2019-20 Draft Budget and Indicative Budgets 2020/21 and 2021/22

Report to:	Board
Date:	28 March 2019
Report by:	Kenny Dick, Head of Finance and Corporate Governance
Report No.	B-05-2019
Agenda Item:	11

PURPOSE OF REPORT

To present draft budget proposals for 2019/20 to the Board for approval and subsequent submission to the Sponsor Department.

To present indicative budgets for the financial years 2020/21 and 2021/22.

RECOMMENDATIONS

That the Board:

1. Agrees the draft 2019/20 budget to incorporate adjustments agreed by the Board (Section 4).

2. Agrees the draft 2019/20 Capital Plan (Appendix 2).

3. Agrees the fee rates to be charged to care service providers in 2019/20

4. Notes the projected budget position for 2020/21 and 2021/22

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 ☐	NO ☒ x
EIA Carried Out		YES ☐	NO ☒ x
If yes, please attach the accompanying EIA and appendix and briefly outline the equality and diversity implications of this policy.		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 Head of Finance and Corporate Governance	
Authorised by Director	Name: Gordon Weir	Date: 8 March 2019	

1.0 INTRODUCTION

1.1 Corporate Plan Reference

The 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.

1.2.2 The draft budget set out in this report is based on the assumption that core grant in aid will remain at the same level as 2019/20 (£21.714m) and fee rates remain unchanged. The budget also assumes £1.089m specific grant funding for our business / digital transformation programme and a further £0.205m as a one year adjustment to our funding to provide time to deal with the financial consequences of the SSSC's decision to end shared ICT services. There are several business cases to fund additional work currently under consideration by the Scottish Government. The draft budget does not include any funding or expenditure associated with these business cases. There are no additional resources provided in the budget to deal with possible additional registration and subsequent inspection / complaints workload associated with the expansion of early years learning and childcare.

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 was developed to be deliverable within the resources identified in the draft 2019/20 budget (Appendix 1).

2.0 DRAFT 2019/20 BUDGET COMPILATION

The base draft 2019/20 budget is shown in Appendix 1 ("2019/20 Draft Base Budget" column).

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

Section 4 of this report sets out options for adjustment to the base position. The base budget incorporating agreed adjustments will be the agreed 2019/20 revenue budget for the Care Inspectorate.

2.1 Staff Costs

2.1.1 Incremental Progression and Pay Award

The salary related budget is based on the following:

- The draft budget assumes the Scottish Government pay policy parameters for 2019/20 are applied 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.

2.1.2 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%.

2.1.3 Employers' National Insurance

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

2.1.4 Apprentice Levy

The Apprentice Levy rate is unchanged from 2018/19.

2.1.5 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.

2.1.6 Staff Establishment

Appendix 2 details the 2018/19 budgeted establishment and the establishment proposals used for the preparation of the 2019/20 base 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 previously agreed temporary posts that extend into 2019/20.

2.1.7 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.

2.2 Accommodation Costs

2.2.1 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.

2.2.2 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.

2.3 Administration Costs

This budget of £1.610m has reduced by £0.803m 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.

2.4 Transport Costs

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

2.5 Supplies & Services Costs

The Supplies & Services budget has been reduced by £0.304m compared to 2018/19.

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 base draft Supplies and Services budget assumes option 2 above and includes an allowance of £0.120m to start the build up of an equipment replacement reserve.

2.6 Relevant Income

2.6.1 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 £0.205m due by the SSSC Sponsor Department. This £0.205m will be received as additional grant in aid for 2019/20 only.

2.6.2 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.

2.7 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.

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
Total Expenditure	**499**
Project Grant in Aid	**(499)**

3.0 DRAFT BASE BUDGET FUNDING POSITION

3.1 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	1.089
CAPA 2	0.499
SSSC shared ICT cessation	0.205
	23.507
Ring fenced DEL	0.230
Total	23.737

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 £35.357m. The initial draft budget shows net expenditure of £35.581m. Therefore there is a budget deficit of £0.224m and this will be funded by drawing on our General Reserve balance. The Board should note that the true budget deficit position is masked by an agreement to delay payment of digital transformation funding amounting to £0.350m due in 2018/19to 2019/20. The true budget deficit position is therefore £0.574m.

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 indicative budget for 2019/20. The base budget deficit of £0.224m can be funded from the General Reserve balance whilst delivering a balance that is 2.32% 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.

A separate paper, later in the Agenda for this meeting, discusses the medium term financial position and options for funding the forecast deficit in later years.

It was previously agreed that the general reserve balance could be reduced to 1% of gross controlled expenditure. This provides £0.428m that can potentially be utilised in 2019/20. Options for utilising this funding are set out in section 4 of this report.

3.2 Fee Income

The fee rates for all service types are currently set at the statutory maximum with the exception of care home fees. The base budget has been prepared on the basis that fee rates will remain unchanged from 2018/19.

