

COUNCIL

Draft 2016/17 Budget and Registrant Fees Rules

Meeting: 11 November 2015

Status: for decision

Lead responsibility: Josie Lloyd
(Director of Resources)

Purpose

1. This paper sets out the draft budget for 2016/17. On the basis of this paper Council are asked to set the registrant fee rates for 2016/17.
2. Council are asked to consider the draft budget set out in Annex 1, tariff 2 which would deliver income of £8.4m, expenditure of £8.2m, a net contribution from reserves of £12k and an outturn of £187k surplus.

Recommendations

3. Council are asked to:
 - 3.1 **note** the work undertaken to develop the budget so far;
 - 3.2 **note** the items currently included in the budget listed in paragraph 28;
 - 3.3 **consider and agree** the draft assumptions set out in Annex 2 which have been used to underpin the formulation of the draft budget and fee proposal;
 - 3.4 **consider and agree** the draft budget for **2016/17**; and
 - 3.5 **consider and agree** the Registration Fees for **2016/17 in accordance with Tariff 2** as follows:

Registrant Type	Tariff 1	Tariff 2*	Tariff 3
Fully Qualified Registrant	£315	£320	£325
Student	£25	£25	£25
Bodies Corporate	£315	£320	£325
Low Income discount	£100	£100	£100
Bottom line draft budget	£67k surplus	£187k surplus	£307k surplus

Strategic objective

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

Risks

7. The following risks are associated with the issue:
 - 7.1 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.
 - 7.2 The Council and Executive are committed to ensuring that financial restraint and careful management continues over the coming periods.
 - 7.3 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.
 - 7.4 There is an inherent risk in setting the fee level based on a draft budget for 2016/17 which is prepared in the basis of about a half a year's financial performance in 2015/16. The reason for this is that the full impact of trends and changes underway in the current year have not been reflected fully in our financial performance for the year to date.
 - 7.5 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.
 - 7.6 There is a general degree of uncertainty around the overall financial impact of the transition to new offices which is expected in December 2015. We have modelled this as far as possible but some uncertainty.
 - 7.7 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.

Background

8. In line with the Executives' plan to align fee setting, business plan and budget setting processes of the organisation, the draft budget for 2015/16 is presented at Annex 1 for Council's consideration and approval, and for the purposes of setting registrant fees.
9. 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.

10. This draft 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 third draft of the budget. The Executive would like to extend their sincere thanks to all staff who have worked so hard in preparing this draft budget.

11. Details of past financial performance and fee levels are set out in the table below:

	2016/17 Budget	2015/16 Forecast	2014/15	2013/14	2012/13	2011/12
	£000	£000	£000	£000	£000	£000
Income	8,400	7,576	6,839	6,286	5,850	5,806
Expenditure	8,199	7,425	6,286	6,026	6,797	5,297
Surplus/ (deficit)	187	151	553	260	(947)	508
Planned TFR (to)/from reserves	12	112	(223)	N/A	N/A	N/A
Fee levels						
OO & DO	£320	£310	£290	£260	£260	£270
CO	£320	£310	£290	£260	£260	£270
ST	£25	£25	£25	£20	£20	£20
LI discount	£100	£100	£100	£100	£100	£100
% fee change	+3.2%	+6.9%	+11.5%	0.0%	-3.7%	-16.9%
CPI*	1.1%	N/A	1.2%	2.7%	2.8%	4.5%
Wage inflation*	3.0%	1.8%	1.1%	1.6%	2.0%	2.1%

*Inflation figures as published by the Office of National Statistics

12. 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.

13. Council have committed to undertaking longer term financial planning. This is was presented in the first instance in July 2015.

14. One of the matters to consider when doing this is the need to reflect inflation (including pay inflation) as a minimum when setting fees in every future year and when modelling future expenditure.
15. There is also a need to consider investment and reserve strategies and assumptions to help maintain the long term financial viability of the business.
16. 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.
17. There is a need to develop more sophisticated investment and reserves strategies for the organisation.
18. Work on the draft budget has been focussed on developing a final set of robust assumptions which have been used to underpin budget setting for each area of the business. The current version of these is set out in full in Annex 2.
19. 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.
20. 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. Zero based reviews have been used in areas where this is necessary, most recently in FTP. 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 2015/16 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 draft budget for 2016/17 presented at Annex 1.
23. Two previous iterations of the budget for 2016/17 have been prepared and reviewed by the Executive before presenting this one. It has been a complex and demanding task especially because it has been worked on at the same time as finalising Q2 financial performance and a Q2 forecast for 2015/16 which are presented in C49(15) as well as for comparison with the draft budget.
24. In summary, the organisation's maturity level is still developing in terms of its ability to:

