
% fee change	+6.9%	+11.5%	0.0%	-3.7%	-16.9%	N/A
CPI	N/A	1.6%	2.7%	2.8%	4.5%	3.3%

10. As is clear from the table above, financial performance for the organisation (both income and expenditure) has varied tremendously over the years, and the fee level set has also varied a great deal.
11. Council have expressed a desire to undertake longer term financial planning. This is expected to be presented in the first instance in May 2015.
12. One of the matters to consider when doing this is the need to reflect inflation as a minimum when setting fees in every future year and when modelling future expenditure.

13. There is also a need to consider investment and reserve strategies and assumptions to help maintain the long term financial viability of the business.
14. Council set registrants' fees in November 2014 for the financial year beginning in April 2015. Fee setting was based on the draft budget presented at that time.
15. The organisation is in a situation of significant development, change and modernisation which has the effect of placing high and sustained financial demands. This is expected to continue to the end of the strategic plan period in 2017.
16. There is a need to develop more sophisticated investment and reserves strategies for the organisation.
17. Work on the budget was initially focussed on developing a final set of robust assumptions which have been used to underpin budget setting for each area of the business. The final version of these is set out in full in Annex 2.
18. The work to enhance the budget holders' ability to manage budgets within an environment of financial control and restraint is ongoing. In addition the finance team are working to improve our ability to predict income and model FTP legal case costs in a more systematic way.
19. The finance team have worked closely with budget holders to undertake a series of reviews in each area to understand and where possible model the cost drivers for that business area.
20. Full zero based reviews have been used in areas where changes in activity are envisaged in future. This is expected to be the approach used in future in the event of significant functional reviews being required.
21. Although there has been significant progress, there is still a need for further work to develop the skills of all budget holders and to understand risk, analyse and quantify the base running costs of the business fully. There is also a requirement to build understanding in relation to achieving value for money.
22. Additional resourcing has been agreed in 2014/15 in the FTP and Strategy directorates partly as a result of the directorate restructure and to enable progress towards faster case handling. These staffing changes are included in the final budget for 2015/16 presented at Annex 1.
23. A number of iterations of the budget for 2015/16 have been prepared and reviewed by the Executive before presenting this final one. It has been a complex and demanding task especially because it has been worked on at the same time as finalising Q3 performance and a Q3 forecast for 2014/15 which are presented in C05(15) as well as for comparison with the final draft budget.
24. In summary, the organisation maturity level is still developing in terms of its ability to:
 - 24.1 model, phase and forecast income and expenditure;

- 24.2 deal with the requirement to demonstrate value for money when planning and setting budgets; and
- 24.3 utilise reserves confidently in line with Charity Commission guidance to allow for normal fluctuations in expenditure and longer term financial planning.

Analysis

Headlines

- 25. The proposed final budget is presented at Annex 1.
- 26. The final budget as set out would deliver income of **£7.7m**, expenditure of **£7.6m**, a contribution from reserves of **£112k** and an outturn of **£150k** surplus. This is a proposed budget position that delivers a modest surplus and contributes **£150k** back to reserves.
- 27. The budget has been prepared in accordance with the assumptions set out at Annex 2. The principle assumptions are:
 - 27.1 fees have been set as in the table in 8 above in accordance with Council's directions in November 2014;
 - 27.2 RPI inflation of **2.3%** has been used for all costs other than rail fares and fuel (**5%** inflation used) and salaries where CPI at **1.6%** has been applied.
 - 27.3 PSA levy estimated at **£97k**, and we believe this is a worst case;
 - 27.4 Council and committee fees have been included at the proposed levels that are presented in paper C06(15) for approval;
 - 27.5 **140** hearing days will take place;
 - 27.6 FTP caseload is expected to increase in line with current trends for number and type of cases, interim orders and complex cases;
 - 27.7 legal costs per case are expected to increase as a result of retendering the contract for legal services;
 - 27.8 costs in respect of the impact of moving into rented offices have been included in the final budget;
 - 27.9 there is still some uncertainty about the impact of the capital transactions in the respect of the sale and lease arrangements but we have assumed we can capitalise the new lease and depreciate it over its lifetime;
 - 27.10 we have made assumptions about the capital sum released from the disposal of 41 Harley Street and the likely income that could be generated from investing these funds; and
 - 27.11 employee turnover is assumed to be **25%**.

