

COUNCIL

Financial performance report: quarter four 2017/18 [Full year to 31 March 2018]

Meeting: 9 May 2018

Status: for noting

Lead responsibility and paper author: Mark Webster (Director of Resources)

Purpose

1. This paper provides the financial report for 12 months to 31 March 2018.

Recommendation

2. Council is asked to **consider** and **note** the contents of this report.

Strategic Objective

3. This work forms part of the Finance work programme in the 2017/18 business plan, specifically financial reporting – informing and advising on the financial position of the organisation; and supporting and advising on financial strategy.
4. Financial performance is reported separately from the remainder of quarterly performance. This is to ensure that sufficient attention is given to emerging issues as they arise and to provide an opportunity for corrective actions if required.

Risks

5. Sustainable financial performance is a key element in demonstrating the organisation's ability to continue in operation for the foreseeable future.
6. We are fully committed, focussed and engaged with the management of the finances of the organisation, and we are ensuring that financial awareness is embedded in the organisation and is reflected in our values and behaviours.

Analysis

Headlines

7. The financial performance reported in this paper is for the 12 months to 31 March 2018.
8. Included in this report are the following tables:
 - Table A: Income and expenditure account by department (**annex one**);
 - Table B: Income and expenditure account by cost type (inc project exp) (**annex two**); and
 - Balance sheet (**annex three**).

9. The result for the 12 months to 31 March 2018 is a net deficit of £1,358k. This is adverse to the budget of £1,217k by £141k.

Income

10. The total income of £8,702k is £151k higher than budget. Registrant income is £31k favourable and dividend income received £119k favourable.

Expenditure (excluding projects)

11. The total expenditure before projects of £9,361k is £277k higher than the budget.

Project Expenditure

12. There is a £332k favourable variance across project costs. Budget phasing was a little aggressive in some areas especially in the Education Strategic Review which was initially only an outline budget. The favourable variance would have been even greater without the impact of the IT strategy and Integrity of the Register projects which were subsequently added after Council consideration. These accounted for £130k of additional, unbudgeted expenditure.
13. Unrealised investment gains of £523k were recorded up to the end of the third quarter. The global stock markets experience a general reverse in the first quarter of 2018. An unrealised loss of £570k was recorded in Q4. This resulted in an overall unrealised loss of £47k against a budgeted gain of £300k.

Impacts

14. There are no impacts on legislation, equality and diversity, human rights or sustainability. Impacts on reserves, budget and resources have been identified in the paper.

Devolved Nations

15. There are no known implications or differences in relation to this area and the devolved nations.

Communications

16. Council receives a separate report on financial performance to ensure sufficient attention is paid to this key area. This report is the final one for 2017-18.

Table A**Income and Expenditure Accounts**

	April - March		
	Actual £'000	Budget £'000	Variance £'000
Income			
Registration	8,337	8,306	31
Dividend Income	319	200	119
Bank & Deposit Interest	14	25	(11)
Other Income	32	20	12
Total Income	8,702	8,552	151
Expenditure			
CEO's Office	182	311	129
Strategy			
Director of Strategy	160	160	0
Governance	822	828	6
Policy	231	279	48
Communications	182	192	10
Standards	512	548	36
Education	546	569	23
Total Strategy	2,453	2,576	123
FTP			
Director of FTP	230	223	(7)
Case Progression	2,022	1,687	(336)
Legal	285	297	12
Hearings	885	862	(23)
Total FTP	3,422	3,068	(353)
Resources			
Director of Resources	271	204	(67)
Facilities	1,003	1,026	23
Human Resources	474	362	(112)
Finance	302	308	6
IT	617	564	(53)
Registration	496	460	(36)
Total Resources	3,162	2,923	(239)
Depreciation	143	206	63
Total Expenditure	9,361	9,084	(277)
Surplus / (Deficit) before project expenditure	(659)	(532)	(127)

Table A (Contd.)