- 24.1 model, phase and forecast income;
- 24.2 model, phase and forecast expenditure;
- 24.3 deal with the requirement to demonstrate value for money when planning and setting budgets; and
- 24.4 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 draft budget is presented at annex one.
- 26. The draft budget as set out would deliver income of £8.4m, expenditure of £8.2m, a contribution from reserves of £12k and an outturn of £187k surplus. This is a proposed budget position that delivers a modest surplus and contributes £175k to reserves in total.
- 27. The draft budget has been prepared in accordance with the assumptions set out at Annex 2. The principle assumptions are:
 - 27.1 Fees have been assumed to be set at Tariff 2, although three options for fees are shown;
 - 27.2 PSA levy estimated at £90k or £3.50 per registrant in line with 2015/16; this is expected to be confirmed before the final budget in February 2016;
 - 27.3 Council and Committee fees have been included at their current levels;
 - 27.4 140 hearing days will take place;
 - 27.5 FTP caseload is expected to increase in line with current trends for number of cases, interim orders and complex cases;
 - 27.6 Facilities costs in respect of the new office have been estimated in line with the increased floor area; and
 - 27.7 Staff turnover is assumed to be 25%.
 - 27.8 The contingency budget has been set at £150k including £100k for in-year resourcing needs.
- 28. There is still uncertainty around the following assumptions that support the draft budget presented here:
 - 28.1 the PSA fee level has not yet been confirmed although we have been advised that it will at a similar level to the fee in 2015/16 (although this was only charged for 7 months of the year. The PSA are consulting on the fee level in December 2015 so by the time the final budget is presented in February 2016 the fee level will be known;
 - 28.2 the impact of performance related pay progression for staff has not been fully modelled at this stage although an estimated £60k has been included in the draft budget for this purpose. This detailed modelling work will take place before the final budget is presented to Council in February 2016.

- 28.3 the caseload for FTP is inherently uncertain and legal fees remain our highest risk cost area. Work is progressing well on developing a robust cost modelling framework for legal cases, based on past case progression data and assumptions about the new caseload;

Fee setting

29. Council's attention is drawn to the need to set fees for registrants for the 2016/17 financial year, and to consider the fee level in a longer term way. This will help in smoothing the income stream and allow the Executive to pay attention to the longer term planning of modernisation and savings that are required to ensure the business remains sustainable.
30. The draft budget presented at Annex 1 has been prepared assuming a fee increase of £10 (or 3.2%) to registrants except students where no increase in the fee is proposed. The proposed low income fee discount is held at £100 on the registrant fee.
31. Alternative fee tariffs are set out at 3.6 above for consideration:
- 31.1 An increase of £5 or 1.6% in the fee to registrants brings in approximately £120k less income to the business and would mean setting a surplus budget of £67k.
- 31.2 An increase of £10 or 3.2% in the fee (which is the proposed fee) would bring in no additional income and would mean setting a surplus budget of £187k.
- 31.3 An increase of £15 or 4.8% in the fee brings in approximately £120k additional income and would allow a surplus budget of £307k.
32. Surpluses could be invested in additional activities, increasing reserves or investment in infrastructure (or a combination of these three).

Work still to be undertaken

33. 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.
34. The context for budget setting for 2016/17 is somewhat different from previous years for the following reasons:
- 34.1 The requirement for a longer term approach to financial planning requires Council to establish firm criteria for fee setting that include at the least inflation and designated reserves contributions;
- 34.2 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
- 34.3 The executive is trying to ensure that regular business as usual activities are spread more evenly over the cycle of 3-5 years, and this requires substantial effort now.
- 34.4 The impact of relocation is estimated at present and is not based on robust data or actual experience.

35. The Executive has considered a number of requests for additional resources to undertake new work or additional activities which are **not currently included** within the draft budget.
36. This year, an allowance has been made in the draft budget of £100k as a resources contingency in the Chief Executive's budget to allow these to be assessed and considered further. It is expected that further details of specific resourcing needs will be presented as part of the final budget in February 2016.

Impacts

37. The following implications have been identified:
 - 37.1 GOC's reserves – as detailed in the paper and annexes;
 - 37.2 GOC budget – as detailed in the paper and annexes;
 - 37.3 Legislation – none;
 - 37.4 Resources – significant internal resources are used in preparing and reviewing the budget;
 - 37.5 Equality and Diversity – none;
 - 37.6 Human Rights Act – none; and
 - 37.7 Sustainability – none.

Devolved nations

38. There are no implications/differences in relation to this area and the devolved nations. This report does not need to be published in Welsh

Communications

39. Any changes relating to Committee member fees (which will be considered by Council in February 2016) will be reflected in the final budget in February and need to be communicated to those affected before the effective date of any changes.

Timeline for future work

40. The final budget will come to Council in February for approval and adoption for 2016/17.
41. Financial reporting will continue to be considered by Council quarterly including relevant forecasts.