28. There is still some uncertainty around the following assumptions that support the final budget presented here:
- 28.1 the PSA fee level has not yet been confirmed although we have been advised that it is expected to be in place in 2015/16, there is uncertainty about whether it will be applied for the full year. We have been advised that it will be charged per registrant on the basis of full registrant numbers taken as a snapshot at a specific point in the year and will be set in September 2015. We expect to have the opportunity to respond to a formal consultation about the levy from April 2015. The legislative change that enables the PSA to charge the levy has not been finalised yet, which is the reason for the uncertainty;
 - 28.2 the impact of performance related pay progression for employees has not been fully assessed at this stage. We have made allowance for this by means of a contribution to the Special Reserve at 31 March 2015 from the surplus generated in 2014/15;
 - 28.3 the caseload for FTP is inherently uncertain and legal fees remain our highest risk cost area. Work is well underway on developing a robust cost modelling framework for legal cases, based on past case progression data and assumptions about new cases numbers and types but this work will not be completed until we have three complete years of reliable data which will be after the end of 2014/15;
 - 28.4 interim Order case costs have been budgeted as part of the normal caseload in this budget;
 - 28.5 the assumptions around income generation from investment contain inherent risks particularly when the procurement of investment advisers has still to be undertaken; and
 - 28.6 we have tried to model effectively the impact of the transition to new offices but this remains an area of uncertain cost impact.
29. The Executive has built into the final budget a level of surplus similar to the one Council requested in the previous year's budget round. This equates to **5%** of income or approximately **£150k**.
30. The draft budget presented to Council in November 2014 did not include any aspect of the changes to the income level or cost base in respect of the property transactions that are underway. This final budget includes income from the investment of the proceeds of property sale, with some assumptions to underpin this estimate; there are some risks inherent in these assumptions. The principle costs that result from the move we expect to make in 2015 are now also included insofar as we can predict them together with the work expected to enable us to hand over the current building once we have relocated. The overall

impact of this one development is the main reason for differences between the draft and final budgets.

31. The Executive has assumed a contribution of **£112k** from designated reserves to support the cost of renting our new offices. This transfer represents less than **1/20** of the expected reserve generated (**£5.5m**) from the disposal of 41 Harley Street. This is in line with the initial guidance from Council about the use of the property proceeds, where Council requested that we plan to maximise the time over which this pot is utilised.

Work still to be undertaken

32. It is the Executive's view that there is a need to continue work to establish a sustainable cost base for the business which would work in the longer term. It is recognised that it may be necessary to work towards this over the course of the remaining strategic planning period.
33. This work is expected to reveal that the base running costs for the business are significantly higher than was budgeted in 2014/15 given the expectation on the GOC in terms of its statutory role and also the change in accommodation type for the organisation which is expected to take place in Q2 2015/16. Work is expected to take some time to complete but the work in respect of planning on the accommodation change has been completed in time for the final budget for 2015/16 which is presented here.
34. Following Council's decision to surrender the lease on 41 Harley Street and to rent alternative premises in London for a period of not less than ten years Council requested the following work be undertaken:
 - 34.1 undertake longer term financial planning;
 - 34.2 revise the investment policy so as to enable a longer term income stream to be generated; and
 - 34.3 revise the reserves policy so as to enable the organisation to maintain the asset base released by the lease surrender for as long as possible.
35. The investment and reserves policy work in particular is expected to be challenging and will require Council to think longer term, strategically and have a more sophisticated grasp of the mechanisms charities may use to manage their finances.
36. The revised Reserves Policy is presented for approval at C10(15). This includes the creation of a new designated reserve in respect of the investment asset but conditions for its use still need to be established.
37. The context for budget setting for 2015/16 is somewhat different from previous years for the following reasons:

- 37.1 the requirement for a longer term approach to financial planning will require Council to establish firm criteria for fee setting that include at the least inflation and designated reserves contributions;
- 37.2 the new caseload in FTP is rising in number and complexity and there is an increasing requirement for interim orders to protect the public; and
- 37.3 the Executive is trying to ensure that regular business as usual activities are spread more evenly over the cycle of three to five years, and this requires some substantial effort now.

Resourcing

38. The Executive has considered the following requests for additional resources to undertake new work or additional activities some of which are **not currently included** within the final budget:

38.1 increases to Committee member fees as detailed in Paper C06(15) - cost £18,740k;

38.2 increases in staffing (costs include on-costs):

	Team	Post	Cost	Included?
1	FTP	Caseworker	£32k	N
2	Strategy	Appointments Coordinator	£30k	Y
3	Strategy	Compliance Coordinator	£32k	N
4	ICT	CRM Administrator	£42k	Y
		TOTAL	£136k	

38.3 the Executive has included regular review of all remaining and any new resourcing requests each quarter to allow for zero based reviews where needed including but not limited to the two roles not included in the budget from 38.2, one planned for FTP (in respect of speeding up), and one planned for Registration (in respect of non EEA applications);

38.4 the quality assurance framework project needs to be fully scoped and planned over the remaining life of the strategic plan, and may require additional resource; and

38.5 additional investment in further developing the CRM system to enhance links with other systems and enable further elements of the registration process to be undertaken online with an estimated additional cost of **£150k** which will be funded from the Strategic Reserve.

