

COUNCIL

Financial Performance Report

Meeting: 12 February 2014

Status: for noting

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Purpose

1. This paper provides the financial report for the nine months ended 31 December 2013 and the forecast outturn for the year as at Quarter 3.

Strategic Objective

2. Council is obliged to safeguard the assets of the business and ensure that finances are prudently and properly managed.
3. Following the significant financial performance challenges experienced in 2012/13, financial performance is being reported separately from the remainder of quarterly performance. This is to ensure that sufficient attention is given to any emerging issues.

Headlines

4. Financial performance is reported quarterly to Council. Month nine performance data forms the basis of the third quarter forecast. This information is presented at Annex 1.
5. The forecast presented identifies that it is expected that financial performance will exceed budget at this stage. It is expected that actions to mitigate and reduce expenditure will continue to take place, and this position will remain as the year progresses through quarter four. This information is presented as part of Annex 1.
6. The Executive remain fully committed, focussed and engaged with the management of the finances of the organisation, and we fully expect to deliver financial performance considerably better than the budget for the year.
7. Annex 2 details the performance indicators for finance for the year. The overall variance indicator has been replaced by separate indicators for income and finance. Both indicators are green as at 31 December 2013.

8. Council is asked to note the financial performance to date and the third quarter forecast. Council is also asked to note the planned actions as well as those taken or underway, as detailed in paragraphs 37- 40 below.

Analysis

9. Financial performance for the first nine months of the year is presented at Annex 1. Actual performance for the nine months shows a surplus of **£2.1m** compared to budget **£1.7m** surplus. This is an overall positive variance of £444k to date.
10. The forecast position at the year end at this stage is expected to be a surplus of **£378k** which is **£349k** ahead of budget.

Income

11. Income to date amounts to **£6.1m** compared to the budget of **£5.9m** and is a positive variance of **£219k**. The reasons for the variance in income are:
 - 11.1 There have been some increases in registrant numbers over the course of the year resulting in income rising over the year. We expect this position to remain as the year comes to a close.
 - 11.2 We have received **£232k** additional income in respect of business rates rebate relating to earlier years. This has been treated as additional income for the year.
12. We have completed planned work in developing a new approach and tool for use in forecasting income. It uses longer term trend data and a cyclical approach to the CET cycle to improve its accuracy. This has been used to prepare Q3 forecast income and also in budget preparation for 2014/15.
13. Income at the year-end is expected to be **£6.2m** which is **£198k** above budget, and this may increase further as the year progresses, as a result of new registrants. The forecast is more optimistic than at Q2 because of increased registrations in the period October - December 2013.

Expenditure

14. Total expenditure for the nine months ended 31 December 2013 amounts to **£4.0m** compared to a budget of **£4.3m**, which is a positive variance of **£225k** at this stage of the year.
15. There are a number of variances across the business in each area and the majority are expected to result in overall savings to the business.

16. Forecast expenditure for the full year is expected to be **£5.8m**, which is **£135k** below budget. This is a similar outlook compared to Q2 and is the result of the continued focus on cost saving within the teams.
17. Specific savings in comparison to budget include the following:
 - 17.1 A saving of **£28k** in respect of annual insurance costs has resulted from the retender of the insurance portfolio. The procurement exercise has yielded improved cover in addition to the savings noted above. This procurement has not yet yielded additional savings and this is dependent on the type of cases coming through.
 - 17.2 Work has been undertaken by Crowe Clarke Whitehill in respect of recovering overpaid business rates and corporation tax as a result of our Charity Commission registration and charitable status. A claim was lodged with the London Borough of Westminster and was agreed by them. Recovery was **£282k** in total; **£232k** related to expenses paid in the prior year and has been treated as additional income in the current year. The work in respect of corporation tax has started, but the possible recovery amounts are far smaller in scale and the timing of any recovery is uncertain.
 - 17.3 Following the conduct of a particular FTP case, we hope recover some costs, which will go some way to mitigating the cost of undertaking this particular case.
 - 17.4 The Communications team have achieved significant savings by combining their media monitoring and press contacts services with a single supplier over a longer contract.
 - 17.5 Savings have been achieved in hearings amounting to **£25k** in respect of modifying our approach to transcribing hearings.
 - 17.6 The Registrations team have made savings in their budget because they have not required legal advice that was budgeted.
18. There are some overspends in other areas but these are more than offset by overall savings, and we expect to exceed budget performance for the year.
19. Zero based budget reviews have been undertaken in the following teams and have contributed to the savings identified in 17 above:
 - 19.1 Regulation - Education and Standards, Hearings
 - 19.2 Resources - HR, Finance, ICT and Facilities
20. Reviews will continue in other areas as the year concludes, and will be targeted and tailored to the requirements in each area. Some types of work lend themselves to a more 'activity based' cost review, and the most appropriate methodology will be used in each case. Work is also underway to develop a costing model for FTP case costs to assist with modelling, monitoring and forecasting FTP costs.

