

SRA BOARD
12 December 2023

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This paper will be published

SRA Budget 2023/24

Reason for papers	This paper provides the Board with an update on the 2023/24 budget, reflecting the changes made since the draft budget was originally prepared earlier in the year.
Decisions(s)	The Board is asked to: (a) note the contents of this paper and the changes from the draft budget.
Previous Board and committee consideration	The Board considered the draft budget in April 2023 in advance of a consultation on the 2023/24 Business Plan and Budget.
Next steps	The Board will receive regular updates on performance against the budget for the year as part of the regular performance reporting pack.

If you have any questions about this paper, please contact Liz Rosser, Executive Director Operations and Resources, liz.rosser@sra.org.uk

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SRA Budget 2023/24

Background

- 1 The Board approved the draft budget for 2023/24 in April, in advance of the consultation on the Business Plan for 2023/24. The draft budget included an increase of £7.1m in practising fees with the main drivers being increased costs due to inflationary pressures on staff and non-staff costs and new activity to deliver the 2023-26 Corporate Strategy.
- 2 During October the finalised budget for the year was developed as we prepared for the 2023/24 financial year. The budget has been considered by the Executive and considers all up to date information.
- 3 While the draft budget was based on our best assessment of costs and requirements at the time, there will inevitably be changes that require us to reassess on an ongoing basis. Between April and November, we have been able to firm up our expectations in some areas and we have had to address emerging risks of which the Board is aware. As the year has progressed, we have been able to firm up the expected costs of delivering the activities planned in the year and in doing so we have identified savings from the draft budget expectations.
- 4 The draft budget envisaged no surplus or deficit; the latest proposed budget results in an expected surplus of almost £1.2m.

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Variations from the 2023/24 Budget

- 5 The table below compares the draft budget with the proposed final budget, and the following paragraphs detail the significant changes.

	2024 Draft Budget (£000s)	2024 Budget (£000s)	Variance (£000s)
Income			
Practising Fee income	(67,600)	(67,600)	0
SQE Income	(13,982)	(30,335)	16,353
Regulatory Income	(3,562)	(3,689)	127
Interest income	(555)	(1,858)	1,303
Total Income	(85,699)	(103,482)	17,783
Expenditure			
Staff Costs	43,796	44,061	(265)
Non staff costs	28,185	27,035	1,150
SQE costs	13,757	29,859	(16,102)
Projects	4,225	4,225	0
Compensation Fund Recoveries	(2,979)	(1,557)	(1,422)
Recoveries	(1,500)	(1,560)	60
Total Expenditure	85,484	102,063	(16,579)
Client Protection			
Compensation Fund recoveries	(9,163)	(13,258)	4,095
Expenditure	9,378	13,494	(4,116)
Total Client Protection	215	236	(21)
SRA Net position (exc. Investments)	0	(1,183)	1,183

Identified Savings

- 6 A key component of measuring the success of the 2023/26 Corporate Strategy will be a widescale perception survey of key stakeholders which will provide a baseline against which to measure progress. The draft budget included £0.5m for this, however we now expect the cost to be closer to £200k.
- 7 We have finalised the date of the 2024 Compliance Conference which will take place in November 2024. This means that the costs of this will fall into the next financial year, reducing the requirement in 2023/24 by over £250k. We have also firmed up some of plans for our Research and Analysis work in the coming year and have been able to reduce this budget by around £250k.

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- 8 The budget included an expectation of significant inflationary increases across a wide range of services and contracts during the year. While we have seen some contracts with significant cost increases, such as an additional £80k in audit fees, overall we have been able to mitigate the impact through robust contract and supplier management and a review of costs, particular within ICT which accounts for a sizeable proportion of our non-staff costs. Energy bills which, 12 months ago, were a significant concern, have now stabilised and are lower than anticipated within the draft budget. We now believe these factors will result in costs over £0.5m lower than thought when setting the draft budget.
- 9 Interest rates on working capital have risen considerably over the last year as a result of the high-inflationary environment. This significantly increased returns in the 2022/23 financial year and has allowed us to increase the budget on this line by around £1.3m, although this will be subject to taxation reducing the net impact to around £1m.