Attachments

Annex 1: Final Budget 2015/16

Annex 2: Budget Assumptions

Annex 3: Fee Rules (3 options in one document)

Note: Clean copies of Fees Rules documents will be available at the meeting for signing

Annex 1: Draft Budget 2016/17

Description	2015-16		2016-17 Budget		
	Budget	Q2 Forecast	Fee Tariff 1	Fee Tariff 2	Fee Tariff 3
	£	£	£	£	£
Income					
Registration	7,465,350	7,440,754	7,779,704	7,899,990	8,020,275
Investment Income	226,428	109,536	438,150	438,150	438,150
Cash Deposit Interest Income	27,946	20,792	32,414	32,414	32,414
Database Sales	3,000	1,977	3,000	3,000	3,000
Other income	0	3,393	0	0	0
Total Income	7,722,724	7,576,452	8,253,267	8,373,553	8,493,838
Expenditure					
<u>Chief Executive</u>					
Chief Executive Office	171,471	167,249	193,367	193,367	193,367
Contingency	50,000	50,000	150,000	150,000	150,000
Total Chief Executive	221,471	217,249	343,367	343,367	343,367
<u>Strategy</u>					
Director of Strategy	170,951	170,598	245,727	245,727	245,727
Governance	596,070	624,663	712,706	712,706	712,706
Policy	330,689	324,323	367,435	367,435	367,435
Communications	152,252	156,905	165,722	165,722	165,722
Education & Standards	854,180	813,921	930,906	930,906	930,906
Total Strategy	2,104,142	2,090,409	2,422,495	2,422,495	2,422,495
<u>FTP</u>					
Director of FTP	144,505	141,235	143,081	143,081	143,081
Legal	1,513,793	1,290,586	1,353,106	1,353,106	1,353,106
Case Progression	87,362	77,362	199,466	199,466	199,466
Hearings	648,420	615,143	605,398	605,398	605,398
Total FTP	2,394,080	2,124,326	2,301,050	2,301,050	2,301,050
<u>Resources</u>					
Director of Resources	412,319	380,627	368,988	368,988	368,988
Facilities	905,051	908,640	945,697	945,697	945,697
Human Resources	431,508	464,075	430,946	430,946	430,946
Finance	244,118	244,569	268,045	268,045	268,045
IT	474,339	473,467	471,846	471,846	471,846
Registration	402,278	412,962	436,848	436,848	436,848
Total Resources	2,869,613	2,884,340	2,922,369	2,922,369	2,922,369
Amortisation & Depreciation	95,318	109,167	209,420	209,420	209,420
Total Expenditure	7,684,624	7,425,492	8,198,701	8,198,701	8,198,701
Transfer to Reserve	0	0	(100,000)	(100,000)	(100,000)
Transfer from Investment Reser	112000	112000	112,000	112,000	112,000
Surplus / (Deficit)	150,100	262,960	66,566	186,852	307,137

Annex 2: Assumptions underpinning the Draft Budget 2016/17**General**

1. Registrant fees are set at tariff 2
2. Investment income has been assumed to be 5% and will be received monthly
3. PSA Levy will be approximately £90k or £3.50 per registrant
4. Inflation used for expenses except where otherwise known is 1.1%
5. The contingency budget is £150 including £100k for in year resourcing needs
6. Consultancy costs are included for key projects
7. Council and committee meeting schedules will be unchanged

Regulatory

8. FTP cases will follow current patterns with external legal costs according to the rates in the current framework; some in house advocacy is assumed
9. Case examiner decisions and methodology will follow the current pattern
10. The proportion of cases requiring interim orders will follow the current pattern
11. 140 hearing days are budgeted for
12. Dispute mediation complaints will remain at current levels
13. 23 education visits are planned based on the cycle and no re-visits are planned
14. Consultation costs will be shared by regulators where appropriate and will be undertaken in a similar way to previous consultation

Facilities

15. The relocation project will have been completed before the start of 2016/17
16. Business rates will have an 80% charity rebate
17. The budget for furniture and fixture replacement is low because of the new office
18. Facilities costs for the new office are estimated based on the change in floor area
19. Insurance cover is assumed to be similar to 2015/16
20. There will be almost no need for external venues
21. Reprinting costs will be low as much will have been undertaken as a consequence of relocation in 2015/16

Staff and member related costs

22. Council, Committee and panel member recruitment will be as previously planned except that 3 additional education visitor panel members will be recruited
23. Member and committee fees are included at current rates (any changes proposed will be reflected in the final budget February 2016) and expenses are at current rates
24. Staff turnover has been assumed to be 25%; case examiner turnover as in 2015/16
25. All new staff will be enrolled in the pension scheme
26. All established posts will be filled for the whole year including in the new FTP structure
27. General pay progression has been assumed to be 1.6%
28. A provision for performance related pay has been made of £60k
29. ICT user related costs have increased due to increased user numbers

