

Title of report	Draft budget 2023/24 and indicative budgets for 2024/25 and 2025/26
Public/Confidential	Public
Summary/purpose of report	This report presents the first draft of the budget for 2023/24 along with indicative budgets for 2024/25 and 2025/26.
Recommendations	<p>The Council is asked to:</p> <ol style="list-style-type: none"> 1. Consider and comment on the draft budget for 2023/24. There is a budget gap of £2.859m (table 1, Appendix 1A). We have identified potential efficiencies and savings and are in discussions with Scottish Government about how we will close this gap. 2. Consider and comment on the indicative budgets for 2024/25 of £2.299m deficit and 2025/26 £2.534m deficit (table 1, Appendix 1A). 3. Consider and comment on the information set out in Appendix 1B of this report. 4. Consider and comment on the considerations for projected general reserves and risks to the budget.
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Responsible Officer	Lynn Murray, Interim Director, Finance and Resources
Link to Strategic Plan	<p>The information in this report links to:</p> <p>Outcome 1: People who use services are protected by ensuring the regulated workforce is fit to practise.</p> <p>Outcome 2: The SSSC supports and enhances the development of the registered workforce to deliver high standards of practice and drive improvement.</p> <p>Outcome 3: Our workforce planning activities support employers, commissioners and policy</p>

	<p>makers to deliver a sustainable, integrated and innovative workforce.</p> <p>Outcome 4: The social work, social care and early years workforce is recognised as professional and regulated and valued for the difference it makes to people's lives.</p>
Link to Risk Register	<p>Risk 3: We fail to meet corporate governance, external scrutiny and legal obligations.</p> <p>Risk 7: We fail to secure sufficient budget resources to fulfil the financial plans required to deliver the strategic plan.</p>
Impact assessments	<ol style="list-style-type: none"> 1. An Equalities Impact Assessment (EIA) was not required. 2. A Data Protection Impact Assessment (DPIA) was not required. 3. A Sustainability Impact Assessment (SIA) was not required.
Documents attached	<p>Appendix 1A: Budget - Supporting Information</p> <p>Appendix 1B: Confidential Budget - Supporting Information</p> <p>Appendix 2: Budget assumptions</p> <p>Appendix 3: Budget presentation</p>
Background papers	None

EXECUTIVE SUMMARY

1. The SSSC's new financial year starts on 1 April 2023. Our Executive Framework sets out that the Scottish Government (SG) Sponsor must confirm our funding before the new financial year starts.
2. Council must approve the annual budget each year, as required by our Code of Corporate Governance. Council must also approve changes to our staffing establishment.
3. This report details our progress towards delivering a balanced 2023/24 budget. We ask Council Members to consider the budget priorities and options to close the funding gap recommended by our Executive Management Team (EMT) and provide feedback to officers.
4. We will present a report asking Council to approve our draft budget for 2023/24 and note indicative budgets for 2024/25 and 2025/26 to the Council meeting on 27 March 2023.
5. We reviewed each budget item to take account of actual costs from previous years and the latest budget monitoring information. We applied inflationary uplifts where increases are known.
6. The 2023/24 draft budget is shown in table 1 in Appendix 1A alongside the 2022/23 budget. We have let our SG Sponsor know about the budget deficit of £2.859m and are in discussions with them on how we will close the gap.
7. Appendix 1A (tables 1 and 2) gives a more detailed summary and includes indicative budgets for 2024/25 (£2.299m deficit) and 2025/26 (£2.534m deficit). Budget assumptions are included at Appendix 2.
8. At 31 January 2023 we projected that our general reserves available for use ie excluding disbursements, will be £579k (2.3%) at 31 March 2023, which is within our 2% to 2.5% target. We are waiting on our SG Sponsor to provide direction on whether we can carry forward underspends from 2022/23 and to what level. We have noted the risks to our budget in paragraphs 27 to 29.

DRAFT BUDGET 2023/24

Overview of 2023/24 financial position

9. We have prepared a draft budget for 2023/24 that includes business as usual and developments that EMT considers necessary to effectively deliver the Strategic Plan. Table 2 in Appendix 1A shows the sources of our operating and disbursement income of £22.623m and expenditure of £25.482m, resulting in a funding deficit (shortfall) of £2.859m. Operating income is £17.616m, operating expenditure is £20.475m, with disbursements totalling £5.007m.

10. Included in the income figures is SG funding of £300k to allow the necessary flexibility to offer the appropriate pay increase to staff based on the 2022/23 pay claim. SG has also agreed to pay the fees of registrants employed by Local Authorities, although they have yet to agree whether they will pay £2.593m through grant in aid, or using another funding mechanism, and the frequency of payments. Our external auditors advise that it should be accounted for as grant or grant in aid.
11. The SSSC does not have sufficient funding to cover operational costs and in 2022/23 SG addressed this by providing an unfunded budget pressure of £1.638m ie temporary funding. Our SG Sponsor understands our financial position and we are in discussion with them to determine whether SG will provide temporary funding in 2023/24 and to what level. We will update Members at the Council meeting if more information is available.

