

COUNCIL

Draft Budget and Business Plan 2020-21

Meeting: 26 February 2020

Status: For decision

Lead responsibility and paper author: Mark Webster (Director of Resources) and Erica Wilkinson (Head of Secretariat)

Purpose

1. To seek Council's approval of the 2020-2021 budget and associated business plan for publication.

Recommendations

2. The committee is asked to:
 - 2.1 **note** the financial analysis supporting the budget (Annex 1), including the impact on reserves and budget assumptions;
 - 2.2 **approve** the draft budget subject to any changes that Council wishes to make;
 - 2.3 note the cash flow projection (Annex 2);
 - 2.4 **approve** the 2019-20 internal Business Plan (Annex 3); and delegate authority to the Chief Executive and Registrar to produce a summary of the plan for publication.

Strategic Objective

3. Agreement of the budget and associated Business Plan is critical for delivery of all our strategic objectives.

Risks

4. There is a risk of us not fulfilling our public protection role effectively and efficiently, and a related risk to our reputation, if we do not develop a Business Plan and budget that clearly explains what we plan to achieve in protecting the public, matched with the resources available to deliver the plan.
5. There is also a risk to our reputation and ability to deliver the plan if our financial performance is above or below budget. These risks are generally considered to be low and are mitigated by having a quarterly business planning and budgeting review process.

Background

6. It should be noted that the new strategic plan for 2020 to 2025 is currently in draft form, having been discussed with Council in previous meetings and

published for external consultation. This Business Plan and budget reflect this draft and any material changes to the Strategic Plan would necessitate revisiting them. Feedback from consultation responses so far indicate that no material change is likely.

7. The business plan and budget were developed through the work undertaken since October, taking into account:
 - 6.1 a review of the progress made in delivery of the current business plan;
 - 6.2 a review of financial performance and quarter three reforecast;
 - 6.3 planning by managers responsible for delivery; and
 - 6.4 direction from SMT about priority activities to achieve the draft strategic objectives.

Business Plan development timetable



Analysis

8. A draft budget for 2020-21 was first developed in November 2018 as part of the revised forecast processes to improve long term financial planning. It has been revisited and revised every quarter since, with the previous draft being considered by ARC in November 2019.
9. The overall final draft budget summary is compared to the previous iteration below:-

	Draft Budget Projection (Nov 19)	Final Draft Budget	Variance
	£000's	£000's	£000's
Registrant Income	9,872	9,844	(28)
Other Income	250	296	46
Total Expense	(10,532)	(10,732)	(200)
Surplus / (Deficit) before portfolio gains	(410)	(592)	(182)

10. The SMT has considered this final draft budget at various iterations and believe it to be aligned with achievement of the GOC's strategic objective; effective delivery of the GOC's regulatory functions and is achievable with the resources included in this budget. This was reviewed in detail by ARC on 10 February 2020.
11. The 2020-21 draft budget is set against the following key assumptions / guidelines:
- the approval of 2020-21 registrant fees;
 - for the purpose of planning, investment returns from the investment portfolio of c5.5%. These may be volatile, but it should be assumed we achieve the annual average expected returns;
 - CEO contingency of £100k;
 - in addition, recognising the critical nature of the various IT projects ARC recommended an additional IT contingency of £100k.
12. The draft budget is a detailed extension of previous projections for 2020-21 and is supported by the attached financial analysis:
- income and expenditure budget for 2020-21 with comparatives against the previous projection for 2020-21 **annex 1A**;
 - income and expenditure budget for 2020-21 with comparatives against the 2019-20 revised budget and the latest forecast; **annex 1B**.
13. The budget will deliver total income of £10,140k. Business as usual expenditure of £9,973k combined with project expenditure of £659k give a combined expenditure of £10,732k. This results in a deficit before investment gains of £592k. This means we are meeting all but major project costs out of our annual income.

14. Income is budgeted to be £10,140k of which the majority, £9,844k, is from registration fees. Registrant income reflects the approved fee increase and modest increases in registrant numbers in line with our projections.
15. Investment return is budgeted on the basis of a c5.5 per cent annual return on the portfolio. This is £482k in total but is split into two components; dividend income of £250k which is included within income and is relatively predictable and anticipated unrealised gains on the portfolio of £232k which is shown separately at the foot of the income statement.
16. Business as usual expenditure is budgeted to be £9,973k, an increase of £15k on the previous projection.
17. There are a number of key changes to the costs since the draft budget.:
- In the current year (2019-20), as in previous years, actual overall staff salary costs are well below budget. This is due to never being at full headcount. There are always time gaps in recruitment and generally new incumbents are initially paid at a lower point on the pay scale. To reflect this in the budget, rather than regularly report a positive variance once the year is underway, a vacancy rate of 4% has been assumed which equates to c£200k reduction in overall staff costs. Rather than adjust each department this has been recognised within the CEO budget.
 - There is a significant increase in overall IT costs. The development of the website is underway but will carry over into 2020-21. It has also highlighted some key additional work required around upgrading the current CRM system. The migration to Microsoft Office 365 and SharePoint as a precursor to that work is also planned for the current year. In response to internal audit recommendations there is additional expenditure planned on network security. The IT strategy supporting these programs of work is presented separately in this meeting. A summary of the key changes / costs is set out below.