39. Additional savings might be achieved from changing the way we work in the following areas:

39.1 reducing the size of FTP panels from five to three members which would require changes to legislation and would therefore take time;

39.2 reducing the size of Education visitor panels; and/or

- 39.3 carrying out some legal advocacy in house rather than using external lawyers but this would be unlikely to generate immediate savings.
40. Yielding the savings indicated above which are unquantified at present would allow the Executive to consider any of the proposals listed at 38 which have not been included and any others that come through during the year as a result of further resourcing reviews. In addition as outlined in paper C04(15) we will transfer other surplus funds (currently estimated at £500k) to the Strategic and Special Reserves at the end of 2014/15 for the purposes of funding the CRM project, reward project and to allow the consideration of in year resourcing requirements in 2015/16.

Impacts

41. Identify any implications decisions by Council may have on:
- 41.1 GOC's reserves – as detailed in the paper and annexes;
 - 41.2 GOC budget – as detailed in the paper and annexes;
 - 41.3 Legislation – none;
 - 41.4 Resources – significant internal resources are used in preparing and reviewing the budget;
 - 41.5 Equality and Diversity – none; and
 - 41.6 Human Rights Act – none.

Devolved Nations

42. There are no implications/differences in relation to this area and the devolved nations.

Communications

43. The proposals relating to employee pay including case examiners will need to be finalised and communicated to employees.
44. The proposals relating to Committee member fees will need to be communicated to those affected before 1 April 2015.

Risks

45. Financial constraints have been a significant feature of our operations in recent years and this is expected to continue over the next few years particularly as we begin to plan over the longer term.
46. The Council and Executive are committed to ensuring that financial restraint and careful management continues over the coming periods.
47. The measures that are already in place to manage and monitor expenditure in key areas will ensure that sufficient attention is paid to managing GOC's

finances. Financial performance is one of the measures used to consider individual and organisational performance.

48. There is some risk inherent in the assumptions used on investment income, bearing in mind that we have yet to appoint investment advisers to assist us with strategy and policy development in this area.
49. There is a general degree of uncertainty around the overall financial impact of the transition to new offices which is expected in 2015. We have modelled this as far as possible but the uncertainty remains bearing in mind that we are only at the planning phase at present.
50. The Executive recognise a significant management and capacity risk for the organisation in its ability to progress so many streams of work simultaneously and still respond effectively to emerging issues that may arise in year.

Recommendations

51. Council are asked to:
 - 51.1 **note** the work undertaken to develop the budget;
 - 51.2 **note** the items included in the budget listed in paragraph 36 and the need to consider further resourcing requirements in-year;
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 - 51.4 **consider and agree** the final assumptions set out in Annex 2 which have been used to underpin the formulation of the final budget; and
 - 51.5 **consider and agree** the final budget for **2015/16** as set out in Annex 1.

Timeline for future work

52. Budget management will continue over the remainder of 2014/15 and onward into 2015/16.
53. Financial reporting will continue to be considered by Council quarterly including relevant forecasts.

