



2019-20 Initial Draft Budget

Report to: Board
Date: 18 December 2018
Report by: Kenny Dick, Head of Finance and Corporate Governance
Report No. B-71-2018
Agenda Item: 11.1

PURPOSE OF REPORT

To set out the budget approval process for 2019/20 and present the initial draft budget position for 2019/20.

RECOMMENDATIONS

That the Board:

1. Notes the 2019/20 budget approval process.
2. Provides direction and comment on how the budget should be shaped.

Consultation Log

Who	Comment	Response	Changes Made as a Result/Action
Senior Management	Chief Executive and Executive Director of Corporate and Customer Services		
Legal Services			
Corporate and Customer Services Directorate			
Committee Consultation (where appropriate)			
Partnership Forum Consultation (where appropriate)			

Equality Impact Assessment

Confirm that Involvement and Equalities Team have been informed	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
EIA Carried Out	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
If yes, please attach the accompanying EIA and appendix and briefly outline the equality and diversity implications of this policy.	This is an initial budget position report and therefore will not at this stage have an impact on equality. The budget is the expression of corporate and business plans in financial terms. Specific plans, expenditure and income proposals and the policies on which the budget is based should all have been equality impact assessed where appropriate.	
If no, you are confirming that this report has been classified as an operational report and not a new policy or change to an existing policy (guidance, practice or procedure)	Name: Kenny Dick Position: Interim Executive Director of Corporate and Customer Services	
Authorised by Director	Name: Kenny Dick	Date: 8 December 2018

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1.0 INTRODUCTION

1.1 Corporate Plan Reference

The initial budget proposals contained in this report have been developed within the context of the on-going work to develop a revised corporate plan for the period to 31 March 2021.

1.2 Background

1.2.1 The Care Inspectorate's new financial year commences on 1 April 2019 and there is a requirement to have in place an agreed budget before that date. This budget is then used as the basis for measuring financial performance throughout the year. The budget must be agreed by the Care Inspectorate Board and by the Sponsor Department for funding purposes.

Section 2 below sets out the process that will be followed to ensure the draft 2019/20 budget is presented at the Board meeting of 28 March 2019 for approval.

1.2.2 The Draft Scottish Budget is due to be published on Friday 14 December 2018. The initial draft budget set out in this report is based on the assumption that grant in aid will remain at the same level as 2018/19 (£21.714m) and fee rates remain unchanged. We are unlikely to know our actual grant in aid settlement figure until into the new calendar year. There are several possible policy asks currently under consideration by the Scottish Government. The initial draft budget does not consider the potential policy asks or their financial implications. The assumption is that if these are to go ahead, additional grant will be agreed to fully fund any new initiatives.

1.2.3 The revised financial strategy will include a target range of 1.0% to 1.5% of gross controlled expenditure for the general reserve balance. The Resources Committee has previously agreed in order to support the business and digital transformation programme the 2019/20 budget would assume a budgeted general reserve balance of 1% of gross controlled expenditure as at 31 March 2020.

1.2.4 The Scrutiny and Improvement Plan 2019/20 is being developed concurrently and will be revised as required to be deliverable within the resources identified in the draft 2019/20 budget (Appendix 1).

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2.0 BUDGET APPROVAL PROCESS

2.1 The table below sets out the process for developing the draft budget ahead of the Board meeting on 28 March 2019 at which the 2019/20 budget must be approved.

Date	Event	Comment
18 Dec 2018	Board Meeting	Board to provide direction and comment on the key issues identified for the development of the 2019/20 budget and future years.
19 Dec 2018	Exec Group Meeting	Reflection on previous day's Board discussion
10 Jan 2019	Exec Group Meeting	Detailed review of budget proposals and issues
23 Jan 2019	Exec Group Meeting	Detailed review of budget proposals and issues
6 Feb 2019	Board Development Session	Presentation and discussion of advanced budget proposals and revised financial strategy
20 Feb 2019	Exec Group Meeting	Follow up on Board development session discussion
6 March 2019	Exec Group Meeting	Draft 2019/20 Budget and Revised Financial Strategy Board papers considered by EG.
20 March 2019	Exec Group Meeting	Final review of Board papers
28 March 2019	Board Meeting	Approval of 2019/20 Budget and Revised Financial Strategy

3.0 INITIAL DRAFT 2019/20 BUDGET COMPILATION

The initial draft budget is shown in Appendix 1 ("Initial 2019/20 Budget" column).

Appendix 1 also shows the variances in cash and percentage terms in comparison to the agreed 2018/19 budget.

