

Quarter 3 Finance Review and Forecast

Purpose of paper	To report on: <ul style="list-style-type: none"> the GDC's financial performance for the nine months to 30 September 2019. the Quarter 3 financial forecast.
Status	Public
Action	For noting.
Corporate Strategy 2016-19	Objective 2: To improve our management of resources so that we become a more efficient regulator. Objective 3: To be transparent about our performance so that the public, patients, professionals and our partners can have confidence in our approach.
Business Plan 2018	Not applicable
Decision Trail	The Finance and Performance Committee considered the contents of this paper as part of the Quarter 3 Bridging Paper and Quarter 3 Financial Forecast paper at their November 2019 meeting.
Next stage	Not applicable
Recommendations	The Council are asked to note and discuss the contents of the paper.
Authorship of paper and further information	Samantha Bache, Head of Finance and Procurement sbache@gdc-uk.org 0121 752 0049 Gurvinder Soomal, Executive Director of Registration & Corporate Resources gsoomal@gdc-uk.org 020 7167 6333
Appendices	None

1. Executive Summary

- 1.1. This paper is to report on the GDC's financial performance for the nine months ending 30 September 2019. At the end of September, the GDC's operating surplus was £3.5m higher than budgeted at £20.1m.
- 1.2. Income was £0.7m higher than budgeted due to a mix of unbudgeted income received from investments, additional dentists renewing their registration in December 2018 than planned and additional income from DCPs due to a timing difference in budgeting.
- 1.3. Expenditure was £2.7m lower than budgeted of which, (£62,000) is a result of recurring savings, £1.12m are cumulative Q1, Q2 and Q3 'one-off' savings achieved in 2019, and £1.66m are savings resulting from timing differences. The key drivers for expenditure being lower than budgeted are included in section 4 to this report.
- 1.4. In October 2019, based on the Q3 outturn, a detailed review of income and expenditure for the remainder of 2019 has indicated that the budgeted operating surplus of £4.4m could improve to a forecast surplus of £7.8m by the end of the financial year. The detailed analysis supporting the change in financial forecast is included in section 5 to this report.
- 1.5. Council are asked to discuss and note:
- the GDC's financial performance for the nine months to 30 September 2019.
 - the GDC's Quarter 3 financial forecast.

2. Income and expenditure account for nine months to 30 September 2019

- 2.1. At the end of September, the GDC's operating surplus was £3.5m higher than budgeted at £20.1m, and £1.3m higher than forecasted at the end of Q2. Actual income is £0.7m higher than budgeted and expenditure is £2.7m lower than budgeted for the period.
- 2.2. The table below summarises the income and expenditure account for the nine months ending 30 September 2019.

	Year to Date					Full Year		
	Actual	Forecast	Budget	Variance to Forecast	Variance to Budget	Forecast	Budget	Variance to Budget
	£000	£000	£000	£000	£000	£000	£000	£000
Income								
Fees	45,912	45,798	45,645	113	266	45,897	45,747	151
Investment income	441	367	38	74	403	477	50	427
Exam income	1,593	1,599	1,588	(6)	5	1,599	1,588	11
Miscellaneous income	11	11	5	1	7	12	6	6
Total Income	47,957	47,775	47,276	182	681	47,985	47,390	595
Expenditure								
Meeting fees & Expenses	4,222	4,360	5,165	138	943	5,682	6,551	869
Legal & Professional	5,398	5,653	5,995	256	596	7,649	7,619	(30)
Staffing costs	14,403	14,679	15,154	276	751	19,570	20,390	820
Other staff costs	730	1,021	1,131	291	402	1,345	1,534	189
Research & Engagement	347	470	585	123	238	711	741	31
IT costs	1,015	1,020	1,027	5	11	1,349	1,333	(16)
Office & Premises costs	734	731	518	(3)	(216)	2,128	1,750	(378)
Finance costs	258	268	167	10	(92)	372	245	(127)
Depreciation costs	873	873	888	1	16	1,141	1,175	34
Contingency	(65)	0	0	65	65	1,549	1,662	113
Total Expenditure	27,916	29,076	30,630	1,160	2,714	41,494	43,001	1,507
HMRC Refund	(108)	(107)	0	(0)	108	(107)	0	107
OPERATING SURPLUS / (DEFICIT) BEFORE TAXATION	20,149	18,807	16,646	1,342	3,503	6,598	4,390	2,209