Additional activity now planned in 2023/24

- 10 In recent weeks we have increased activity within the Forensic Investigations team, in relation to accumulator firms. To ensure that there is no impact on ongoing casework within this function we are intending to increase headcount by two at a cost of around £110k.
- 11 Additionally, as we continue to manage down the older cases within Investigation and Enforcement, we are making use of outsource partners and overtime within the teams to ensure we meet our commitment to reduce cases over 24 months old to 82 by June 2024, whilst continuing to deliver increased efficiencies and effective case progression across the caseload more generally. This will add c.£160k to costs in the year.
- 12 As the Board is aware, the recent intervention into Axiom has generated significant numbers of claims to the Compensation Fund alongside the already increased claim numbers following high levels of interventions in 2022/23. This has greatly increased workload within the Claims Management and Statutory Trust teams and consequently we are increasing headcount by seven to boost case working, technical and financial investigation functions. The cost of this is estimated at £310k in the financial year and will be recharged to the Compensation Fund. This additional headcount will ensure claims handling times are maintained and that statutory trust balances are promptly reconciled to allow cash to be returned to the Compensation Fund as required. This will ensure that claimants can be paid while at the same time ensuring cashflows to the Fund are maximised, reducing the risk of a potential call for further contributions during the financial year.
- 13 Within Authorisation we are seeing a continuing increase in SQE exemption applications (up around a third during the year) which results in increased income and increased resource requirements. Headcount in this area will be

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increased by three to process the additional applications but with no net increase in costs.

- 14 To further support our work towards being a data driven organisation and our environmental commitments, we intend to increase expenditure within the Information Governance team by c.£170k to ensure we have the appropriate resource and skills as well as utilising external resource to deliver a strategic data need analysis.

Allocation of overhead costs to the Compensation Fund

- 15 The most significant change from the draft budget is in the proposed treatment of recharges to the Compensation Fund. Over the last financial year the performance reporting to the Board included expenditure apportioned between the main activities of the SRA, Investigation & Enforcement, Education & Training, Authorisation, Anti-Money Laundering and Client Protection.
- 16 The approach to this was discussed with the Board and the Audit and Risk Committee during the year. This was expected to increase the recharge to the Compensation Fund. This increase in overhead costs allocated to the Fund would be in addition to an increase in the direct cost of running and administering the Fund of over £4m. This is a result of the increased scale and level of interventions undertaken in 2022/23 as well as the expected continuing high number of interventions in 2023/24.
- 17 In preparing the final budget for the Board we determined that more work was required to ensure that we are consistently allocating costs to the relevant activities across the business.
- 18 We propose that we maintain the current basis for recharging costs to the Fund for the next financial year which is still deemed appropriate at this time. During the year, a more detailed assessment will be carried out on the drivers for expenditure in all areas, as well as an assessment of whether the identified activities correctly reflect what we do, particularly considering the new Corporate Strategy. This will provide greater precision around the rationale for allocating costs to activities. Any proposed changes will be reflected in the 2024/25 budget.
- 19 The impact on the proposed changes is included within the final budget shown above.

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Overall impact on reserves of the budget

- 20 Our reserves policy currently identifies a range of between £15.7m and £22.5m for unrestricted reserves, although as part of the annual review of this policy it is likely that we will want to increase the lower level of this range to reflect our higher cost base. At the end of 2022/23 (subject to audit) the unrestricted reserves are likely to be around £17.8m, within the unadjusted acceptable range. The proposed budget for 2023/24 will increase this further.

Recommendation: the Board is asked to note the contents of this paper and the changes from the draft budget.

Next Steps

- 21 The Board will receive regular updates on performance against the budget for the year as part of the regular performance reporting pack.