Appendix 2 compares the initial draft budget 2019/20 with the indicative 2019/20 budget prepared last financial year.

3.1 Staff Costs

3.1.1 Incremental Progression and Pay Award

The salary related budget is based on the following:

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- The Scottish Government 2019/20 remit for negotiating a pay award effective from 1 April 2019 has not been agreed yet. The draft budget assumes the same pay policy parameters as 2018/19 will apply i.e. a 3% increase for staff on full time equivalent salaries below £36.5k and a 2% award for staff earning between £36.5k and £80k and a cash increase of £1.6k for the staff earning in excess of £80k per annum.
- All staff not at the top of their grade (and who perform satisfactorily) will progress by one incremental step with effect from 1 April 2019.
- In 2018/19, the Scottish Government has advised that there was an expectation that all staff at the top of their pay scale or on a fixed salary will receive a 1% non consolidated payment. This was not included in the 2018/19 budget as it was considered unaffordable. We will be in a similar position if this expectation is repeated for 2019/20.

3.1.2 Employer's Pension

Most Care Inspectorate staff contribute to the Tayside local government pension fund administered by Dundee City Council. The results of the latest triennial actuarial valuation set the common employer's contribution rate for financial years 2018/19, 2019/20 and 2020/21 at 17%.

3.1.3 Employers' National Insurance

Employers' national insurance contributions are budgeted in accordance with the latest information available from Her Majesty's Revenue and Customs (HMRC).

3.1.4 Apprentice Levy

The Apprentice Levy rate is unchanged from 2018/19.

3.1.5 Staff Costs Slippage

Staff cost slippage is a saving that arises through the normal turnover of staff i.e. the salary and on-cost saving associated with the delay between an employee leaving and the vacant post being filled. The draft budget adopts a slippage assumption of 3.50% (2018/19: 3.50%) for all staff excluding the Chief Executive and Directors where no slippage is assumed.

3.1.6 Staff Establishment

Appendix 3 details the 2018/19 budgeted establishment and the initial establishment proposals used in the preparation of the 2019/20 initial draft budget.

Included in the 2019/20 draft establishment are all agreed permanent posts and a number of temporary posts associated with the digital transformation work or

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previously agreed temporary posts where business cases will be considered by the Executive Group to extend temporary posts into 2019/20 as appropriate.

3.1.7 Other Staff Costs

This budget has reduced significantly mainly as a result of digital transformation staff being employed on temporary contracts directly with the Care Inspectorate as opposed to being employed via an employment agency.

3.2 Accommodation Costs

3.2.1 Rent and Rates

The rent and rates arrangements for Care Inspectorate properties have been analysed to set the 2019/20 rent and rates budget at £1.248m.

3.2.2 Other Property Costs

The Other Property Costs budget is £1.196m this is £0.201m more than the 2018/19 budget. This is due to service charges previously included in rent being re-allocated to other property costs and an allowance for potential changes / dilapidations for the Dumfries office. The Dumfries office lease expires in 2019/20.

Included within the accommodation costs are costs that are subsequently recharged to the SSSC, OSCR and the Scottish Government.

3.3 Administration Costs

This budget of £1.386m has reduced by £1.027m compared to 2018/19.

This is mainly due to the removal of £0.600m non-recurring professional fees associated with the digital transformation project, a reduction in telephone costs of £0.206m as a result of new telephone contracts, the removal of £100k non recurring implementation costs of the new "MyView / Resourcelink" payroll and HR management information system and savings on printing and stationery.

3.4 Transport Costs

The transport costs budget has not changed significantly when compared to 2018/19.

3.5 Supplies & Services Costs

The Supplies & Services budget has been reduced by £0.253m compared to 2018/19.

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The reduction wholly relates to a reduction in investing in modernising our ICT infrastructure. It is anticipated this budget will reduce further in subsequent years as legacy systems are shut down.

During 2018/19 all staff are to receive new ICT equipment. It is intended to keep the devices and associated software issued to staff consistent throughout a four year replacement cycle. Therefore in 2022/23 there will be a need for a further bulk replacement of ICT equipment. This has been discussed with the Sponsor Department who are considering two options;

1. Building in this cyclical increased funding demand into the Sponsor Department's medium term budget plans
2. Permitting the Care inspectorate to build up funds in either the General Reserve or a specific reserve over a four year period

The initial draft Supplies and Services budget includes an allowance of £0.120m to start the build up of an equipment replacement reserve.

