

COUNCIL

Financial performance report: quarter one 2015/16

Meeting: 29 July 2015

Status: for noting

Lead responsibility: Josie Lloyd
(Director of Resources)

Paper Author: Josie Lloyd

Purpose

1. This paper provides the Q1 financial report for 2015/16.

Recommendation

2. Council is asked to **consider and note** the contents of this report the actions that will take place over the summer to re-phase the budget and produce the first forecast. This will help to ensure financial performance delivery for the year ended 31 March 2016.

Strategic Objective

3. This work forms part of the Finance work programme in the 2015/16 business plan, specifically financial reporting – informing and advising on the financial position of the organisation; supporting and advising on financial strategy. The work falls into the strategic aim of organisational change – building a sustainable and modern organisation. The Director of Resources is responsible for this area of work.
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. Council is rightly concerned to ensure that the Executive applies sufficient challenge and oversight to ensure that the budget set for 2015/16 is delivered and that satisfactory financial performance is delivered.

7. The longer term financial risk still exists and ongoing attention to financial management and planning will be required to ensure the organisation remains financially viable in the longer term.

Headlines

8. Financial performance is reported quarterly to Council. The financial performance reported in this paper is for the first quarter of 2015/16, the three months ended 30 June 2015.
9. This information is presented at **Annex 1** and shows a surplus of **£5,540k** compared to the budget of **£5,205k** surplus which is a positive variance of **£335k**.
10. The Executive is 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.
11. No forecast data is presented in Annex 1 on this occasion because attention has been focussed on providing first quarter performance within tight timeframes, and on budget phasing for 2015/16.
12. **Annex 2** details the performance indicators for finance for the period. The income indicator is green meaning that actual income is very close to budget, differing by only 1%. The expenditure indicator is red because actual expenditure is 20% below budget for the period ended 30 June 2015 (compared to our target of 5%) at this early stage in the year.

Analysis

13. Financial performance for the three months ended 30 June 2015 is presented at Annex 1. Actual performance for the year to date shows a surplus of **£5,540k** compared to budget **£5,205k** surplus. This is an overall positive variance of **£335k**.

Income

14. Income for the three months ended 30 June 2015 totalled **£7.1m** compared to the budget of **£7.2m** which is a negative variance of **£69k** (less than 1%). The reasons for the variance in income are:
 - 14.1 small differences in the number of registrants being retained on the register compared to the budget; and
 - 14.2 small variations in the number of new registrants joining the register in the period or restoring to it compared with the budget.

15. We are continuing development work on planning and forecasting revenue focussing on phasing and timing of registrations and retentions. We are using longer term trend data and a cyclical approach to the CET cycle to improve accuracy. This work was used in the final budget preparation for 2015/16 approved by Council in February 2015.

Expenditure

16. Total expenditure for the three months ended 30 June 2015 amounts to **£1.6m** compared to a budget of **£2.0m**, which is a positive variance of **£404k**.
17. We have analysed the differences between actual performance and the budget using a number of categories as detailed in Table One below:

| ITEM | AMOUNT £000 | CATEGORY |
|--|----------------|----------|
| BUDGET OUTTURN Q1 2015/16 | 5,205 | |
| Expenditure not phased correctly in 2015/16 | | 1 |
| Research costs | 11 | |
| External venue costs | 22 | |
| Committee and panel fees | 58 | |
| Consultancy and audit | 32 | |
| Training costs | 31 | |
| ICT and licences | 30 | |
| FTP and complaints | 63 | |
| Depreciation | 9 | |
| Items not budgeted for correctly | | 2 |
| Panel expenses | 11 | |
| HMRC payments on members expenses | -14 | |
| Bank charges (registration income) | -24 | |
| Savings (efficiency/procurement) | | 3 |
| Hearing panel induction | 26 | |
| Normal fluctuations | | 4 |
| Contingency and legal budgets not yet committed | 30 | |
| Other | 5 | |
| Work not yet completed | | 5 |
| Standards project research | 20 | |
| Staffing changes | 25 | 6 |
| ACTUAL PERFORMANCE Q1 2015/16 | 5,540 | |