	April - March		
	Actual £'000	Budget £'000	Variance £'000
Project Expenditure			
Illegal Practice Project	84	37	(47)
CET Evaluation Project	16	54	38
Quality assurance project	8	40	32
Education Strategic Review project	144	448	304
Assessment of non UK registration applications project	9	46	37
Standards Project	19	91	72
GDPR Project	76	76	0
IT Development	30	50	20
IT Strategy Implementation	105	0	(105)
Integrity of Register	25	0	(25)
CRM Amortisation	138	142	4
Total Project expenditure	653	985	332
Surplus / (Deficit) after project expenditure	(1,312)	(1,517)	206
Unrealised Investment gains	(47)	300	(347)
Surplus / Deficit	(1,358)	(1,217)	(141)

Table B

	April - March		
	Actual £'000	Budget £'000	Variance £'000
Income			
Registration	8,337	8,306	31
Dividend Income	319	200	119
Bank & Deposit Interest	14	25	(11)
Other Income	32	20	12
Total Income	8,702	8,552	151
Expenditure			
Staff Salaries Costs	3,868	3,837	(31)
Other Staff Costs	448	334	(114)
Staff Benefits	95	77	(17)
Members Costs	1,102	1,168	67
Case Examiners	143	180	38
Professional Fees	631	983	352
Finance Costs	179	164	(15)
Case Progression	1,272	968	(304)
Hearings	198	168	(30)
CET & Standards	338	366	28
Communication	46	67	20
Registration	15	10	(5)
IT Costs	454	423	(30)
Office Services	945	975	29
Depreciation & Amortisation	281	348	67
Total Expenditure	10,014	10,069	55
Surplus / Deficit	(1,312)	(1,517)	206

Detailed analysis of 12 Months results

Income

Registration income has a £31k favourable variance mainly due to number of new registrants being slightly higher than anticipated.

Dividend income at £319k is £119k favourable. The full year budget of £200k was based on the portfolio of previous financial year. Fund cash is now fully invested, yielding higher dividend income.

The overall portfolio performance is summarised below.

	<i>Actual</i> £'000	<i>Budget to-date</i> £'000	<i>Variance</i> £'000
Dividend income received	319	200	119
Unrealised Investment Gains / (losses)	(47)	300	(347)
Total Income from Investment	272	500	(228)
Total Investment Portfolio	9,746	10,093	(347)

The funds are now fully invested into the asset classifications that support our risk portfolio.

As highlighted in the previous quarterly report, market volatility in early February onwards resulted in some of the previously reported unrealised gains reversed. Total capital appreciation of £1,116k (12.9% net return). This is exclusive of the income received from dividends received. Total returns are comfortably ahead of the 5.5% long term average.

Initial capital investment of £8,630k was made in December 2015.

Expenditure:

The expenditure is reported in two formats; Table A uses the traditional GOC format of expenditure by department with project expenditure at the end to separate out business as usual and strategic project expenditure. Table B shows expenditure by specific cost categories but incorporates project expenditure.

CEO Office

There is a £129k favourable variance due to delays in CEO appointment which has a +£43k impact on payroll cost and also due to unutilised contingency cost (+76k).

Policy

There is a £48k favourable variance due to planned research expenditure related into domiciliary care being postponed until 2018-19.

Communications

There is a £10k favourable variance mainly due to delays in publications (+£6k) and GOC Events (+£6k).

Standards

There is £11k savings as the system changes planned for CET programme management are no longer required. A 25% drop in applications for CET approvals resulted in a further £18k favourable variance in CET approver cost.

Education

There is a £23k favourable variance due to the total planned visits for the year being lower than planned despite a catch up in the final quarter.

Case Progression

There is an overall negative variance of £336k due to following reasons.