3.6 Relevant Income

3.6.1 Shared Services

Work is underway to agree revised Service Level Agreements (SLAs) with the SSSC and OSCR. The draft budget includes the reduction in income associated with the cessation of the ICT shared service with the SSSC. This reduction is partially offset by an exit payment of £0.206m due by the SSSC or the SSSC Sponsor Department.

3.6.2 Other Income

The draft budget includes secondment income of £0.074m for current secondment agreements due to continue into 2019/20 and £0.100m for other income.

3.7 Care About Physical Activity 2 (CAPA 2) - Grant

The Care Inspectorate has been awarded specific grant funding of £0.499m in 2019/20 to follow on from the success of the Care About Physical Activity project.

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CAPA 2 Expenditure is included in the budget as follows:

	£m
Salaries and Employer payroll costs	408
Administration Costs (Professional Fees)	59
Transport Costs	32
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Total Expenditure	499
Project Grant in Aid	(499)

4.0 DRAFT BUDGET FUNDING POSITION

4.1 Net Expenditure Funded by Grant in Aid and Regulatory Fees

Net expenditure represents the amount to be funded by core grant in aid and fees charged to service providers. This is gross budgeted expenditure less income from recharges of shared costs and other income.

We are expecting Scottish Government funding as follows:

	£m
Cash grant in aid per prior year	21.714
Funding for Digital Transformation	0.739
CAPA 2	0.499
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	22.952
Ring fenced DEL	0.230
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Total	23.182

The Scottish Government will provide a formal grant in aid letter before the start of the 2019/20 financial year.

It is assumed fee income will remain at the 2018/19 level of £11.850m. This provides a net expenditure funding figure of £34.802m. The initial draft budget shows net expenditure of £35.401m. Therefore there is a budget deficit of £0.599m and this will be funded by drawing on our General Reserve balance.

The greater than anticipated projected General Reserve balance as at 31 March 2019 provides for a better financial position for 2019/20 than was set out in the

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indicative budget for 2019/20. The initial draft budget deficit of £0.599m is £0.158m less than the indicative budget. The full deficit of £0.599m can be funded from the General Reserve balance whilst delivering a balance that is 1.14% of gross controlled expenditure.

This improved financial position for 2019/20 provides more time to identify further recurring budget reductions and savings that will be required from 2020/21 onwards.

4.2 Fee Income

The fee rates for all service types are currently set at the statutory maximum with the exception of care home fees. It is not intended to increase the current fee charged to care home services in isolation from a strategic review of fees charged to all service types. Therefore the draft 2019/20 budget has been prepared on the basis that fee rates will remain unchanged from 2018/19.

5.0 INITIAL DRAFT BUDGET RISKS

5.1 Pay Award

The initial draft budget is based on a pay award assumption of 3% for staff earning up to £36.5k, 2% for staff earning more than £36.5k and up to £80k and a flat rate award of £1,600 for staff earning more than £80k.

Public sector pay settlement are coming under pressure and agreeing a pay settlement in accordance with budget assumptions will prove difficult. The table below shows the impact of higher pay awards:

	Up To £36.5k	Above £36.5k	Additional Cost £000	Cumulative Additional Cost £000
Budget assumption	3.00%	2.00%		
Scenario 1	3.00%	3.00%	203	203
Scenario 2	4.00%	3.00%	65	268
Scenario 3	4.00%	4.00%	203	471

5.2 Professional Development Award (PDA)

Cohorts of Inspectors and other staff will be undertaking the PDA in 2019/20.

There is an option to accept a reduction in scrutiny capacity as staff divert time to attaining the award or alternatively to maintain scrutiny capacity the budget can provide for an increase in Inspector FTE to provide backfill.

The initial draft budget has assumed that there will be no backfill and that there will be a reduction in scrutiny capacity equating to approximately 4 FTE.

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To provide backfill of 4 FTE will cost £0.200m

5.3 Early Years Expansion

The Scottish Government policy to expand early years service provision may lead to the following:

- More early years services (more inspections)
- Larger early years services (increased inspection time)
- A temporary reduction in service quality due to larger number of new workers to the sector (more inspections and more intense inspections)

All of the above will increase scrutiny and regulation time demands. This is not currently reflected in the initial draft budget.

5.4 SSSC ICT Shared Service Exit Payment

The initial draft budget includes income of £0.206m expected from the SSSC as an exit payment to assist the Care Inspectorate in dealing with the financial implications to the SSSC's decision to withdraw from the shared ICT service.

It now appears likely that this will be the subject of a funding transfer between the SSSC and Care Inspectorate Sponsor Departments. Until this is confirmed this will remain as a budget risk.