21. We have identified **£301k** expenditure on legal fees for the year so far which fits under one of the categories for expensing it to the legal contingency reserve. However we are still working on the analysis of costs to be sure the right figures have been identified before the year end. Analysing expenditure in this way does not change the impact on overall reserves though, because it will be necessary to top up the reserve at 31 March 2014 to **£750k**, to maintain the reserve at its current level in accordance with the current reserves policy.
22. **£18k** of the external venues budget of **£30k** has been spent so far this year. The expenditure has been incurred on providing premises for meetings when hearings are taking place at 41 Harley St.
23. **£11k** of the contingency budget of **£50k** has been committed or spent. This expenditure has been mainly on legal advice in respect of a standards issue.
24. Following the difficult financial performance in 2012/13 the Executive agreed to take the following actions:
 - 24.1 increased monitoring of budgets with development for budget holders so that they are held to account for their budget;
 - 24.2 careful control and analysis of legal costs for on-going and new FTP cases;
 - 24.3 reporting spend against either the general contingency or the external venues budget to Council each quarter with the management accounts; and
 - 24.4 zero-based budget approach across all areas in preparation for 2014/15 budget setting.
25. The Executive is pleased to confirm that these actions have either already been taken or are underway. These actions have contributed to the significantly improved financial oversight, control and performance that is reported here.

Projects

26. Project expenditure which is charged to the Strategic and Optical Education Reserves amounts to **£111k** for the year to date. Total expenditure for the year in this area is expected to be **£179k** which is lower than the budget Council agreed in February 2013. This is a result of a delay in the live launch of the CRM system which will now take place in early 2014/15.
27. Identify any implications decisions by Council may have on:
 - 27.1 GOC's reserves – financial performance at the level currently forecasted would increase reserves by **£272k**
 - 27.2 GOC budget – as detailed in the paper
 - 27.3 Legislation - none

27.4 Resources – as detailed in the paper

27.5 Equality and Diversity - none

27.6 Human Rights Act - none

Summary of financial performance

28. Current financial performance for the nine months ended 31 December 2013 shows a positive variance against budget of **£444k**. This is made up of income in excess of budget of **£219k** and costs **£225k** lower than budget.
29. The third quarter forecast shows a projected year end result of a surplus of **£272k** which is **£243k** above budget; this is made up of income above budget of **£218k** and costs below budget of **£135k**. At this stage of the year based on nine months actual expenditure, this quarter three forecast is confidently presented.

Devolved Nations

30. There are no known implications or differences in relation to this area and the devolved nations. There is no need to publish this report in Welsh.

Communications

31. Reporting financial performance has been previously within the quarterly review.
32. A decision was taken by Council to receive a separate report on financial performance to ensure sufficient attention was paid to this key area, especially in the light of the difficulties experienced in the previous year. This report is the third one presented in this way.

Risks

33. Sustainable financial performance is a key element in demonstrating the organisation's ability to continue in operation for the foreseeable future.
34. Council are rightly concerned to ensure that the Executive bring sufficient resources to bear so that the budget set for 2013/14 is delivered.