3.3 Draft 2019/20 Budget Additional Analysis

Following Board requests for further detail, Appendices 3, 4 and 5 have been provided to show the draft 2019/20 budget with additional analysis.

4.0 DRAFT BASE BUDGET ADJUSTMENT OPTIONS

4.1 Pay Award / Pay and Grading

The base 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 is likely to be difficult.

There is also a growing need for a review of our pay and grading structure – this has been raised with our Sponsor.

The possible budgetary implications of pay issues are set out in a confidential report to this meeting of the Board. For the purposes of the budget, this is referred to as Budget Adjustment Option 1.

4.2 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

Staff slippage is an assumption that savings will be generated due to delays in filling posts as they become vacant during the year and the new starts being placed on a lower salary point on the grade than the leavers they replace. This saving will arise naturally but as the rate increases, affirmative action such as deliberately delaying filling posts and recruitment freezes becomes increasingly more likely. As this saving is not grounded in any underlying efficiency, increasing the slippage rate effectively makes the required Business / Digital transformation efficiencies to repay the loan more difficult to achieve and is likely to have a disproportionate impact on our largest staff group i.e. Inspectors.

Budget Adjustment Option 2

The Board are requested to decide if the slippage allowance should be increased and if so what the new rate should be.

4.3 Care Home Fees

The Board has previously expressed a clear opinion that care home fees should not be increased in isolation from a full strategic review of fees charged to all service types. The Minister has agreed that a strategic review of service definitions and fees should be undertaken and discussions have already been held with the Sponsor Department to consider the scoping and time scale for this review.

However, care home fees are the only fees not currently set at the statutory maximum. The maximum care home fee we can charge is £165 per place and we currently charge £157 per place. As there are approximately 40,000 care home places each £1 increase in the care home fee rate will provide an additional funding of £0.040m. Increasing the care home fee rate to the statutory maximum of £165 per place would generate additional fee income of £0.320m. This would provide sufficient funding to increase our Inspector establishment by approximately 6 FTE.

This would provide a recurring source of increased funding at least up until the point that the strategic review of fees is concluded.

Our fee rates become effective from 1 April each year. Agreeing a fee increase at this stage will provide very little opportunity to communicate the increase to care home service providers and therefore there is a significant reputational risk to implementing a fee increase and there is also a risk to fee collection in terms of timing and bad debt if a short notice fee increase was introduced.

Budget Adjustment Option 3

The Board are requested to decide if care home fee rates should be increased and if so what the increased rate should be.

4.4 Increase Inspector Establishment

There is pressure on Inspector capacity due to a reduction in capacity following restructuring effective in 2017/18, new responsibilities associated with complaints and an increasing number of complaints, expansion of early years, staff undertaking the Professional Development Award and Inspectors re-deployed to the business and digital transformation programmes and other initiatives. In the absence of additional Inspectors, increasing demand for Inspectors in Registration and Complaints will require a re-direction of resources from Inspection therefore reducing inspection and improvement capacity. Without backfill for staff undertaking the PDA and business transformation capacity will be reduced in proportion to the areas of expertise of the affected staff.

The base budget and preceding years' agreed budgets have been prepared on the principle that as far as possible, we maximise the resources available to perform scrutiny and improvement work. There is concern that maintaining Inspector numbers is no longer sufficient and there is a need to increase capacity or reduce scrutiny and improvement expectations.

Over the medium term it is anticipated that time releasing efficiencies and the end of re-deployment arrangements from the implementation of business and digital transformation work, the reduction in PDA cohort numbers and more effective workforce deployment will deliver increased scrutiny and improvement capacity. In the short term increased scrutiny and improvement capacity would be beneficial.

However, it must be noted that we are finding it difficult to recruit to our current budgeted Inspector establishment and providing additional funding to recruit additional inspectors may not be matched by an increase in actual Inspector numbers. We are looking at our recruitment procedures and planning a pay and grading review in response to this issue.

Each additional Inspector employed costs approximately £0.051m. It should also be noted that there is concern over management capacity within the Scrutiny and Assurance Directorate and there is a limited number of additional Inspectors that can be recruited without there being a need to look at Team Manager capacity.

Inspectors form the largest staff group within the Care Inspectorate and therefore there is the greatest opportunity to flex the established FTE through natural turnover.

Budget Adjustment Option 4

The Board are requested to decide if additional funding should be provided to increase the Inspector establishment and if so by how many FTE.

5.0 2019/20 BUDGET RISKS

5.1 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 base draft budget. The scale of the increase in scrutiny and improvement capacity needed may not be capable of being contained within any increase to Inspector establishment agreed as a result of section 4.4 above. The issues around recruiting and retaining Inspectors in the required time scale will also apply here.

5.2 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. We are aware that discussions have taken place at Sponsor Department level with respect to the funding due to assist the Care Inspectorate to deal with the financial implications of the SSSC's decision to end shared ICT services.