- 2.3. Income was £0.7m higher than budgeted due to the following:
- Additional unbudgeted income generated from bank interest and investments totalling £0.4m, as a result of the decision to deposit £15m with our investors being reached after the 2019 budget had been set.
 - 82 more dentists and 14 more specialists renewing their registration than budgeted in December 2018, generating an addition £0.1m of revenue.
 - Additional income from DCPs to that budgeted of around £0.2m relating to a timing difference in the budget profile following the application of IFRS 15, which requires us to spread income over the period to which the registration relates.
- 2.4. Expenditure was £2.7m lower than budgeted of which, (£62,000) is a result of recurring savings, £1.12m are cumulative Q1, Q2 and Q3 'one-off' savings achieved in 2019, and £1.66m are savings resulting from timing differences.

3. Staff headcount at 30 September 2019

- 3.1. At the end of September 2019, the total GDC headcount was:

Contract type	June 2019 FTE	Sept 2019 FTE	Movement FTE (-)/+
Permanent	321.6	314.8	(6.8)
Fixed Term Contract	50.2	35.6	(14.6)
Temporary Staff	5.0	10.0	5.0
Total	376.8	360.4	(16.4)

- 3.2. This is 16.4 FTE less than was reported at the end of June 2019, mainly as a result of the dual running of FtP posts under the Estates Programme coming to a close and 36.3 FTE fewer than budgeted as at the end of September 2019.

4. Summary key driver' expenditure variance actual v budget

- 4.1. The key drivers for expenditure being £3.5m lower than budgeted were as follows:
- **Recurring savings/(overspend):** higher or lower than budgeted 2019 expenditure that results from a permanent change in the GDC's circumstances and, as such, savings/overspends are expected to persist throughout this financial year and will impact on the budget requirements for future years.
 - **'One off' savings/(overspend):** these are only expected to occur in 2019. Costs are expected to return to budgeted levels in future years.
 - **Savings/(overspend) due to timing differences:** these arise when activities are brought forward or postponed, and related expenditure occurs earlier or later than projected in the budget.

Recurring' savings/(overspend)	£000s
People Services/Estates: The recruitment budgets are underspent in both Estates (£160,000) and People Services (£82,000) as we try to lead the recruitment process ourselves as part of our recruitment strategy. The expectation is for the underspend to continue however this may be at a reduced rate if we incur costs for external recruitment where we struggle to fill any vacant roles. The recurring savings element of the recruitment	231

