

TOTSCo Bulletin No.55

Date: 2 May 2024

Subject: TOTSCo Draft Budget for Financial Year 2024/25 - Request for Feedback

We present TOTSCo's draft budget for the financial year 2024/25 and invite comment from stakeholders. The TOTSCo board has approved the draft budget and will take account of feedback before agreeing a final budget.

Request for feedback

Please supply any comments on the draft budget, **by Tuesday 14 May**, to enquiries@totSCO.org.uk, quoting "budget" in the subject line. All responses are non-confidential and will be published when TOTSCo publishes a response to this request for feedback.

TOTSCo
May 2024

TOTSCo Draft Budget for Financial Year 2024/25

TOTSCo is a member-owned, not-for-profit company incorporated by the UK telecommunications industry to introduce switching processes. Our tasks and responsibilities include the provision of a message-exchanging platform (the TOTSCo hub) and a range of tasks around its introduction, maintenance and appropriate enhancement. TOTSCo plans to be self-funding over the medium term aligning its costs to income and making loan repayments to its initial funders. Billing began in Jan 2024.

As TOTSCo's costs are borne by industry, it is appropriate that there is transparency of our finances. We seek to offer value-for-money to industry, consistent with providing a quality commensurate with the vital nature to both industry and consumers of this always-on service.

The table shows the draft budget for 2024/2025. A quarterly breakdown of the budget appears as an appendix. For context the table also shows:

- The audited results for 2022/2023 (this was a short year as TOTSCo was incorporated in June 2022 and the financial year ends in March). Activity in this period was focused on the specification and supplier selection for the technical hub solution.
- The unaudited result for 2023/2024. (These results will be audited by August 2024.) This financial year saw an increase in the size of the TOTSCo team as we undertook intensive work with our technical partner on development and delivery of the technical solution, as well as onboarding customers and implementing the testing programme.

A projection for 2025/2026. This is not a budget, but we continually look several years forward not least to ensure that our pricing levels are consistent with repaying the loan by October 2027. We include this projection to illustrate our current view of our business-as-usual cost structure.

Profit & Loss Account	BUSINESS PLAN v11			
	Audited	Actuals	Draft Budget	F'cast
	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Revenue	-	1,654,855	7,291,966	7,528,500
Hub Annual Licences & Support	-	715,118	2,523,800	2,523,800
Gross Profit	-	939,737	4,768,166	5,004,700
GP%		57%	65%	66%
Staff costs	301,850	725,316	1,534,183	1,659,865
Consultancy/Contract Costs	377,565	2,272,073	1,272,500	174,000
Other Overheads	435,002	349,406	661,251	600,000
Total Operating Costs	1,114,417	3,346,795	3,467,934	2,433,865
EBITDA	-1,114,417	-2,407,058	1,300,232	2,570,835
Depreciation	1,410	6,938	299,330	507,686
EBIT	-1,115,827	-2,413,996	1,000,902	2,063,148
Interest expense	25,216	259,838	484,375	443,750
EBT	-1,141,043	-2,673,834	516,527	1,619,398
Corporation tax	0	0	0	0
Net profit/(loss)	-1,141,043	-2,673,834	516,527	1,619,398
Cumulative net profit/(loss)	-1,141,043	-3,814,877	-3,298,350	-1,678,952
Resource FTEs - average		18.9	17.5	12.4
Resource FTEs - end of year		17.6	12.4	12.4
End of year loan balance		6,000,000	6,750,000	5,156,506

Note: TOTSCO's financial year-end is 31st March

2024/25 budget assumptions and commentary

- 1. OTS go-live on 12 September:** The OTS go-live date drives much of TOTSCO's activity and therefore costs. Activity levels are driven by the onboarding, test and trials programme and providing customer service in the period to go-live. Costs will therefore stay at current levels until go-live in September and for a three-month period afterwards as we maintain high levels of support to address any start-up issues.
- 2. Scope:** the budget does not include revenues or costs associated with non-residential switching. We currently have advance funding commitment to cover reasonable costs arising from this programme, so if we incur any costs for this project they will be offset by revenue.
- 3. Revenue:** this is based on a UK market size of 27m residential customers, and the 2024 price list (i.e. a usage fee of £0.28 per residential customer). Charging for the largest four CPs commenced on 1 January 2024, and revenue increases from July 2024 as we start invoicing all hubs users. (See [bulletin 40](#) for details of prices and charging arrangements.) Our accounting policy is to recognise revenue in the period to which the invoicing applies. We assume that there is no bad debt.