Underspends

18. Council is asked to note that the reasons for the underspend so far this year have been analysed into the following categories:
 - 18.1 areas where we have recognised that budgets have not been phased correctly through the year to match expected expenditure. This is detailed in Table One above, category 1 and includes:
 - 18.1.1 Committee and panel fees which do not match scheduled meetings;
 - 18.1.2 Research costs where work will take place later in the year;
 - 18.1.3 FTP costs expected to be incurred later in the year; and
 - 18.1.4 ICT licence fees.
 - 18.2 areas where we have recognised that budgets were set with unrealistic expectations of what could be delivered. This is detailed in Table One above, category 2 and includes:
 - 18.2.1 hearing panel expenses which were budgeted at higher average cost rates than are required; and
 - 18.2.2 tax on members expenses for 2014/15 which are higher than anticipated due to changes in the way we book travel and accommodation for members.
 - 18.3 efficiency savings or improvements in procurement. These are detailed in Table One above, category 3 and amount to £26k;
 - 18.4 activities that were planned but have not been carried out yet for other reasons. These are detailed in Table One, category 4 above and amount to £35k. These have been termed 'normal fluctuations';
 - 18.5 activities planned but not carried out in the year so far due to changes in timing, priorities or deferred activities. These are detailed in Table One above, category 5 and amount to £20k; and
 - 18.6 reductions in staffing costs due to delays in recruitment or posts remaining unfilled for short periods. These are detailed in Table One above, category 6 amounting to £25k.

Overspends

19. All overspends are small in comparison and are more than offset by any underspends in other areas.

Council's required reporting

20. There are a number of budget lines for which Council has requested a report every quarter. These are reported here.
21. **None** of the contingency budget of **£50k** held by the Chief Executive and Registrar has been spent so far this year.

22. **£25k** has been spent on external venues compared to the budget of **£47k** so far this year. It is included in Table One above in category 1.
23. **None** of the legal expenditure on FTP so far incurred has been identified as probably fitting one of the criteria for use of the legal contingency reserve. Any that arises in later periods will be charged to the reserve and a provisional reserve top-up indicated later in the year to maintain the balance on that reserve at **£500k** in accordance with the reserves policy.

Future work

24. Council is advised that there are a number of activities where further actions may be required to ensure financial performance remains in line with budget for the year:
- 24.1 a first quarter forecast will be worked on over the summer and sent to Council electronically;
- 24.2 we will undertake a re-phasing exercise over the summer months which will be incorporated into Q2 reporting to Council in November 2015. This won't change the amounts budgeted for but will look at how budgets are spread. Budget holders will be urged to undertake this process diligently so that we can forecast as accurately as possible enabling us to redeploy available resources where they are most needed; and
- 24.3 we expect the training undertaken in July 2015 and the internal audit report on the surplus for 2014/15 to inform the work undertaken on re-phasing and forecasting.

Projects

25. Project expenditure which is charged to the Strategic Reserve amounts to **£65k** for the three months ended 30 June 2015 which is **£180k** lower than the budget. This is a result of the delayed implementation of the CRM.

Impacts

26. Identify any implications decisions by Council may have on:
- 26.1 GOC's reserves – the budgeted outturn would increase reserves by **£38k** excluding any transfer from the investment reserve.
- 26.2 GOC budget – as detailed in the paper
- 26.3 Legislation - none
- 26.4 Resources – as detailed in the paper
- 26.5 Equality and Diversity - none
- 26.6 Human Rights Act – none

Summary of provisional outturn

27. Financial performance for the three months ended 30 June 2015 shows a positive variance against budget of **£335k**. This is made up of income **£69k** lower than budget and costs **£404k** lower than budget.

Devolved Nations

28. 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

29. Council receives a separate report on financial performance to ensure sufficient attention is paid to this key area. This report is the first one for 2015/16.

Recommendations

30. Council is asked to **consider and note** the contents of this report the actions that will take place over the summer to re-phase the budget and produce the first forecast. This will help to ensure financial performance delivery for the year ended 31 March 2016.