ANNEX 3: THE REGISTRATION FEES RULES 2016-2017 (3 OPTIONS)

Each application falling within a category set out in the table below shall be accompanied by the fee shown:

Applications for registration	15/16 Fee	T1 16/17 Fee	T2 16/17 Fee	T3 16/17 Fee
Application for registration in the register of optometrists or the register of dispensing opticians for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017	£310	£315	£320	£325
Application for registration in the register of optometrists or the register of dispensing opticians for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017 – low income earners	£210	£215	£220	£225
Application for registration in the register of student optometrists or the register of student dispensing opticians for all or part of the year commencing on 1 September 2016 and ending on 31 August 2017	£25	£25	£25	£25
Application for registration in the register of bodies corporate carrying on business as an optometrist or dispensing optician or both for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017	£310	£315	£320	£325
Application for entry of a specialty in the register of optometrists or the register of dispensing opticians	£30	£35	£40	£45
Non-EEA qualified practitioners: Application for registration in the register of student optometrists or the register of student dispensing opticians, for the purpose of sitting the UK qualification exam	£25	£25	£25	£25

Applications for retention of registration	15/16 Fee	T1 16/17 Fee	T2 16/17 Fee	T3 16/17 Fee
Application for retention in the register of optometrists or the register of dispensing opticians for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017 received on or before 15 March 2016	£310	£315	£320	£325
Application for retention in the register of optometrists or the register of dispensing opticians for all or part of the year commencing on 1st April 2016 and ending on 31 March 2017 received on or before 15 March 2016 – low income earners	£210	£215	£220	£225

Application for retention in the register of student optometrists or the register of student dispensing opticians for all or part of the year commencing on 1 September 2016 and ending on 31 August 2017 received on or before 15 July 2016	£25	£25	£25	£25
Application for retention in the register of bodies corporate carrying on business as an optometrist or dispensing optician or both for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017 received on or before 15 March 2016	£310	£315	£320	£325

Late applications for retention of registration	15/16 Fee	T1 16/17 Fee	T2 16/17 Fee	T3 16/17 Fee
Application for retention in the register of optometrists or the register of dispensing opticians for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017 received after 15 March 2016 up to and including 31 March 2017	£330	£335	£340	£345
Application for retention in the register of optometrists or the register of dispensing opticians for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017 received after 15 March 2016 up to and including 31 March 2017 – low income earners	£230	£235	£240	£245
Application for retention in the register of student optometrists or the register of student dispensing opticians for all or part of the year commencing on 1 September 2016 and ending on 31 August 2017 received after 15 July 2016 up to and including 31 August 2017	£35	£35	£35	£35
Application for retention in the register of bodies corporate carrying on business as an optometrist or dispensing optician or both for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017 received after 15 March 2016 and before 31 March 2017	£330	£335	£340	£345

Applications for transfer of registration	15/16 Fee	T1 16/17 Fee	T2 16/17 Fee	T3 16/17 Fee
Application for transfer between full registers for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017	£70	£70	£70	£70

Application for transfer from the register of student optometrists to the register of optometrists or from the register of student dispensing opticians to the register of dispensing opticians for each period of three whole calendar months on the full register commencing 1 April 2016 and ending 31 March 2017	£77.50 per 3 months	£73.75 per 3 months	£75 per 3 months	£76.25 per 3 months
Application for transfer from the register of student optometrists to the register of optometrists or from the register of student dispensing opticians to the register of dispensing opticians for each period of three whole calendar months on the full register commencing 1 April 2016 and ending 31 March 2017 – low income earners	£57.50 per 3 months	£53.75 per 3 months	£55 per 3 months	£56.25 per 3 months

Applications for restoration of registration	15/16 Fee	T1 16/17 Fee	T2 16/17 Fee	T3 16/17 Fee
Application for restoration to the register of optometrists or the register of dispensing opticians following removal or erasure from the registers for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017	£380	£385	£390	£395
Application for restoration to the register of optometrists or the register of dispensing opticians following removal or erasure from the registers for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017 – low income earners	£280	£285	£290	£295
Application for restoration to the register of student optometrists or the register of student dispensing opticians following removal or erasure from the registers for all or part of the year commencing on 1 September 2016 and ending on 31 August 2017	£45	£45	£45	£45
Application for restoration to the register of bodies corporate carrying on business as an optometrist or dispensing optician or both following removal or erasure from the registers for all or part of the year commencing on 1 April 2016 and ending on 31 March 2017	£380	£385	£390	£395

Samantha Peters
Registrar
11 November 2016

Gareth Hadley
Chair of Council
11 November 2016