External legal charges were £204k adverse for the year. There were higher number of cases than budgeted and several lengthy/complex cases which resulted in increased legal charges (-£61k) and interim order cost (-£86k). In addition there were increases in panel firm charges as they asserted that more cases were in the more complex category and therefore the higher charging band.

Interim order costs have reduced since Q2 with the implementation of a formal in-house advocacy pilot the over spend in previous periods was not recovered.

Payroll costs increased by £75k due to the addition of two case officer roles created to manage the increase in case load and to facilitate the creation of a standalone triage function, however the benefits will not be realised until 2018-19. There is a £38k favourable variance in case examiner costs primarily due to over-estimation of case-flow during the period.

Witness expenses have £32k negative variance due to increased number of complex cases requiring expert witness attendance.

Additional registration appeal cost of £21k was incurred due to cases not accrued in the previous year.

Note that the legal cost reserve will be utilised if the variance in Case Progression and Hearings is more than 10% compared to previous year. The need to utilise the reserve will be monitored during Q4.

Hearings

£23k net unfavourable variance is due to several reasons.

Member fees cost increased by £59k due to an increase in substantive cases which resulted in increase in number of hearing days. Member expenses has a +£76k variance due to original budget assumption of higher number of members requiring overnight accommodation.

£47k extra transcriber cost was spent due to delays in launching digital audio recording system and the running of parallel hearings (the second suite does not have a digital recording facility).

Director of Resources

There is a £67k adverse variance; in part due to project manager costs being incurred but using budget within IT and in part due to centralised HR cost.

Salary sacrifice method was introduced at the start of the financial year as a pension option to staff. The anticipated related savings of employers NI was budgeted centrally. The actual savings are spread across the departments as they crystallise.

Facilities

£23k favourable variance is mainly due to reduced postage & mailings costs (£30k), achieved by a renegotiated contract and lower volumes. Charges for rates were £10k higher than budget due to annual increases from London City Council being above inflation (c25%).

Human Resources

There is an overall negative variance of £112k due to following reasons.

Staff benefits are £40k over budget: Group income protection plan and life assurance premiums were based on low (out of date) headcount numbers resulting in higher charges for 2017-18. There is a £12k increase in private medical insurance cost as general UK premium have increased significantly. Extra cost of £11k incurred related to pension redress.

Additional staff costs and legal advice around the restructuring project (£10k).

There was an increased investment in staff training to address identified gaps in skills and awareness and user training around the new HR software. Cancellation fees for redundant HR software (£10k adverse)

IT

There is a £53k unfavourable variance in the department which is undergoing significant change.

£42k saving in payroll cost due to delayed recruitment of a CRM administrator. This was partially offset by temporary staff providing additional IT support through the transition to the outsourcer.

Additional (agreed) costs from the outsourcer to undertake remedial work across a number of IT issues. Plus the write off of the future part of an onerous contract (the need for a disaster recovery site).

Registration

£40k additional staff cost incurred due to increase in the number of staff and using temporary staff in covering operational staff absences during the peak periods. Further £6k additional cost in bank charges were due to delay in PayPal reducing their charges to charitable rates. There was £13k underspent in member fees due to delay in appointment of non-UK assessors.

Depreciation

All IT hardware purchases have been put on hold until the infrastructure migration is completed.

Projects

Illegal Practice Project

Halloween work and registrant “land the message” work which were not originally budgeted for contributed to the overspent of £38k. In addition, “Love Your Lenses” 2018 campaign had an overspent of £5k.

CET Evaluation Project

Consultancy cost related to Reflective Practice research was not spent (£38k). This is due to a review of organisation-wide research expenditure by SMT.

Quality Assurance Project

The project made £32k savings by using internal resources instead of the planned external consultancy work.

Education Strategic Review Project

Project has a £304k favourable variance mainly due budget being set prior to appointing the project Director, who, produced a more detailed plan.

Less than half of the consultancy cost initially planned will be carried out during the year. Research expenditure for the year to 31 March 2018 is reduced from £270k to £25k. Savings of £15k was made by using internal legal advice.