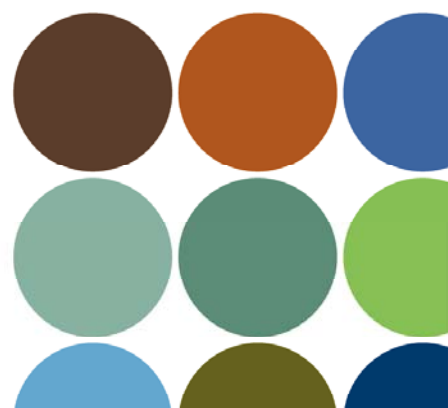
Timeline for future work

31. Financial performance together with forecasts will be reported to Council at each quarterly meeting in 2015/16.

Attachments

- Annex 1: Financial performance for Q1 (the three months ended 30 June 2015)
Annex 2: Financial Performance Indicators for Q1 (the three months ended 30 June 2015)

Management Accounts Report for the Period ending 30 June 2015



Income and Expenditure Accounts including Project Expenditure

| | April - June | | | 2015-16 |
|---|-----------------|---------------------|-------------------|-----------------|
| | Actual £'000 | Budget £'000 | Variance £'000 | Budget £'000 |
| Income | | | | |
| Registration | 7,137 | 7,203 | (66) | 7,465 |
| Investment Income | 0 | 0 | 0 | 226 |
| Bank & Deposit Interest | 8 | 12 | (4) | 28 |
| Database Sales | 0 | 1 | (1) | 3 |
| Other Income | 2 | 0 | 2 | 0 |
| Total Income | 7,147 | 7,216 | (69) | 7,723 |
| Expenditure | | | | |
| CEO's Office | 43 | 59 | 16 | 221 |
| Strategy | | | | |
| Director of Strategy | 35 | 40 | 4 | 171 |
| Governance | 128 | 152 | 25 | 596 |
| Policy | 27 | 65 | 38 | 331 |
| Communications | 37 | 38 | 1 | 152 |
| Education & Standards | 198 | 252 | 54 | 854 |
| Total Strategy | 426 | 548 | 123 | 2,104 |
| FTP | | | | |
| Director of FTP | 36 | 36 | (0) | 145 |
| Fitness to Practise | 299 | 411 | 112 | 1,514 |
| Legal Compliance | 17 | 22 | 5 | 87 |
| Hearings | 160 | 215 | 55 | 648 |
| Total FTP | 512 | 684 | 171 | 2,394 |
| Resources | | | | |
| Director of Resources | 64 | 107 | 43 | 412 |
| Facilities | 236 | 233 | (2) | 905 |
| Human Resources | 73 | 125 | 53 | 432 |
| Finance | 48 | 36 | (13) | 244 |
| IT | 87 | 111 | 24 | 474 |
| Registration | 108 | 89 | (19) | 402 |
| Total Resources | 616 | 701 | 85 | 2,870 |
| Depreciation & Amortisation | 9 | 18 | 9 | 95 |
| Total Expenditure | 1,607 | 2,011 | 404 | 7,685 |
| Net (Deficit) /Surplus before transfer from investment reserve | 5,540 | 5,205 | 335 | 38 |
| Project Expenditure | | | | |
| Not included in the above | | | | |
| | | April - June | | 2015-16 |
| | Actual | Budget | Variance | Budget |
| | £'000 | £'000 | £'000 | £'000 |
| CET Amortisation | 15 | 15 | 0 | 44 |
| CRM Amortisation | 50 | 50 | (0) | 201 |
| | 65 | 65 | (0) | 245 |

Balance Sheet as at 30 June 2015

| | £'000 |
|--|---------------|
| Fixed Assets | |
| Refurbishment | 837 |
| Furniture & Equipment | 336 |
| IT Equipment (Hardware) | 23 |
| IT software (Including CRM Phase 1) | 441 |
| Development Costs | 29 |
| CRM project - working progress | 83 |
| Total Fixed Assets | 1,748 |
| Current Assets | |
| Property | 0 |
| Cash and monies at Bank | 5,932 |
| Short term deposits | 1,871 |
| Debtors & Prepayments | 7,296 |
| Total Current assets | 15,099 |
| Current Liabilities | |
| Creditors & Accruals | 2,327 |
| Total Current Liabilities | 2,327 |
| Current Assets less Current Liabilities | 12,772 |
| Total Assets less Current Liabilities | 14,520 |
| Long Term Liabilities | 0 |
| Total Assets less Total Liabilities | 14,520 |
| Reserves | |
| Strategic Reserve | 686 |
| Legal Costs Contingency Reserve | 500 |
| Investment Reserve | 4,550 |
| Income & Expenditure Reserve - General | 8,462 |
| Income & Expenditure Reserve - Designated | 322 |
| Total | 14,520 |

