

02 January 2018

Dear SEC Party,

RE: Consultation on Draft Budget 2018 - 2021

Background

During January of each year the SEC Panel prepare and circulate to all Parties a Draft Budget for the next three Regulatory Years.

Over the last 3 months, the Panel Finance and Contracts sub-group (PFCG) and the SEC Panel have collaboratively prepared and refined the attached Draft Budget covering Regulatory Years 2018/21. This Draft Budget was approved for consultation at the SEC Panel meeting on 8th December 2017.

Draft Budget Approach

When drafting the budget, the Panel have looked to ensure only necessary provisions are in place, erring on the side of prudence where assumptions and activities are less stable. The Panel aim to drive cost efficiencies where possible, and have tight budget controls to ensure appropriate spend against the budget provisions throughout the year. As such, the Panel recognise that whilst a contingency provision is in place, its use is only if required.

The Draft Budget has been prepared using the same four budget categories as within previous Approved Budgets:

- SECCo and Panel Operations;
- SECAS Services;
- Projects; and
- Contingency

The attached Draft Budget provides commentary on the variances between the proposed 2018/19 budget and the estimated budget for 2018/19 that was set in 2017 as part of the 2017-20 budget.

Forecast Out-turn

This letter provides an update on the forecast out-turn for the 2017/18 Regulatory Year against the 2018/19 Draft Budget.

The forecast out-turn after 8 months of the 2017/18 financial year is £5,803,000. The variance against the Draft Budget is £972,125. The key variances are explained below under each of the budget categories.

SECCo and Panel Operations

This budget category covers all of the operating expenses for the Panel and the SECCo Board, including the costs associated with the Panel, Sub-Committees and specialist resource.

Budget Line	2018/19 Draft Budget	2017/18 Approved Budget	2017/18 Forecast Out-turn
Panel and Board Operations	£248,500	£305,500	£214,000
Sub-Committee Expenses	£30,000	£30,000	£4,000
Independent Chairs and Specialist Resource	£396,000	£324,000	£326,000
Systems	£53,000	£33,500	£34,000
Total	£727,500	£693,000	£577,000

Table 1: SECCo and Panel Operations Budget Category Comparison

There is a variance of circa £150,000 between the forecast out-turn 2017/18 and the Draft Budget 2018/19. This is due to:

- Provisions for independent chairs and specialist resource in the Draft Budget are based on contractual arrangements. Therefore, they are higher than the forecast 2017/18 out-turn (circa £70K difference).
- Sub-committee expenses are based upon the Panel's Expenses Policy (circa £24K difference)
- There has been minimal costs incurred for legal activities in 2017/18. As such, the legal provision for the Draft Budget 2018/19 has been reduced (from £100K to £50K). However, that still leaves a circa £20K difference from forecasted out-turn.

SECAS Services

This budget category covers the costs associated with the delivery of the services set out in the Smart Energy Code Administration and Secretariat (SECAS) contract. To provide further transparency, what was previously known as 'SECAS Projects' has been split out into Community of Expert Resource cost and other support costs.

Budget Line	2018/19 Draft Budget	2017/18 Approved Budget	2017/18 Forecast Out-turn
Core Functions	£3,490,000	£3,140,000	£3,125,000
Community of Expert Resource	£1,232,000	£1,694,000	£1,307,000
Support Costs	£288,000		
Accommodation Costs	£198,000	£215,000	£184,000
Total	£5,208,000	£5,049,000	£4,616,000

Table 2: SECAS Services Budget Category Comparison

The Draft Budget 2018/19 provision is an increase of circa £550,000 from the Forecast 2017/18 Out-turn. The increase in the 2018/19 line item for Core Functions is attributable to:

Administered by

- £100,000 for the CPI increase in the SECAS Rate Card as per the contractual arrangements; and
- c. £250,000 for an increase in resource to support the newly established Operations Group and the knowledge transfer from the Community of Experts.
- c. £200,000 increase across the Community of Expert Resource and Support Costs primarily due to a variance in the Security and Privacy provision to enable a prudent provision against expected activities during 2018/19.

Projects

This budget category outlines additional items of SEC expenditure which are at the discretion of the Panel and as such have been provided as 'bolt-ons' to the SECAS Core Delivery Team activities.

Budget Line	2018/19 Draft Budget	2017/18 Approved Budget	2017/18 Forecast Out-turn
Projects	£510,000	£920,000	£610,000

Table 3: Projects Budget Category Comparison

The Draft Budget provision is £100,000 lower than the forecast out-turn due to the completion of projects during 2017/18 e.g. DCC Live Support, and the reduction in budget for support to the Smarter Markets project based on current information.

Project provisions have also been removed where activity/expenditure is not considered likely.

Contingency

For 2017/18, the Panel agreed to reduce the contingency provision from 10% to 5% of the total budget. The Panel have considered that a similar provision is appropriate for 2018/19 due to the continued transition to enduring governance.

Budget Line	2018/19 Draft Budget	2017/18 Approved Budget	2017/18 Forecast Out-turn
Contingency	£322,275	£333,100	£0

Table 4: Contingency Budget Category Comparison

Consultation Process

SEC Section C8.13(a) requires that the consultation period with Parties will be 20 Working Days. As a result, the closing date for responses is **5pm Wednesday 31st January 2018**. Any comments should be provided to the SECAS helpdesk (secas@gemserv.com).

The Panel will review any comments at its next available meeting, with responses to comments circulated to Parties shortly afterwards.

The Panel may amend the Draft Budget following the consultation and in light of ongoing discussions or agree to approve it in the current form. Additionally, the Panel will specify a date from which it will become the Approved Budget and will be published on the SEC Website.

Consultation Questions

In addition to providing any comments on the Draft Budget, the SEC Panel would like to seek specific views from Parties regarding the scope of Panel activities.

The Panel therefore ask Parties to consider:

- Do you believe the scope of Panel work, as outlined in the budget, is appropriate?

Please take this question into account when providing your response to this consultation.

If you have any questions, please do not hesitate to contact the SECAS helpdesk on 0207 090 7755.

Kind regards,



Peter Davies

SEC Panel Chair