budget has been assessed by looking at the results of the Q3 forecasting, to eliminate variances we believe relate to timing differences.	
Estates: The overspend is as a result of the Colmore Square rent budgeted on the basis that the rent holiday would be spread over a five-year period. However, aligned to accounting policy IFRS16, the rent holiday must be spread over the life of the lease. Therefore, the budget for 2019 is understated.	(202)
Finance: Investment management fees not budgeted for in 2019.	(91)
	(62)
'One-off' savings/(overspend)	
ILPS: There has been an increase in the travel to Birmingham to support the FtP teams based in Birmingham whilst they transition the service to Birmingham.	(14)
CEO & Executive Directors: Increased travel to Birmingham now the organisation is located over two regional sites, as well as increased presence in Birmingham as services transition.	(22)
Estates: The service charge for Colmore Square relates back to September 2018, where the Q4 2018 expense was not accrued in 2018.	(45)
Estates – exit provision: The 2018 exit provision has been adjusted down to reflect known leavers under strand 2 at 30 September 2019. The reduction is as a result of successful redeployment of staff to other roles, or where the individual has chosen to exit the organisation early. Whilst we have adjusted the provision down, there are a small number of posts where a decision is still to be made, this may result in an additional charge before the end of the financial year.	128
Estates – Other staff costs: savings made on travel and subsistence to September 2019, which is now unlikely to be required.	62
People Services: Legal defence budget was provided for in 2019, however this function is now the responsibility of our In-House Legal Advisory Services team. The learning and development budget activity has been delayed. This has led to the budget requirement being reduced by £110k, with the remaining activity to be completed next year.	181
People Services: Pension advise is overspent against budget as a result of additional expenditure incurred by the Trustee in regards to the closure of the DC14 pension scheme. We are working with the Trustee to better understand likely scheme expenses in the forthcoming years to improve forecasting.	(65)
Education QA: The original budget was based on 60 meetings costed at £353 per day, however the budget should have been based on 11 people completing multiple meetings in one day and claiming £353 per day. Inspections budget was were also higher than actual recorded. This is partly offset by increase in travel and subsistence required for some of the team now located in Birmingham.	39
Staff costs: Vacant posts across the organisation which are in the process of being recruited to but have not yet been filled (net saving of £494k when considering any temporary staff cover). In addition, several the new Birmingham posts have been recruited below market rate, which had generated a saving of around £106k at the end of the half year.	833
Dental Complaints Service: There has been reduced accommodation and meeting venue hire due to lower number of panels required year to date.	34
FtP Management: The overspend on consultancy and professional fees and project costs, all relate to the End to End review. The project cost was for a corporate video and	(15)

consultancy support. The provision for this work is held in an E2E enabling provision in contingency.	
People Services - Other staffing costs: Overspend due to one off Severance pay for senior member of staff that wasn't budgeted for	(50)
Facilities: Rent for Baker Street (January 2019) that was incorrectly omitted during budget setting (£10k). General rates were budgeted lower than the rates charges issued by City of Westminster (£44k).	(54)
Contingency: Contingency reserve increased due to a substantive review of accruals and releasing accruals no longer required in relating to prior financial years	65
Governance: savings achieved in member recruitment, meeting venue hire and consultancy expenditure to that planned.	38
	1,115
Savings/(overspends) from timing differences	
Hearings: 285 lost and wasted days in the first three quarters has resulted in lower productive days than that budgeted year to date. Hearing days deferred are increasing the forecast in Q4, with an impact also expected in the first half of 2020.	695
Education QA: Inspections which were due to have taken place by 30 September 2019, but which are now planned for Q4.	52
People Services: The budget profiling of Life Assurance due for payment later in October.	44
FtP Staff costs: The budget overspend on staff costs relate to parallel running costs for the transfer of the function to the Birmingham office under the Estates Strategy, which had not been profiled to the FtP budget during the budget setting process.	(82)
People Services: Expenditure on Learning and Development has not taken place according to the original budget profile. Courses budgeted to take place in the first three quarters have now been rescheduled to Q4 and the next financial year.	112
Estates: The profiling of expenditure on recruitment external adverts is due later in the year for the recruitment of roles in Birmingham transitioning from London	11
Finance: Profiling difference in relation to bank charges, which fluctuate accordingly with income received.	(19)
Research: There has been delays in commissioning of research projects, in particular around the Seriousness Review, which is a joint procurement with the NMC, and the Accessibility in the Complaints Handling research.	192
In-House Appeals & Criminal Services: There has been lower than budgeted illegal practice cases, the budget was evenly profiled over the year. The budget is expected to be spent in the latter part of the year and costs are reactionary.	11
In-House Legal Advisory Service: The budget is for appeals and external miscellaneous legal advice that is hard to plan for. The budget is expected to be spent in the latter part of the year.	71
ILPS: 164 new referrals were budgeted to be allocated to the in-house legal prosecution service (ILPS) between January and September 2019, 177 new referrals were allocated over the period, however referrals in Q4 2018 were lower than expected, resulting in lower than budgets costs year to date. Q4 will see an arc in the current cost profile, with an impact also on costs in the first half of 2020.	369