Recommendations

35. Council is asked to consider and note the contents of this report.
36. Council is also asked to consider and note the action being taken to address financial performance in 2013/14 as detailed in 17 above and 37-40 below.

Timeline for future work

37. Savings have already been identified in the areas highlighted in 17 above.
38. The remaining cost reviews we have planned will be undertaken over the last quarter of the year and the results of that are expected to contribute to financial results and performance in 2014/15.
39. Activity based reviews will take place instead of zero-based reviews in areas where the costs are based on the number of activities that take place.
40. Work is also underway to develop a costing model for FTP case costs to assist with modelling, monitoring and forecasting FTP costs. This is expected to be completed by March 2014.

Attachments

- Annex 1: Management Accounts for the 9 months ended 31 December 2013
Management accounts include the Q3 forecast and project expenditure
- Annex 2: Financial Performance Indicators

General Optical Council

MANAGEMENT ACCOUNTS FOR THE PERIOD

APRIL 2013 - DECEMBER 2013

General Optical Council

Management Accounts for the 9 months to 31 December 2013

	April - December			2013-14	2013-14	2013-14	2013-14	Q3 Forecast
	Actual £'000	Budget £'000	Variance £'000	Budget £'000	Q1 Forecast £'000	Q2Forecast £'000	Q3 Forecast £'000	Variance from Q2 £'000
Income								
Registration	5,904	5,917	(13)	5,922	5,816	5,852	5,908	57
Bank & Deposit Interest	31	21	10	25	26	39	39	0
Rental Income	6	14	(8)	18	9	9	6	(3)
Database Sales	5	2	3	3	3	5	6	1
Other Income	227	0	227	0	0	3	227	223
Total Income	6,172	5,953	219	5,968	5,854	5,908	6,186	278
Expenditure								
CEO's Office	116	155	39	207	207	197	199	(2)
Policy & Communications								
Director of Policy & Communications	99	103	3	137	137	137	130	7
Governance	314	338	24	453	426	449	431	19
Policy	99	94	(5)	136	136	136	144	(8)
Communications	108	105	(2)	156	180	153	147	7
Total Policy & Communications	620	640	20	882	879	876	852	24
Regulation								
Director of Regulation	123	129	7	173	173	168	166	2
Fitness to Practise ¹	900	791	(108)	1,148	1,084	1,115	1,115	0
Education & Standards ²	491	468	(23)	658	658	658	640	18
Registration	250	298	47	424	424	453	428	25
Legal Compliance	29	71	42	94	94	83	83	0
Hearings	474	527	52	705	749	634	669	(36)
Total Regulation	2,267	2,284	17	3,203	3,182	3,110	3,100	10
Resources								
Director of Resources	124	158	34	201	201	201	213	(12)
Facilities	185	217	32	287	160	246	252	(5)
Human Resources	213	222	8	296	296	293	305	(12)
Finance	233	233	(1)	365	365	375	384	(8)
IT	233	309	76	426	426	426	426	0
Total Resources	988	1,138	150	1,575	1,448	1,542	1,580	(38)
Depreciation & Amortisation	52	52	(0)	76	76	76	76	0
Total Expenditure	4,044	4,269	225	5,942	5,792	5,801	5,807	(6)
Net (Deficit) /Surplus	2,128	1,684	444	26	62	107	378	272

Project Expenditure

Not included in the above

	April - December			2013-14	2013-14	2013-14	2013-14	Q2Forecast
	Actual £'000	Budget £'000	Variance £'000	Budget £'000	Q1 Forecast £'000	Q2 Forecast £'000	Q3 Forecast £'000	Variance from Q2 £'001
Information Governance	44	50	6	70	70	70	70	0
Review Standards Setting	23	29	6	50	50	50	50	0
CET Amortisation	44	44	0	59	59	59	59	(0)
CRM Amortisation	0	59	59	118	118	118	0	118
	111	182	71	297	297	297	179	118

Notes

- Staff secondment income and FTP cost recovery are netted off against expenditure.
- Revalidation Income netted off against expenditure.