The current prices (after appropriate inflation-related indexation) are consistent with repayment of the loan by October 2027.

- 4. Hub licenses and support:** Hosting costs and licence fees for the component parts of the hub were payable during the development phases, and from February 2024 we incur the incremental costs arising from the full service-package of technical and business support.
- 5. Hub depreciation:** Under our accounting policies, depreciation starts at OTS go-live and the hub asset is depreciated over five years. The contract for the design and development of the hub and associated hosting and support services was awarded after a rigorous and competitive multi-round assessment of Request for Proposal (RfP) responses from several potential partners.
- 6. Staffing:** The pattern of people working in the business will change as we complete the transition from a programme-based organisation focused on technology delivery, onboarding customers and the path to go-live, to one delivering a consistent level of service after OTS go-live.

During the year we will recruit permanent staff into our business-as-usual (BAU) structure, and the number of temporary and contract staff who are largely in programme roles will be reduced.

The breakdown of budgeted headcount at the end of the budget year (24/25) is:

CEO and support:	3 ppl	3 FTE
Finance:	2 ppl	1.6 FTE
Operations and technology:	6 ppl	6 FTE
Communications:	1 ppl	1 FTE
Board:	4 ppl	0.8 FTE
TOTAL	16 ppl	12.4 FTE

The tasks for the BAU team include:

- Vendor services management
- Engagement with all stakeholders
- Monitoring of OTS process health indicators
- Change management (hub, support services, industry process)
- Supporting activities (finance, HR, governance)

7. Other overheads: these increase year-on-year from 23/24 to 24/25 largely due to:

- Recruitment costs involved in the recruitment of the business-as-usual structure (£85k in FY24/25)
- Insurance increasing from £12k in the previous year to £84k in FY24/25
- Inclusion of a contingency of £10k per month

Other administrative costs include outsourced services, including HR, audit & accounting and IT/website support.

8. Interest rate: The interest rate on the loan is variable and is based on the Bank of England's Sterling Overnight Index Average (SONIA). The budget assumes an interest rate of 7.3%, consistent with the current SONIA rate.

The Executive and Board of TOTSCo keep costs under constant review, including opportunities for cost-saving in all parts of the company.



Appendix TOTSCo 2024/25 budget by quarter

Profit & Loss Account	FY 24-25				
	Draft Budget				
	Q1	Q2	Q3	Q4	TOTAL
Revenue	1,645,591	1,882,125	1,882,125	1,882,125	7,291,966
Hub Annual Licences & Support	630,950	630,950	630,950	630,950	2,523,800
Gross Profit	1,014,641	1,251,175	1,251,175	1,251,175	4,768,166
GP%	62%	66%	66%	66%	65%
Staff costs	311,784	392,466	414,966	414,966	1,534,183
Consultancy/Contract Costs	513,500	416,000	253,500	89,500	1,272,500
Other Overheads	180,001	162,500	168,750	150,000	661,251
Total Operating Costs	1,005,285	970,966	837,216	654,466	3,467,934
EBITDA	9,356	280,209	413,959	596,709	1,300,232
Depreciation	1,908	43,579	126,922	126,922	299,330
EBIT	7,448	236,629	287,037	469,787	1,000,902
Interest expense	114,472	123,301	123,301	123,301	484,375
EBT	-107,024	113,329	163,736	346,486	516,527
Corporation tax	0	0	0	0	0
Net profit/(loss)	-107,024	113,329	163,736	346,486	516,527
Resource FTEs - average	19.0	20.3	17.4	13.4	
Resource FTEs - end of year	20.8	18.7	15.4	12.4	