5.5 Grant in Aid

The Sponsor Department has not raised any issue with the current budget assumption that grant in aid will be maintained at the same monetary value as 2018/19. However, it is anticipated we will not receive confirmation of grant in aid until into the new calendar year.

In addition, we are currently seeking confirmation that the £0.325m allocated in 2018/19 to fund the scrutiny of community justice has been accounted for by the Scottish Government as a permanent transfer of budget.

5.6 General Reserve

The initial draft 2019/20 budget is based on the 2018/19 budget monitoring position as at 31 October 2018. This currently projects there will be an additional £0.456m in the General Reserve balance as at 31 March 2019.

This increase to anticipated General Reserve balance provides temporary mitigation to the underlying budget deficit. The projected General Reserve balance is subject to change as 2018/19 progresses. It is currently anticipated that the projected General Reserve balance is more likely to increase further rather than reduce.

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6.0 BUDGET REDUCTION OPPORTUNITIES

6.1 Executive Group Review

The Executive Group will continue to examine the draft budget in detail and further budget adjustments are likely to result.

6.2 Increase Slippage Assumption

Additional budget savings could be achieved by increasing slippage assumptions from the current 3.5%. The table below shows the budgetary impact of increases to the slippage assumption:

Slippage Rate	£000
4.0%	142.4
4.5%	284.8
5.0%	427.1

6.3 Care Home Fees

The Board has previously expressed a clear opinion that care home fees should not be increased in isolation from a strategic review of fees charged to all service types.

However, care home fees are the only fees not currently set at the statutory maximum. Increasing care home fees could generate additional fee income of up to £0.320m if set at the statutory maximum.

This would also require discussion with the Sponsor who may wish to reduce grant in aid by a corresponding amount in accordance with previous policy.

6.4 Digital Transformation Efficiency Assumption

It is planned to introduce the new complaints application in February 2019 and the new registration application in the first half of 2019/20. The introduction of these new applications will deliver efficiencies for business support staff and Inspector time.

The initial draft budget does not reflect the anticipated efficiencies.

The Sponsor Department have confirmed that if less than the additional £2.300m grant in aid awarded to the Care inspectorate is drawn down then this will reduce by a corresponding amount the grant in aid reductions (pay back) scheduled to commence in 2021/22. Sustainable efficiencies identified as the Business and Digital Transformation programme progresses may be used to reduce the

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amount of additional grant in aid required and alleviate some of the pressure on future years' budgets.

7.0 CAPITAL PLAN 2019/20

The Care Inspectorate does not receive any funding specifically for capital expenditure and the capital plan submitted with this report does not infer any additional resources for 2019/20.

Capital expenditure is financed by using an appropriate amount of grant-in-aid intended for revenue purposes to fund the capital expenditure.

There are currently no commitments to any planned capital projects in 2019/20 or subsequent years. ICT and property related alterations and improvements may need to be treated as capital expenditure, requiring a contingency for unplanned expenditure of a capital nature.

Contingency expenditure is intended to provide an allowance to enable the Care Inspectorate to react to events such as equipment failures that require to be capitalised without the need to obtain retrospective approval from the Board and Sponsor Department. The contingency allowance is a reasonable estimate of the expenditure that may be incurred during the year. Expenditure that exceeds the contingent amount agreed in the capital programme would require the appropriate approval.

The Capital Plan for 2019/20 is included as Appendix 4.

8.0 BENEFITS FOR PEOPLE WHO EXPERIENCE CARE

Setting a budget and the subsequent monitoring of the budget to actual income and expenditure throughout the year ensures that the resources available to the Care Inspectorate are directed in accordance with corporate plans and objectives, with the ultimate aim of bringing benefits to people who experience care.

9.0 CONCLUSION

This initial draft budget has been set with a view to maximising public assurance and benefits to people who experience care. This draft budget is intended to support the delivery of a new Corporate Plan, the Scrutiny and Improvement Plan and the Care Inspectorate's overall aim of making a positive impact on the quality of services, while focussing and targeting scrutiny activity where it is most effective.

It is essential that the Care Inspectorate continues to identify and implement efficiencies in order to maintain and, where possible, accelerate progress on re-directing resources to where they are most needed.

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The initial draft budget will be adjusted in accordance with direction from the Board, consideration by Executive Group and in accordance with new information received between now and when the budget is to be agreed on 28 March 2019.

LIST OF APPENDICES

Appendix 1 - Initial Draft 2019/20 Budget

Appendix 2 - Initial Draft 2019/20 Budget Compared to Indicative Budget

Appendix 3 - Staff Establishment

Appendix 4 - Draft 2019/20 Capital Plan

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