| Movement on reserves | Budget | | | | | |
|--|-------------------|---------------------------------|--------------------|------------------------------|--------------|--------------|
| | Strategic reserve | Legal costs contingency reserve | Investment Reserve | Income & expenditure reserve | | Total |
| | | | | Designated ² | General | |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Balance brought forward 1 April ¹ | 751 | 500 | 4,550 | 322 | 2,922 | 9,045 |
| Transfers during the year | | | (112) | | 112 | 0 |
| Net surplus / (deficit) of the period | | | | | 38 | 38 |
| Total Reserves Available | 751 | 500 | 4,438 | 322 | 3,072 | 9,083 |
| Expenditure: | | | | | | |
| Reward project and In-year resourcing | | | | (322) | | (322) |
| Amortisation-CET | (44) | | | | | (44) |
| Amortisation-CRM | (201) | | | | | (201) |
| Total Reserves Utilised | (245) | 0 | 0 | (322) | 0 | (567) |
| Balance Reserve | 506 | 500 | 4,438 | 0 | 3,072 | 8,516 |

| Movement on reserves | Actual | | | | | |
|---------------------------------------|-------------------|--|--------------------|------------------------------|--------------|---------------|
| | Strategic reserve | Legal costs contingency reserve ³ | Investment Reserve | Income & expenditure reserve | | Total |
| | | | | Designated ² | General | |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Balance brought forward 1 April | 751 | 500 | 4,550 | 322 | 2,922 | 9,045 |
| Transfers during the year | | | | | | 0 |
| Net surplus / (deficit) of the period | | | | | 5,540 | 5,540 |
| Total Reserves Available | 751 | 500 | 4,550 | 322 | 8,462 | 14,585 |
| Expenditure: | | | | | | |
| Reward project | | | | | | 0 |
| In-year resourcing | | | | | | |
| Amortisation-CET | (15) | | | | | (15) |
| Amortisation-CRM | (50) | | | | | (50) |
| Total Reserves Utilised | (65) | 0 | 0 | 0 | 0 | (66) |
| Balance Reserve | 686 | 500 | 4,550 | 322 | 8,462 | 14,519 |

1. The "Balance brought forward 1 April" line in the Budget table is updated to the actual figures. All the other movements are as per the budget.
2. £322k was transferred for Reward project and in-year resourcing requirements.

Capital Project Cost

| Capital Project- CRM Project - Phase 1 | |
|---|---------------|
| | £000's |
| Total initial Budget (including VAT) | 694 |
| IT savings in 2013/14 | 37 |
| Total budget | 731 |
| Actual Project Cost | |
| 2012/13 | 149 |
| 2013/14 | 401 |
| 2014/15 | 137 |
| 2015/16 | |
| Total project cost todate | 687 |
| Phase 1 - Registration completed and transferred to fixed assets ² | 604 |
| Phase 1 - FTP and Hearings - in working-progress ³ | 83 |
| Balance available to spend for Phase 1 | 43 |

| Capital Project- CRM Project - Phase 2 | |
|---|---------------|
| | £000's |
| Total Budget (including VAT) | 244 |
| Actual Project Cost | |
| 2015/16 | |
| Total project cost todate | 0 |
| Balance available to spend for Phase 2 | 244 |

1. Phase 2 is expected to cost £244k and will start in 2015/16.
2. Capital projects are amortised over 3 years from their being brought into use.

Finance Performance Indicators

| Activity | Performance Indicators | 2015/16 target | 1/4ly Reviews | | | | |
|--|---------------------------------------|----------------|---------------|-----|-----|----|---------|
| | | | 2014/15 | | | | 2015/16 |
| | | | Q1 | Q2 | Q3 | Q4 | Q1 |
| 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% | 0% | 1% | 1% | -1% |
| | % variance of expenditure from budget | 5% | 15% | 18% | 14% | 8% | 20% |