**Executive Board – 28 February 2022**

**Agenda item 5**

**Budget process review**

<table>
<thead>
<tr>
<th>Action</th>
<th>To approve</th>
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<tbody>
<tr>
<td>Purpose</td>
<td>This paper reflects on the 2022 budget scrutiny process, incorporating views from those involved, and recommends changes to the budget process and the implementation of a detailed half year review of our financial position.</td>
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<tr>
<td>Decision trail</td>
<td>SMT, Executive Board and Council approved the 2022 budget process and the outcome of that process.</td>
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| Recommendation(s) | a To approve the approach to the 2023 budget scrutiny process.  
                      b To approve the implementation of a half yearly review of our financial position.  
                      c To approve the approach to the areas flagged for review during the 2022 budget process. |
| Annexes      | None |
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| Sponsoring director/ Senior Responsible Owner | Neil Roberts, Director of Resources |
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Background

1. The process for setting the 2022 budget spanned from September to December 2021, encompassing the detailed budget preparation with HoS and AD’s in September, to the final approval by Council in December.

2. During October we conducted budget scrutiny reviews of each Directorate’s draft budget. This involved the relevant Director, the CEO and representation from the Resources and Strategy and Policy directorates to provide scrutiny.

3. While we have undertaken similar processes in the past these tended to be lighter touch and focused on areas of budget growth. As budget growth is now directed through the quarterly gateway process this has allowed us to change the focus of the scrutiny process:

   a. The focus of the meetings was existing approved budgets and their alignment with current corporate priorities.

   b. The level of information provided as part of the pack explored a range of aspects of the budget, covering 3rd party spend, directorate structure, trend analysis and prior year financial metrics. It also included a breakdown of project resource allocation for corporate priority projects.

   c. The approach to operational efficiency was moved away from a generic target applied after the detailed budgets were set to the identification of specific elements of the draft budgets that could be removed or reduced.

4. There were several outcomes from the more in-depth process:

   a. We identified targeted savings of £2m in 2022 which were removed from the final budget plus ongoing annual savings of £1.4m.

   b. Gained an understanding of how the organisation had changed financially over recent years and the distribution of investment.

   c. We were able to recognise the key drivers of cost in each directorate and how the structure supports the strategic objectives.

   d. We were able to test our initial budget assumption of 25% staff travel and expenses and the discussions informed our final position of increasing this to 40%.
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**e** Several operational areas were identified where it would be beneficial to gain a greater understanding of the structure, operations, and finances in 2022.

**f** We reduced the number of corporate priorities by deprioritising several projects to provide better clarity on our ‘must-do’ initiatives, and identifying some priority projects to close or transition to BAU, with a view to reducing the associated management overhead of status reporting, governance and process control.

**5** There were significant benefits to the 2022 process and in general it was well received however it was the first year an in-depth review of directorate finances was embarked upon, therefore we committed to a lessons learnt review before considering our approach to the 2023 process.

**6** This paper sets out our approach to that review, the feedback received from colleagues involved in the 2022 process and our proposed approach to the 2023 process.

**Lessons learnt**

**7** To assist us in improving the process we released a short pulse survey aimed at those colleagues who represented their directorate. We also received feedback from the central scrutiny team and the management accounts team.

**8** The pulse survey focused on 3 broad areas of the process although these are not mutually exclusive:

**a** Communications about the objectives of the process, the actual process itself and the communications of the outcomes.

**b** The approach to identifying efficiencies & the time given.

**c** The time horizon for reviewing the financial requirements of each directorate.

**Communications**

**9** Some feedback indicated that the purpose and outcome of the scrutiny process was not clear, especially because of our healthy financial position and that the communications that were sent were done so quite late in the overall process.
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10 One of the difficulties in setting the objectives of the process at anything other than a very high level is that we don’t know what the financial target or incentive would be until the draft budgets have been submitted, consolidated and reviewed. There are however non-financial benefits to the process that should be emphasised to a greater extent.

11 There was further feedback that the detail of the actual process was not clear either. The 2022 process matured while being undertaken which restricted our ability to release detailed communications regarding exactly how the process will unfold before it commenced. We feel we will be in a better position to inform colleagues on how the 2023 process looks early on.

Approach to efficiency savings

12 The general sense of the feedback from those involved in the meetings was that timescale for developing efficiency proposals was quite tight and there was a lack of context around how we should prioritise proposals e.g. there was some confusion of whether staff budgets should be included in proposals.

13 We also received feedback that the targeted approach to efficiencies is fair in principle but due to the lack of communications post scrutiny it was deemed to be less transparent than it could have been.