ELPS: Although referrals to ELPS YTD are 18 above budget, referrals in Q4 2018 were lower than forecast, resulting in lower than budgeted external legal costs. The impact of higher level of referrals than budgeted will impact on costs in Q4 and the first half of 2020.	163
Casework: More instances of medical advice sought because of improved processes which are now embedded.	(15)
Communications: Release of previous duplicated accruals causing a variance against budget year to date, however this budget is expected to be utilised in full during Q4.	33
Not analysed	24
	1,661
Total expenditure variance to budget	2,714

5. Q3 2019 Forecast

- 5.1. A detailed review of forecast income and expenditure for 2019 has been undertaken in October 2019.
- 5.2. The forecast reflects the following:
- the outcome of the Q3 review of each of the Directorates;
 - actual income from the 2019 Dentist and 2019/20 DCP ARF collection;
 - budget holders' latest estimates of time to recruit to all known vacant positions.
- 5.3. It shows that the budgeted operating surplus of £4.4m could increase by £3.4m to a surplus of £7.8m:

	2018 Actual £000	2019 Budget £000	2019 Q1 Forecast £000	2019 Q2 Forecast £000	2019 Q3 Forecast £000	Q3 Forecast Variance	
						Variance Budget £000	Variance 2018 Actual £000
INCOME							
FEES	45,416	45,747	45,858	45,832	46,011	264	595
INVESTMENT INCOME	293	50	433	487	551	501	258
EXAM INCOME	1,589	1,588	1,597	1,597	1,593	5	4
MISCELLANEOUS INCOME	14	6	8	9	13	7	1
TOTAL INCOME	47,312	47,390	47,896	47,925	48,167	777	855
EXPENDITURE							
MEETING FEES & EXPENSES	5,674	6,551	6,423	5,684	5,755	796	(81)
LEGAL & PROFESSIONAL	6,798	7,619	7,762	7,649	7,510	110	(712)
STAFFING COSTS	21,574	20,390	19,672	19,570	19,118	1,272	2,456
OTHER STAFF COSTS	977	1,534	1,498	1,345	1,145	389	(168)
COMMUNICATION & ENGAGEMENT	381	741	771	711	467	274	(86)
IT COSTS	1,305	1,333	1,336	1,349	1,361	(28)	(56)
OFFICE & PREMISES COSTS	1,956	1,750	1,916	2,128	2,095	(345)	(138)
FINANCE COSTS	259	245	359	372	369	(124)	(110)
DEPRECIATION COSTS	1,061	1,175	1,192	1,139	1,138	37	(78)
HMRC Refund	0	0	(107)	(107)	(107)	107	107
<i>Budget Contingency</i>	0	1,662	1,612	1,549	1,497	165	(1,497)
TOTAL EXPENDITURE	39,985	43,000	42,433	41,387	40,347	2,653	(362)
OPERATING SURPLUS/(DEFICIT)	7,327	4,390	5,463	6,538	7,820	3,430	493

- 5.4. The £3.4m variance to the budgeted surplus is due to the following:

Income	£000s
<p>Fees: Updated for:</p> <p>More Dentists renewing their registration and more Specialist initial registrations than budgeted.</p> <p>Recognise timing difference to budget profile for DCP income in relation to the first-time adoption of IFRS15, which requires us to spread DCP income over the period to which the registration relates (August – July).</p>	264
<p>Investment Income: Additional unbudgeted income generated from bank interest and investments is now included in the forecast. This wasn't included within the original budget profile due to the timing on our decision to invest being post 2019 budget approval.</p>	501
<p>Not analysed:</p>	12
<p>Increase in income forecast</p>	777
Expenditure	
<p>Hearings: A reduction in legal assessors and members fees as we had 285 unutilised days during the first 3 quarters. Where cases have closed early, these may have incurred professional costs. FtP and Legal reviewed themes relating to the hearings closing early and have identified issues with witness evidence, however there is no overall single driver. Whilst costs are forecast to increase during Q4 (£100k increase on Q2 forecast) not all costs budgeted will have been incurred by the end of the financial year, with the throughput impacting 2020.</p>	651
<p>Dental Complaints Service: A reduced forecast in the number of panel meetings required for 2019.</p>	40
<p>ELPS: The forecast reflects an increase in the number of projected referrals to that budgeted year to date. In the third quarter of the year 19 cases were referred compared to the 12 cases budgeted. At the end of Q3, 56 cases were transferred to ELPs against a budget of 38.</p>	(75)
<p>FtP Management: The forecast for End to End spend on consultancy, professional fees and project costs all relate to the End to End review and are in line with the work planned at project stage. The reported variance is in relation to the allocation of costs against a budget held in central contingency.</p>	(25)
<p>Finance: The investment management fee had not originally been included in the budget for 2019 due to the timing of our decision to invest. The forecast has been updated to include the annual fee (£124,000). Off set by bank charges and depreciation, which have been reforecast based on current trend of spend (£37,000)</p>	(87)
<p>IT: Software licenses and software licences support forecast have been reprofiled based on requirements over the two sites and as a result of dual working. IT cloud Hosting has also been reprofiled based on current expenditure.</p>	(28)
<p>Estates – office premises: Following the 2018 end of year audit, a review identified that the accounting standard IFRS16 should be applied in the account for rent and the rent-free period on the Colmore Square accommodation. As a result, the rent-free holiday has been spread over the life of the lease and the forecast has been updated to reflect this update. Additionally, accommodation service charges had not been included in the original budget at the rate being charged.</p>	(280)
<p>Estates - recruitment: The recruitment forecast expenditure has been reduced as we continue to lead the recruitment process ourselves as part of our recruitment strategy.</p>	164

Estates – exit provision: Following the completion of the Estates consultation for phase 2, we have reviewed the provision made at the end of 2018 and adjusted for agreed departures post 1 October 2019. This release relates to the people being at risk either being successfully redeployed to other posts within the organisation or where they choose to leave early and therefore redundancy was not due.	158
Estates – Other Staff expenses – savings where travel and subsistence budget has not been required and is unlikely to be utilised before the end of the financial year.	103
Staffing costs: Savings in staffing costs are forecast across the GDC due to both vacant existing and budgeted new posts where recruitment is either on hold or has been delayed. Offset by the cost of using of temporary staff.	1,091
Other staffing costs – travel and expenditure: Increase in travelling costs across the organisation as a result of operating from dual locations for our Executive (£28,000). Forecast for travel and expenditure in People Services and Governance, which were missed in error in the 2019 budget setting process (£44,000)	(72)
HMRC Refund: Recovery over and above the level expected in relation to tax and national insurance overpayment for Associates expenses in 2010/11.	107
ILPS: The forecast recognises an increased arc in expenditure for throughput anticipated in Q4, bringing back to previously budgeted levels. However, there has been a lag in referrals throughout the first 9 months of the year resulting in this budget area being continuously underspent year to date. The forecast has been updated to reflect performance to date and budgeted levels for Q4.	210
In-House Appeals and Criminal Services: Counsel fees increased due to additional rule 9 workstream internal review FTP allegations – external registration appeals.	(24)
In-House Legal Advisory Service: Increase in forecast costs due to a pending case appeal against a restoration committee, offset by various realignment of forecasts in reactionary legal costs. Costs and activity have increased in areas such as registrant Employment Tribunal claims and on some significant procurement exercises but still is a net decrease to the annual budget set.	39
Information Governance: Additional cost due to running a review and disposal project on the GDC's approach to archiving.	(8)
People Services – Learning and Development: A reduction to L&D expenditure due to: reprofiling the timing of the implementation of the coaching procurement framework; all staff conference being postponed; appointment of staff to deliver training in house.	84
People Services – Legal and Professional Fees: Unrequired Legal defence budget that is budgeted and managed within In-House Legal Advisory Service (93k), which is offset by higher than expected Trustee professional fees in relation to our closure of the DC2014 pension scheme.	41
People Services – Group income protection: Increase in the annual premium for group income protection for 2019.	(10)
People Services – External Recruitment: Decrease in the forecast in external adverts due to leading the recruitment process ourselves as part of our recruitment strategy.	128