Key changes between 2022/23 budget and 2023/24 budget

12. We have included our budget assumptions in Appendix 2. Costs of the pay award, increments and increased national insurance alone add around £600k to our budget this year and there is still a no compulsory redundancy policy in place.
13. We will reduce our office space by half, with costs estimated to reduce from £800k to £524k. Ministers agreed to renew the lease of Compass House and Quadrant House from April 2023 and we are waiting to find out whether all tenants have confirmed occupancy, the space we will occupy and final cost. Work to improve the hearing rooms started in 2022/23 and we expect to incur £54k in 2023/24.
14. We have reduced digital developments by £214k and will focus on enhancements included in the Future Proofing Programme (FPP). If we do not progress with the FPP we will need to assess other development requirements to maintain our core systems. We have shown digital developments included in the budget in table 3 in Appendix 1A and what we would remove if necessary to reduce the budget deficit.
15. We have increased panel member allowances by £312k to £667k to reflect projected number of hearing days and because of the legal ruling to pay them holiday pay and pensions. We are not yet aware of the extent to which we will have to backdate payments.

Changes to staffing establishment

16. Our staffing establishment is the approved permanent and temporary staff we need to run the organisation. Appendix 1B shows staffing proposals.
17. It is good financial practice only to fund permanent posts from permanent funding and we have a cautious appetite to budgeting. We have identified one post where we do not have permanent funding.

Potential reduction of operating costs

18. Pending confirmation from SG on funding, the EMT has reviewed options to reduce our operating costs as we do not have the ability to increase income. We can reduce the deficit to £377k by stopping and reducing work totalling £2.482m, outlined in the bullet points below. However, we cannot stop carrying out our statutory functions that make up approximately 80% of our funding, which limits our ability to stop or reduce work.
19. There are implications with each of the options below and we consider that the risks are greatest with removing the FPP, not over recruiting in Fitness to Practise (FtP) and maintaining less than 2% of reserves (total £1.735m). If we did not go ahead with these measures, the deficit would increase from £377k to £2.112m.
 - a. Temporary posts – £471k
As we have not had enough funding in recent years to recruit to permanent posts we have employed staff on a temporary basis to deliver essential services. Removing these staff will create gaps in our delivery meaning there will be more pressure on staff where there aren't sufficient cover arrangements, we will have to delay work or not deliver in some areas. This may mean that more staff will leave. We are already experiencing difficulties with recruitment and retention and have had challenges filling 13 out of 61 posts this year relating to Finance, Digital, Performance and Improvement, Organisational Development and Communications, re-advertising eight of the 13 at least once. There is always turnover of staff in the Fitness to Practise department particularly and corporately staff turnover has increased by 6.6% from April 2021 to its peak in July 2022 (15.3% - target 12.4%). This situation is made worse as we do not have competitive salaries in some areas where we already have recruitment issues. Six months cost of the Director of Finance and Resources is included in the figure above, pending review of the need for this post.
 - b. Stop the FPP – £1.033m (table 4, Appendix 1A)
Council agreed to progress with this programme as investment will reform our core business including the register, qualifications and skills and the codes of practice to make sure we can continue to deliver services efficiently and sustainably. We cannot carry out this work within current funding due to delivering our statutory duties. If we do not deliver this programme the registration process remains very complicated and stressful leading to poor outcomes for registrants and users of services, and it is a failure in our statutory obligations if we don't adequately review the codes.

- c. Don't progress digital developments – £105k savings
SSSC continually strives to improve services to our service users and make best use of technology. Not carrying out these developments means delays to mapping the full range of data and intelligence required by our external stakeholders, less efficiency as we are relying on manual work to analyse data and limited functionality on our learning systems for users of the materials we provide to the sector.
- d. Do not over recruit to posts in FtP – £202k
Historically turnover of solicitors in the FtP team has been high. In 2022/23 we allowed over recruitment of four posts to make sure we had enough trained staff when people left, to continue to meet performance targets. Stopping this practice will potentially affect performance.
- e. Increase vacancy management adjustment – £92k
We have set our adjustment at 4% for several years. Given the recruitment situation, EMT considers it is reasonable to increase the adjustment to 5% this year and review annually.
- f. Use of reserves – £579k (table 5, Appendix 1A)
We currently have a target reserves figure of between 2% and 2.5% (£500k to £625k) and projections at 31 January 2023 show that we will have £579k (2.3%) available for general use at 31 March 2023. If we do not have reserves to use as working capital, we cannot cover any unplanned expenditure/ reduced income/ take opportunities from unplanned events or plan for developments and create a fund to replace ICT equipment.
20. In January 2023 the Director General for Education and Justice asked us to complete a template outlining our current and planned reform activity. We highlighted that we are highly efficient compared to other similar sized health and social care regulators but we need a permanent increase in grant in aid to:
- sustain and enhance our public protection function
 - continue our capacity to support Scottish Government policy eg add more groups to the register
 - recruit and retain staff with the skills and experience we need on a permanent basis and on a competitive salary to deliver our strategic outcomes.
21. Our commitment to continuous improvement over the last 10 years, particularly through the strength of our work in Registration and Fitness to Practise and digital transformation, means that we have made significant savings and efficiencies that have offset some of the areas that needed investment.