General Optical Council

Management Accounts for the 9 months to 31 December 2013 Balance Sheet

	31/12/2013 £'000
Fixed Assets	
Property	673
Furniture & Equipment	0
Refurbishment	17
IT Equipment	14
Development Costs	124
CRM Project	573
Total Fixed Assets	<u>1,401</u>
Current Assets	
Cash and monies at Bank	3,516
Short term deposits	0
Debtors & Prepayments	108
Total Current assets	<u>3,625</u>
Current Liabilities	
Creditors & Accruals	516
Deferred Income	0
Revalidation Grant	37
Total Current Liabilities	<u>553</u>
Current Assets less Current Liabilities	<u>3,072</u>
Total Assets less Current Liabilities	<u>4,473</u>
Long Term Liabilities	0
Total Assets less Total Liabilities	<u>4,473</u>
Reserves	
Total Reserve brought forward	2,456
Surplus/(Deficit)for the year	2,128
Project expenditure and amortisation	(111)
Total	<u>4,473</u>

General Optical Council

Management Accounts for the 9 months to 31 December 2013

Movement of Reserves

Movement on reserves	Budget					Actual				
	Strategic reserve	Optical education reserve	Legal costs contingency reserve	Income & expenditure reserve	Total	Strategic reserve	Optical education reserve	Legal costs contingency reserve	Income & expenditure reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance brought forward 1 April 2013	715	21	750	970	2,456	715	21	750	970	2,456
Transfers during the year					0					0
Net surplus / (deficit) of the period				26	26				2,128	2,128
Total Reserves Available	715	21	750	996	2,482	715	21	750	3,098	4,584
Expenditure:										
Review Standards Setting	(50)				(50)	(23)				(23)
Information Governance	(70)				(70)	(44)				(44)
Amortisation-CET	(38)	(21)			(59)	(23)	(21)			(44)
Amortisation-CRM	(118)				(118)					0
Total Reserves Utilised	(276)	(21)	0	0	(297)	(90)	(21)	0	0	(111)
Balance Reserve	439	(0)	750	996	2,185	626	(0)	750	3,098	4,473

2013-14 Strategic Projects
Project Cost for the Period of April - December

Project Description	Project Lead	Actual Project Cost April - December £000's	Budgeted Project Cost April - December £000's	Budgeted Project Cost 2013-14 £000's
Revenue Projects¹				
Review Standards Setting	Linda Ford	23	29	50
Information Governance & PCI	Phil Hallam	44	50	70
Total Revenue Projects		67	79	120
Capital Projects²				
CRM ³	Agnieszka Knapik	424	336	445
Total Capital Projects		424	336	445
Total Projects		491	415	565

Capital Project- CRM Project	
	£000's
Total Budget (including VAT)	694
Project work-in-progress:	
2012/13	149
2013/14 (to-date)	424
Project actual cost (to-date)	573
Balance available to spend⁴	121

Notes

1. Optical Education Reserve brought forward of £20,814 was fully utilised for revenue projects. The balance is funded by Strategic Reserve.
2. Capital projects are amortised over 3 years from their being brought into use.
3. CRM is a two year project which started in 2012/13. During 2012/13 £149k out of total cost of £694 was spent, leaving £545k for the current year. This will reduce the reserves by £100k over the amount published in 2013/14 Business Plan.
4. CRM Project is expected to be completed in 2013/14.

Finance Performance Indicators

Activity	Performance Indicators	2013/14 target	2013/14 1/4ly Reviews		2013/14 1/4ly Reviews		
			Q3	Q4	Q1	Q2	Q3
Formulating the GOC budget, reporting progress to budget holders and Council, and accounting for funds at year end	% variance of income from budget	5%	2%	3%	3%	-1%	-3.7%
	% variance of expenditure from budget	5%	18%	26%	5%	-8%	-5%

Note: Q1 analysis is based on May'13 accounts.