However, we have not received confirmation of grant in aid funding as yet.

5.3 General Reserve

The base draft 2019/20 budget is based on the 2018/19 budget monitoring position as at 31 December 2018. This currently projects there will be a General Reserve balance of £1.003m as at 31 March 2019.

This is a greater General Reserve balance than was anticipated when the indicative 2019/20 budget was prepared this time last financial year. This greater that anticipated 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.

5.4 Business Digital Transformation Efficiency

It is planned to introduce the new complaints application in March 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 base 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. Efficiencies identified as the Business and Digital Transformation programme progresses may be used to reduce the amount of additional grant in aid required and alleviate some of the pressure on future years' budgets.

It is planned to reinvest efficiencies with respect to Inspectors back into further scrutiny and improvement activity and deliver the cash releasing efficiencies sufficient to pay back the £2.300m "loan" from business support staff efficiencies.

Savings and efficiencies will start to accrue from an earlier stage than 2021/22 (when the funding must start to be repaid). To ensure that these savings are not consumed by addressing existing budget pressures, it has been agreed that savings / efficiencies associated with business support administrative staff supporting operational activity will be ring fenced. These savings will be used to:

- reduce the amount of additional funding drawn down and /or
- supplement the temporary resourcing of the digital delivery team if required and / or
- repay some of the £2.3m earlier than 2021/22 to reduce future repayments.

6.0 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 6.

7.0 INDICATIVE BUDGETS FOR 2020/21 AND 2021/22

Indicative budgets for 2020/21 and 2021/22, based on the draft base 2019/20 budget, have been prepared and are shown in Appendix 7.

The significant assumptions used in the preparation of the indicative budgets are detailed in sections 7.1 to 7.6 below.

7.1 Incremental Progression

The indicative budgets assume that all staff not currently at the top of their salary scale will perform satisfactorily and will receive incremental progression.

7.2 Pay Award

The indicative 2020/21 and 2021/22 budgets assume pay awards that are in line with the 2019/20 pay award assumptions set out in section 2.1.1.

7.3 Employers' Charges

The latest actuarial evaluation of the Tayside Pension Fund set the employer contribution rate for 2018/19, 2019/20 and 2020/21 at 17%. It is assumed the employers' pension contribution rate will remain at 17% for 2021/22.

No significant change in employer national insurance rates is assumed for 2020/21 or 2021/22.

The apprentice levy is assumed to be unchanged from 2019/20 assumptions.

7.4 Digital Transformation Costs

The indicative budget includes the cost and grant income profiling agreed with the Scottish Government. 2020/21 is expected to be the final year of the digital transformation project. Repayment of the £2.300m "loan" is planned to commence in 2021/22 at the rate of £0.575m per annum for four years.

7.5 All Other Expenditure, Income and Funding

All other expenditure has been maintained broadly at the 2019/20 draft budget level adjusted for expenditure related to the CAPA 2 project.

It has been assumed that grant in aid and fee rates will be maintained at the 2019/20 levels for 2020/21 and then reduced by £0.575m as the first "loan" repayment for 2021/22.

8.0 BALANCING THE 2020/21 AND 2021/22 BUDGETS

Based on this analysis; efficiencies, budget reductions and/or funding increases amounting to £1.190m in 2020/21 and £2.748m in 2021/22 are required to maintain a General Reserve balance of 1%.

The impact of cash preserved funding and the start of the business / digital transformation "loan" in 2021/22 are significant issues to the development of balanced 2020/21 and 2021/22 budgets.

A separate paper, later in the Agenda for this meeting, discusses the medium term financial position and options for funding the forecast deficit in later years.

It will not be possible to deliver significant budget reduction from estates rationalisation in this period as there are limited lease break and lease end date opportunities. Budget reductions on discretionary spend have been made year on year and opportunities to make further savings will also be limited.

However, the following initiatives are expected to deliver efficiencies and cost reductions:

- Workforce Management Strategy
- Career pathways
- Agile development of scrutiny methodology and the associated ICT systems
- Intelligence strategy

Balancing the 2020/21 and 2021/22 budgets and how progress is to be monitored will be considered in more detail in the revised 2019/20 to 2025/26 Financial Strategy.

9.0 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.

10.0 CONCLUSION

This 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.

The base draft budget will be adjusted in accordance with direction from the Board with respect to the adjustment options set out in Section 4 of this report.

LIST OF APPENDICES

Appendix 1 - Draft 2019/20 Base Budget
Appendix 2 - Draft 2019/20 Budget Establishment
Appendix 3 - Draft 2019/20 Budget by Recurring & Committed
Appendix 4 - Draft 2019/20 Budget by Directorate
Appendix 5 - Draft 2019/20 Budget by Grant Funding Stream
Appendix 6 - Draft 2019/20 Capital Plan
Appendix 7 - 2019/20 Draft Budget and 2020/22 Indicative Budgets