

SRA BOARD
22 October 2019

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SRA Budget 2019/20

- 1 In setting the budget for 2019/20 discussions were held with budget holders, directors and executive directors to discuss their plans for the coming year and to consider if those plans could be delivered within the funding identified as part of the NFR submission. This resulted in some changes within some expenditure lines but, with the exception of IT and projects, no significant variance from the NFR.
- 2 The SRA Budget for 2019/20 shows a deficit of £4,120k compared to the NFR. This relates to three exceptional items and the underlying budget is in line with NFR.
- 3 The SRA NFR included, within the shared services recharge, a share of investment income earned by the Law Society Group. This is accounted for within the Law Society Group accounts and therefore does not form part of the SRA Budget. This accounts for £872k of the deficit.
- 4 Depreciation has historically always been excluded from the NFR as a non-cash item but does form part of the final budget. This accounts for £689k of the deficit.
- 5 The amended timetable for the delivery of Modernising IT has resulted in expenditure on projects which was expected to occur in 2018/19 now occurring in the 2019/20 financial year. The underspend in 2018/19 is therefore carried forward to the 2019/20 budget; this accounts for the remainder of the deficit, £2,589k. The final amount to be carried forward will be confirmed once the financial year has ended.

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- 6 The table below summarises the significant movements in the budget from NFR.

SRA 2019/20 NFR to Budget movements	£000s decrease / (increase) from NFR
2019/20 NFR	0
Increased headcount challenge and minor changes to headcount	659
Increased project spend	(500)
Additional IT related costs ¹	(226)
Reduction in shared costs	96
Other minor changes	(89)
SRA budget changes	0
<i>Exceptional items</i>	
Investment income	(872)
Depreciation	(659)
Project spend carried forward	(2,589)
2019/20 Budget	(4,120)

- 7 In order to provide additional funding for projects and IT related costs in 2019/20 the budget includes an increased challenge on staff costs. In recent years the budget has included an assumption that staff costs will be 5% below full headcount throughout the year. For 2019/20 this assumption has been increased to 6.5% and applied to all budget holders. This, in addition to other minor headcount changes and consideration of currently vacant posts results in a reduction of £659k. This adjustment has been agreed at the SMT and is based on a more accurate understanding of the likely actual position. It will be closely monitored throughout the year to ensure it remains a valid assumption.
- 8 The NFR assumed that £1.4m of budget would be reallocated from projects to fund increased costs associated with IT. The actual increase is greater than this due to the changed delivery timetable for Modernising IT, increasing overall costs by £226k.
- 9 The ongoing modernising IT programme is covered in more detail in a separate paper to the committee but for budget purposes an additional requirement of £0.5m has been identified in 2019/20.
- 10 The budget for projects in 2019/20 is £11.1m, the funding for which is provided by new funds collected as part of the NFR, underspend carried forward from

¹ This represents additional cost in excess of that expected as part of the NFR – see paragraph 8 for more details.

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2018/19 and a reduction in staff costs within the SRA. This is summarised below.

SRA 2019/20 project funding	£m
2019/20 NFR for Projects	£9.4m
Less: Amount transferred to fund additional IT costs	(£1.4m)
Plus: Underspend carried forward	£2.6m
Plus: Reduction in SRA staff costs	£0.5m
2019/20 Budget for Projects	£11.1m

- 11 The budget maintains a contingency, referred to in the past as the strategic provision, of £500k. This is considered necessary to provide for potential additional costs that may occur in the year but cannot currently be quantified – the largest of which are listed below.

SRA 2019/20 Risks and Challenges
Impact of potential additional anti money laundering requirements
Impact of the UK departure from the EU
Additional refurbishment of the toilets in the Cube in excess of the amount currently budgeted for facilities works
Changes to the delivery of SRA HR services following the conclusion of the shared services changes
Possible one-off restructuring costs in some teams and the ongoing restructure of the IT team
Possible impact of changes to the off-payroll working rules (IR35)

- 12 There are also opportunities within the budget, however, to allow some flexibility in the absence of the ability to easily utilise reserves, these have not currently been factored in. The risks and opportunities will be closely monitored throughout the year and the committee will be updated of any significant changes in both likelihood and monetary values with each update. Any changes will impact on the quarterly forecasting and will also be closely considered in advance of submission of the NFR for 2020/21 to ensure this is appropriate as we start to deliver our new corporate strategy.

SRA 2019/20 Opportunities
Income from practising certificate fees may be in excess of budget.
Headcount 'tolerance' may be in excess of 6.5%

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13 The following table shows the variances from 2019/20 NFR to budget.

SRA Financial Summary 2019/20 Budget	2019/20 Budget	2019/20 NFR	Variance F / (A) £000
Income			
Practising Fee income	(54,080)	(54,080)	0
Regulatory Income	(3,069)	(3,069)	0
Total Income	(57,149)	(57,149)	
Expenditure			
Staff Costs	33,505	34,164	659
Disciplinary Legal Fees	3,619	3,619	0
Intervention Costs	6,651	6,612	(39)
Other Non Staff Costs	11,177	9,459	(1,718)
Facilities and Governance Recharge	3,976	3,976	0
Shared Services Recharge	2,837	2,061	(776)
Projects / Modernising IT	11,089	9,400	(1,689)
Total Expenditure	72,854	69,291	(3,563)
Recoveries			
Recovery of Intervention Costs	(6,651)	(6,612)	39
Compensation Fund Recoveries	(3,137)	(3,075)	62
Compensation Fund Recharge Allocation	(416)	(416)	0
Legal Fee Recoveries	(2,040)	(2,040)	0
Total recoveries	(12,244)	(12,142)	102
Net position (exc. depreciation)	3,461	0	(3,461)
Depreciation charges	659	0	(659)
SRA Net Position	4,120	0	(4,120)

- 14 The variance on staff costs is as discussed in paragraph 7 above.
- 15 Non staff costs are increased predominantly as a result of the increased IT costs discussed in paragraph 8 along with other minor changes identified through the budget setting process.
- 16 Shared services recharge at NFR included income from investment income which is not included in the budget; offsetting this is a reduction in the share of group costs charged to the SRA of £96k.
- 17 Increased spend on projects is as described in paragraph 10 above. The variance of £1.7m is explained as £2.6m carried forward from 2018/19, of

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which £1.4m is required to fund IT cost increases, plus an additional requirement of £0.5m.

18 The final significant variance is depreciation as discussed in paragraph 4.

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