Facilities: Rent forecast increased in relation to the Baker Street rent due for January 2019 which wasn't budgeted for in error and an update in forecasts for general rates increases from the City of Westminster.	(62)
Research: The research forecast has been updated based on the projects that are planned and the milestones that are expected to be achieved by the year end. The projects forecasted for quarter 4 are the Public and Patients Panel, FTP data review and The Concept of Seriousness in Fitness to Practice Cases. Due to the supplier market, those interested in delivering are a small pool largely focused around universities. As such, only one tender can be out in the marketplace at any one time (with the exception of the public and patient panel) to avoid failed procurements.	265
Education QA: There has been a reduced forecast for the number of meetings to be held in the year and the calculation of the number of days payable to the associates. Offsetting this slightly is an increase in the travel forecast of £31k based on current year to date expenditure.	74
Contingency: Proportionate adjustment for a reduction in contingency required, and the adjustment to release prior period accruals no longer likely to materialise.	165
Not analysed:	4
Total decrease in expenditure	2,653
Total decrease in operating expenditure	3,430

- 5.5. The biggest forecast movement is in relation to staffing costs. The latest forecast returns from teams assumes headcount of 364.2 FTE by December 2019, compared with an anticipated 372.3 FTE in the original budget. The variance to the budget can be analysed as follows:

Business Area	FTE Variance to Budget	Comments
Fitness to Practice Directorate	5.2	Reduction of posts within FTP relates to the End to End review, taking into account the reduced number of cases and headcount required. There have also been posts reduced because efficiencies related to streamlining of work practices.
In-House Legal Presentation Service (ILPS)	(4.2)	Increase in Posts by 4.2 FTE. The ILPS Backlog business case request asks for additional interim internal resources to assist with the presentation of "FTP backlog" cases at hearings stages. These posts were recruited for 18-month fixed term contracts.
Legal Management	2.0	Legal Management have reduced by two posts since the original 2019 budget was set.
Governance	2.0	2 posts have been moved to directorate budgets to align with the areas for which they support.

Other Legal and Governance	1.0	1 vacancy in Corporate Legal as a result in a reduction in requirement since the original budget setting.
CEO	(1.0)	Increase in Executive Director posts from that budgeted for 2019, with the creation of the Executive Director of Governance and Legal role.
Registration	(3.0)	Increase in posts to deal with increase in applications received.
IT	5.0	IT are reducing headcount by the end of the year as they are tapering off the fixed term contracts early due to the FTP end to end review closing earlier than forecast. The other 2.0 FTE relates to deferred backfilling of leavers.
Finance and Procurement	(3.0)	An additional 3 roles have been agreed to support the procurement function in delivery of the procurement pipeline and the Procurement Target Operating Model project.
Corporate Resources	(1.0)	Forecast adjusted to represent the current vacancy held in the team, which will now be recruited to in the next financial year.
Organisational Development	3.5	The function of the Compliance Team is transferring to the Registration and Corporate Resources Directorate, so the team are reducing FTE completely by December 2019. The overall net reduction to the GDC in FTE is 2.0.
Not analysed	0.6	Other movements less than 1.0 FTE.
Total forecast reduction in posts at 31 December 2019	8.1	

6. Recommendations

6.1. The Council are asked to note and discuss the contents of this paper.

7. Appendices

- None