	£
Deferred from 2019-20	75,000
Microsoft Dynamics Licencing	57,000
Additional Development (net)	120,000
Infrastructure Security	50,000
Interim staff (project support)	50,000
Telephony upgrades	36,000
	<u>388,000</u>

- Hearings costs have increased by £157k. this reflects the progress in case management; moving a higher number of cases through the system. To deal with this backlog of hearings, the number of hearing days has increased, and

the hearing panel cost has also increased as many of the scheduled cases are more complex than usual.

- Governance costs have reduced by c£85k reflecting a reduction in staff costs.
- Education business as usual costs have fallen by £84k. The key savings are continued efficiencies around education visits, reduced training and reduced stakeholder events.
- HR costs have increased to reflect the executive recruitment programme.
- The standards project costs have been removed, recognising the end of the business standards project.
- ESR costs have increased by £61k in order to accommodate the following: £35k for external consultation, £20k for external verification (of the ESR deliverables) and £20k for the RQF qualification level research.

18. The overall headcount falls slightly across the year

	GOC 20-21 Budget		
	Headcount (FTE's)		
	Apr-20	Mar-21	Average
Chief Executive Total	2.0	2.0	2.00
Strategy Total	14.5	15.0	14.88
Education Total	9.5	10.0	9.88
FTP Total	35.5	34.5	35.33
Resources Total	27.9	24.9	26.82
Projects Total	4.0	4.0	4.00
Total Headcount	93.4	90.4	92.90

19. The overall budget is an operating deficit after investment gains of £260k compared to a deficit of £177k in the previous projection.

20. The overall impact on reserves (before portfolio gains) is

	Actual	Q3 Forecast	Budget	Forecast
	31/03/2019	31/03/2020	31/03/2021	31/03/2022
	£'000	£'000	£'000	£'000
Reserves				
Legal Costs Reserve	1,624	1,624	1,624	1,624
Strategic Reserve	2,984	2,984	2,984	2,984
General Reserve	2,424	2,424	1,935	1,575
Result for year	0	(489)	(360)	949
Total	7,032	6,543	6,183	7,132

21. The GOC's Cash flow requirements are summarised in the cash flow statement in **Annex 2**. This analyses the GOC's working capital requirements from now through to 31 March 2021 and highlights the large fluctuations in the GOC's working capital balances. With the new budget for 2020-21, working capital will be adequate until December 2020, budgeting for future drawdowns in December 2020 and January 2021.

Impacts

22. Implications arising from the issues in this paper are:

- GOC's reserves – reserves will be used to part fund strategic project expenditure a reduction of £0.36m;
- Legislation – all legislative duties have been included in the plan. The requirement to annually review the Reserves Policy is an expectation of the Charity Commission and the SORP 2015;
- Equality and Diversity -work on EDI will be completed and published alongside the summary business plan; and
- Human Rights Act – no implications arising.

Devolved Nations

23. In creating the business plan consideration has been given to issues affecting the devolved nations. These will be addressed in the course of our work, particularly through the standards strategic review and the implementation of our stakeholder engagement strategy.

Communications

24. The internal Business Plan and budget will be shared with staff following agreement by Council.

25. A summary of the agreed Business Plan will then be published externally on our website.

Timeline for future work

26. A review of progress against business plan and budget will be undertaken and reported to ARC and Council quarterly. We will track progress against the Business Plan and variance between predicted and actual activity and spend every quarter. The purpose of this is to:
- enable managers to track progress against the plan and budget, to identify any required changes to the plan or budget forecast caused by increases or decreases in activity, delays or unplanned events and the impact these changes will have on our ability to deliver the plan and budget;
 - enable SMT to have an overview of progress in order to ensure delivery of the plan and strategic objectives set by Council; and
 - enable Council to have assurance that we are delivering the plan and budget, and therefore are delivering our role in protecting the public and achieving our strategic objectives.

Attachments

Annex 1a & b - Financial analysis supporting the budget

Annex 2 – GOC Cash flow requirements for 2019-20 and outline 2020-21

Annex 3 – 2020/21 Business plan