



Agency Board Meeting 25 May 2021

Board Report Number: SEPA 15/21

Annual Operating Plan & Budget

Summary:	In March, the Board approved that a set of projects be undertaken as the next phase of our recovery work during the April June 2021 period and that we would develop an Annual Operating Plan (AOP) and budget for the July 2021 – March 2022 period. The draft AOP and budget will be brought for approval to the June Strategy meeting. This item seeks approval for the proposed approach to developing the budget and AOP.
Risks:	If we don't set a well-targeted AOP and budget for 2021-22 it could undermine our recovery effort and our long-term implementation of <i>One Planet Prosperity</i> .
Resource and Staffing Implications:	The AOP and budget preparation process is a standard part of business operation and, therefore, uses existing resources.
Equalities:	There are no equalities impacts from the process of preparing the 2021-22 AOP and budget.
Environmental and Carbon Impact:	There are no environmental and carbon impacts from the process of preparing the 2021-22 AOP and budget.
Purpose and audience of the report:	The purpose of this paper is to update the Board on the status of work and seek the Board's approval for the next steps in this process of preparing the 2021-22 AOP and budget.
Report Author:	Terry A'Hearn, Chief Executive
Appendices:	None

1. Introduction

1.1 At the March Board meeting, the Board approved a proposal that the 2021 -22 year be split into two parts:

- (1) the April-June 2021 period in which a set of projects would be undertaken as the next phase of our recovery work, and
- (2) the July 2021-March 2022 period for which we would develop an Annual Operating Plan (AOP) and budget.

1.2 The purpose of this paper is to update the Board on the status of work and seek the Board's approval for the next steps in this process of preparing the AOP and budget.

2. Background

2.1 The April to June projects were designed to ensure we made enough progress on a range of regulatory, flooding and corporate services. This is happening and we will update the Board on status at the June Strategy meeting.

2.2 This progress puts us in a position to develop an AOP and budget for the remainder of 2021-22.

2.3 I have worked with AMT, SLT and the Finance and Business Strategy teams to devise a business planning process to be concluded in mid-June to allow time for the Board to review the proposed AOP and budget before and at the June Strategy Board meeting.

3. The Issues

3.1 I will explain the basic elements of the proposed approach to preparing the AOP and budget.

3.2 We will continue to categorise our work into three areas:

- (1) Regulation (external service)
- (2) Flooding (external service)
- (3) Corporate (internal service)

These categories are now well understood in much of the organisation and make it easier for us to identify both priorities and inter-dependencies.

3.3 The twin aims for SEPA in 2021-22 will be to:

- 1) Recover the ability to deliver all our internal and external services (except any we decide to stop) and meet service delivery targets, and
- 2) Harness the opportunity to fast-track creating a Phase 2 EPA.

3.4 In order to ensure this twin focus is followed, all work/projects in the AOP will be expressed with:

- 1) A service delivery target(s); and
- 2) An explanation of how establishing the service will help fast-track the creation of a Phase 2 EPA.

- 3.5 As with many public sector agencies, a challenge in budgeting is to allocating resources according to priorities rather than a mix of priorities and repeating/adjusting the historical allocation. The unusual current circumstances we are in give us the opportunity to accelerate this shift.
- 3.6 Our 2021-22 expenditure has three categories:
- 1) Salaries (no in-year discretion apart from not filling particular vacancies);
 - 2) Locked-in items such as rent (no in-year discretion); and
 - 3) Residual funds (full discretion).
- 3.7 So, the process we will use will be to allocate:
- 1) Each portfolio a salary budget to manage;
 - 2) Allocate operating locked-in costs and, then:
 - 3) Fully allocate discretionary spend to priorities.
- 3.8 We will then use a new set of revenue budget rules aligned to delivery under which:
- 1) A salaries budget is set at portfolio level with no need for in-year approvals for any decisions as long as corporate rules are met;
 - 2) A (non-salaries) operating budget set at portfolio level with no need for in-year approvals for any decisions as long as corporate rules are met; and
 - 3) Each portfolio lead to produce a two-page plan for achieving a set of Phase 2 fast-track improvements, including where appropriate, cost savings that can be diverted to other purposes.

4. Recommendations

- 4.1 The Board is asked to approve this approach to the preparation of the 2021-22 AOP and budget.

Author and Date:

Terry A'Hearn, Chief Executive
20 May 2021