Time horizon

14 We posed the question of whether the budget review meetings should focus on the following financial year or the medium-term financial horizon. While it will be difficult to have detailed discussions around future years the feedback suggested that incorporating a longer-term view to the detailed review of the following financial year will generate the following benefits:

a It will allow us to link the meetings to the 3-year business planning cycle and projects run over several financial years.

b It would help in developing efficiency proposals and considering a more transitional approach to change.

c The benefit of existing investment decisions is more visible, and we can commit to agreed levels of future expenditure which will give more financial certainty.
Overall, the feedback suggested the process was well received, an important part of our annual planning process and supported as being required for future years.

2023 budget scrutiny process

Moving towards the 2023 process we expect to keep the process timescales, approach, and objectives broadly similar to 2022. Taking on board the feedback there are some specific changes we want to make this time around:

a Although we do report the financial position monthly to Executive Board we propose to incorporate a formal half year financial review with each Directorate into our annual planning cycle. This would cover:

- The variance to budget to date.
- The forecast to the end of 2022.
- Early sight of the 2023 budget figures.
- Pipeline bids requiring gateway funding.
- An assessment of the potential efficiency threshold and current ideas.

b Release communications around the non-financial objectives, broad process and timescales linked to the timeframe for the half year review.

- This would include an assessment of the expected ask around efficiencies and the timescale for the benefit realisation.

c We need to ensure the communications don’t have a negative impact on colleagues who are not involved in the process and make clear that the objectives of the process are to align our spending with corporate priorities. The scrutiny meetings don’t lead to overall budget or headcount cuts and therefore we want this message to be clear. We may need to change some of our terminology to achieve this.

d Change the elements of the scrutiny pack.

- Having given an overview of directorate spend we would look to focus the data packs on areas which we want to understand further, e.g. staff structure, 3rd party spend. We would look to agree these with SMT closer to the time.
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- We will also enhance the directorate input into the pack by revising the information we collect through the Team Assurance Mapping process. This process runs each year across all sections and is used to build a picture of assurance for the Audit and Risk Committee on process quality. We would like to enhance the questions that we cover in this process to provide Heads of Section the opportunity to identify improvements that could be made locally that are outside of their control to action (i.e. system or other limitations that drive cost or time in process) to help us compile a more complete picture of how efficiencies can be realised across the business. This may enable us to strategically target how we prioritise CI work and systems changes. We also intend to use this to capture more granular insight into local workload management processes as part of our ongoing efforts to improve capacity planning and management across the business.

 e  Ensure the structure of the meetings and scrutiny packs allows us to link the discussion between current year financial performance, following year detailed requirements, opportunities for immediate efficiency savings and medium-term outlook and financial requirements.

 f  Consider aligning the amount of time in the scrutiny process to the size and complexity of the directorate budget.

 g  Better communicate the outcomes of the directorate meetings and the whole process to relevant colleagues.

 h  Ensure the right people are present at the pre-meets and full scrutiny meetings.

17  We will also look to incorporate any learnings from the work currently being undertaken on the project profession by the Continuous Improvement team.

Timescales

18  The proposed timescales for the 2023 process are below. As dates become more certain as we progress through the process we will update all parties nearer the time.

 a  Initial communications around the 2023 process & efficiency ask – March

 b  Half year financial review – June (based on May numbers)

 c  Detailed budget preparation – September
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  d  First draft budget review & scrutiny meetings – October
  e  Post scrutiny review and proposed budget draft – November
  f  Council approval - December

Areas flagged for further review

19  In addition to the savings identified during the 2022 process there were a few areas flagged for further review. The areas we propose to take forward and who will be responsible are, in conjunction with the management accountants:

  a  IS - approach to strategic projects, support contracts
     •  Rachel Mooney
  b  Level of spend in HR
     •  Andrew Bratt, Sunil Kapur
  c  Focus of research budget
     •  Shaun Gallagher
  d  GMC wide policy prioritisation
     •  Shaun Gallagher
  e  Regulatory reform - assessment of overall costs and future savings
     •  David Donnelly, Tim Aldrich
  f  R&R processes & IS support
     •  This will be undertaken through the TAM process and would be applied to all directorates.

20  We propose that each theme will be the subject of a separate paper brought to SMT at the point the review has been completed. The timetable will depend on the level of complexity however we suggest that all reviews are complete to inform the mid-year budget evaluations.
21 There was one further area flagged for discussion:

   a Balance of spend in outreach – There may be value in conducting a more strategic review as part of or on completion of the regulatory reform programme.