GENERAL RESERVES

22. Based on projections at 31 January 2023 we expect our general reserve to be £1.186m by 31 March 2023, although £579k is available for general use if we exclude disbursements (table 5, Appendix 1A).
23. We are waiting for SG to confirm whether we can carry forward our general reserves balance to 2023/24, and to what level, and whether we can carry forward and redirect disbursements of £607k to fund operational expenditure.

2024/25 and 2025/26 INDICATIVE BUDGETS

24. We prepared indicative budgets for 2024/25 and 2025/26, based on the draft 2023/24 budget and assuming grant in aid stays at the same level of £16.035m. The indicative budgets are shown alongside the draft budget for 2023/24 in tables 1 and 2 in Appendix 1A.
25. There is an indicative deficit budget of £2.299m in 2024/25 and a deficit budget of £2.534m in 2025/26. We will continue work to bring these deficits within grant in aid levels over the coming year. The significant assumptions used in the preparation of the indicative budgets are included in Appendix 2.

CONSULTATION

26. We compiled the draft and indicative budgets after input from budget holders and review by directors. The EMT reviewed the draft budget for 2023/24 and we have included its priorities and options to reduce the budget deficit. We consulted with Council Members in the January development session.

RISKS

27. Risk 7 in the strategic register is that SSSC fails to secure sufficient budget resources to fulfil the financial plans required to deliver the strategic plan. Our appetite to risk for our budget is cautious.
28. Our 2024/25 and 2025/26 budgets have deficits of £2.299m and £2.534m respectively. We have not assumed any increases to registration fee income in these figures, we have not allowed for digital or other development costs in the indicative budgets and our permanent costs are rising. There is a risk to delivery of the Strategic Plan 2023-26 if we do not have sufficient budget to deliver.

29. Risks to the budget are:

- lack of permanent additional grant in aid funding meaning we cannot commit to temporary or permanent posts that we need to deliver our strategic outcomes
- registration fees have not increased since 2017 and Ministers agreed with our recommendation to postpone reviewing fees in 2021/22 and 2022/23 due to the cost of living crisis. Ministers agreed in 2022 to pay fees for registrants working for Local Authorities, which adds further complexity. We rely on registration fees to contribute towards our operating costs that continue to increase even if we stand still
- little digital or other development funding in 2024/25 and 2025/26 meaning we may not be able to deliver system changes and other initiatives that will support delivery of business as usual and business improvement
- temporary funding used to fund a permanent post
- inflation is included where known, but no general inflationary uplift is included, meaning costs may be higher than the budget
- depending on what SG allow us to carry forward, we may not have enough in reserves to cover future unknown costs
- SG has not committed to an unfunded pressure amount beyond 2022/23 so we have not included any amounts in the budgets for any of the three years. The risk would reduce if SG were to agree a permanent increase to grant in aid or unfunded pressures in future years
- there is uncertainty in our budget, particularly relating to potential implications from the National Care Service and the Independent Review of Inspection, Scrutiny and Regulation. We paused the Rewards Review in August 2022 as there was no extra funding from SG to implement a new pay and grading structure. We will revisit this activity in 2023.

IMPLICATIONS

Resourcing

30. The draft budget for 2023/24 is a deficit budget of £2.859m. Indicative budgets for 2024/25 are £2.299m deficit and 2025/26 £2.534m deficit.

Compliance

31. The Council follows the Scottish Public Finance Manual (SPFM) and our Executive Framework in setting a budget by 1 April each financial year.

IMPACT ASSESSMENTS

Equalities

32. When we develop business cases for improvement/development projects, we will also produce individual EIAs, as needed. This makes sure we carry out EIAs at the right level and take account of the impact on all people with protected characteristics.

CONCLUSION

33. This report asks the Council to consider and comment on the draft budget for 2023/24 and the indicative budgets for 2024/25 and 2025/26 (table 1 in Appendix 1A). We will include any amendments in the draft budget to Council on 27 March 2023.