Assessment of non UK Registration Applications Project

The project has £37k positive variance to-date. £46k savings were made as the tender for “assessment of Stage 1 competencies” has not been completed. The overall savings were reduced as external legal advice not originally budgeted was sought costing £8k.

Standards Project

Project has £72k favourable variance. The planned research related to commercial pressures was not commissioned before the year end so will fall into 2018-19..

IT Strategy Implementation

This is a new project created with Council approval in July after the IT Strategy paper was considered and approved. The project is focused on outsourcing our hosting and support functions.

Analysis of Table B Expenditure by cost typeStaff Salary Cost

Overall salary cost overspent of £74k is due to increase in headcount. This variance is reduced by £43k savings made due to delay in CEO appointment.

Pension related NI cost savings related to the switch to salary sacrifice were calculated on a 90% conversion rate. In reality this was nearer 60%.

Other Payroll Cost

The negative variance of £114k is overspend in temporary staff cost. The GOC used temporary staff for a variety of reasons. In part to cover various extended staff absences including paternity leave and in part to cover whilst vacancies were being filled. In IT, the need was particularly high to provide extra support in dealing with both the server migration and the remedial issues that emerged. Additional resource was also utilised in HR to provide support and advice in preparation for the reorganisation.

Professional fees

£352k savings. Mainly in projects but also reflects a strategic decision to reduce the use of expensive external third parties, including research providers.

Case progression Costs

£304k adverse (covered above).

Balance Sheet as at 31 December 2017

	2017-18 31 March 2018 £'000	2016-17 31 March 2016 £'000	Variance £'000
Fixed Assets			
Refurbishment	885	959	(74)
Furniture & Equipment	231	251	(20)
IT Equipment (Hardware)	52	68	(16)
IT software (Including CRM Phase 1)	49	188	(139)
CRM project - working progress	(0)	0	(0)
Total Tangible Fixed Assets	1,217	1,466	(249)
Investment	9,746	9,835	(89)
Total Fixed Assets	10,963	11,301	(338)
Current Assets			
Debtors, Prepayments & Other Receivable	583	500	83
Short term deposits	5,000	6,200	(1,200)
Cash and monies at Bank	1,341	783	558
Total Current assets	6,924	7,483	(559)
Current Liabilities			
Creditors & Accruals	1,179	1,094	85
Income received in advance	8,297	7,821	476
Provision for rent	613	713	(100)
Total Current Liabilities	10,090	9,628	462
Current Assets less Current Liabilities	(3,166)	(2,145)	(1,021)
Total Assets less Current Liabilities	7,797	9,156	(1,359)
Long Term Liabilities	0	0	0
Total Assets less Total Liabilities	7,797	9,156	(1,359)
Reserves			
Legal Costs Reserve	2,000	2,000	0
Strategic Reserve	3,498	3,498	(0)
Income & Expenditure	2,299	3,658	(1,359)
Total	7,797	9,156	(1,359)

Fixed Assets

The fixed assets are capitalised according to the organisation accounting policies.

Investment

This consists of funds invested through Brewin Dolphin (BD) at market value.

Short-term Deposits

All the fixed-term deposits are with Bank of Scotland (BOS) and placed for periods less than 1 year. Money received from renewal fees are invested in short-term deposits which mature periodically to provide a sustainable cash-flow. We made £6.2m of deposits at the end of last year and currently have deposits valued £0.384m at the end of December.

Cash and monies at Bank

The cash in bank is comprised of current account balance and funds in PayPal account.

Provision for Rent

GOC completed the rent free period of 18 months in December 2016. The quarterly rent is now paid in advance. The rent saved from the rent free period is utilised to discount the rent cost throughout the lease period.

Strategic and Legal Cost Reserve

The Strategic and Legal cost reserves at the end of 2016-17 reflect the agreed changes in the Reserves policy.