Attachments

Annex 1: Final Budget 2015/16

Annex 2: Budget Assumptions

General Optical Council
Budget for The Year 2015-16

Description	2014-15			Budget Draft £	Budget Final £
	December to date £	Budget £	Q3 Forecast £		
Income					
Registration	6,761,688	6,749,284	6,774,770	7,216,917	7,465,350
Investment Income	0	0	0	0	226,428
Cash Deposit Interest Income	20,854	33,617	28,303	44,000	27,946
Database Sales	4,000	6,000	4,750	3,000	3,000
Other income	12,080	0	12,080	0	0
Total Income	6,798,621	6,788,901	6,819,903	7,263,917	7,722,724
Expenditure					
<u>Chief Executive</u>					
Chief Executive Office	117,328	160,904	158,561	163,672	171,471
Contingency	13,038	50,000	50,000	50,000	50,000
Total Chief Executive	130,366	210,904	208,561	213,672	221,471
<u>Strategy</u>					
Director of Strategy	109,463	137,308	146,115	326,249	163,818
Governance	380,458	556,545	563,430	524,308	596,070
Policy	140,368	184,737	182,540	337,822	337,822
Communications	93,630	160,540	142,215	152,252	152,252
Education & Standards	540,760	828,500	775,108	854,180	854,180
Total Strategy	1,264,679	1,867,629	1,809,408	2,194,811	2,104,142
<u>FTP</u>					
Director of FTP	122,964	160,131	158,827	157,083	144,505
Fitness to Practise	901,302	1,443,395	1,223,336	1,357,473	1,513,793
Legal Compliance	42,605	57,763	61,159	82,362	87,362
Hearings	402,551	748,295	519,062	729,251	648,420
Total FTP	1,469,422	2,409,585	1,962,384	2,326,169	2,394,080
<u>Resources</u>					
Director of Resources	241,654	271,428	269,780	363,278	412,319
Facilities	192,629	239,728	238,443	272,078	905,051
Human Resources	250,616	470,790	448,835	364,540	431,508
Finance	126,825	258,647	255,357	247,437	244,118
IT	267,390	435,037	434,313	474,339	474,339
Registration	207,468	412,364	369,342	395,752	402,278
Total Resources	1,286,582	2,087,992	2,016,070	2,117,424	2,869,613
Amortisation & Depreciation	27,847	53,470	42,573	49,492	95,318
Total Expenditure	4,178,896	6,629,580	6,038,996	6,901,569	7,684,624
Transfer to Reserve	0	0	0	200,000	0
Transfer from Investment Reserve	0	0	0	0	112,000
Surplus / (Deficit)	2,619,726	159,320	780,907	162,349	150,100

Budget Assumptions

1. Investment income - Net proceeds from disposal of property will be invested at a rate of interest of **5%** from 1/7/2015. Investment income will be received monthly.
2. Unless known to be otherwise, September 2014 RPI (**2.3%**) is used for any increases in expenditure.
3. PSA levy estimated at **£97k** based on **£3.50** per registrant.
4. General pay progression is assumed to be **1.6%**
5. All new staff will enrol in the pension scheme.
6. All established staff posts will be filled for the entire year.
7. Other than Council meetings, and Hearings in the first three months, all other meetings will be held at GOC premises.
8. The following costs have been taken into account in respect of the office move: lease rental, service charge and rates. The rent free period of **21** months was spread over **10** year term in calculating the rent.
9. Council and Committee fees will be at the rates proposed in paper **C06(15)**.
10. Council and committee expenses are at the same as this year; therefore meeting costs will be on the same basis as this year.
11. Independent assessors will be required to take part in seven recruitment campaigns over the year.
12. Increased programme of research in line with research strategy to include public perceptions survey, registrant survey, staff survey and qualitative research.
13. Education & Standards - required visits as per Schedule Plus contingency for revisits & new applications based on average no per year.
14. Legal charges and interim order cost will be reviewed further by the Director of FTP.
15. Consultancy work will be required to update guidance or draft new guidance as a result of the new FTP rules. Consultancy will be required refine the performance assessment process, review both case management and the disclosure of information.
16. Number of cases going to case examiners will be similar to 2014/15 level.
17. Case examiner fees per case are being reviewed as at 1 April 2015 and it has been assumed that they will be increased from **£100** to **£150** although this is subject to the outcome of the review.
18. There will be only four Investigation Committee meetings for the year.

19. The complex nature of the current caseload will be similar in 15/16; complex cases tend to increase the average cost per case.
20. We have projected a **55%** increase in terms of complaints in comparison to last year, which will have an effect on referrals to the FTPC.
21. We have assumed that the legal services tender will result in higher legal costs per case than at present and this increase has been estimated at **25%**.
22. There will be no changes to Criminal Prosecution costs.
23. There will be more usage of clinical advisers in respect of clinical matters.
24. There will be an increased cost of Expert reports due to estimated increase number of cases.
25. There will be an increasing number of interim orders based on the increased number of complaints we have (by **55%**).
26. Complaint numbers for Dispute Mediation will remain at the current level.
27. Legal Compliance workload will remain steady and will be manageable within current resources.
28. Hearing days planned will be **140** (in 2014/15 **120** actual, **175** planned).
29. Consultancy costs will continue through into 2015/16 in relation to the property. However it is highly likely that we would be able to capitalise most of these.
30. Except where we have alternative information premises costs have been assumed to be on the same basis as now.
31. Staff turnover will be around **25%**.
32. Bank charges will not be increased.
33. We expect to require tax consultancy services related to property sale and related areas such as investments.
34. There will be additional investment income through investing of sales proceeds. This will be managed by out sourced investment services provider.
35. The cost of CRM Project phase two will be completed by the end of 15/16.
36. Property Project – estimated cost of fitting out **£900k**.
37. Any income tax liability in respect of the property transactions is assumed to be expensed from the proceeds of sale.