

COUNCIL

Financial Performance Report

Meeting: 11 February 2015

Status: for noting

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Purpose

1. This paper provides the Q3 financial report as at 31 December 2014.
2. Council is asked to **consider and note**:
 - 2.1 the contents of this report; and
 - 2.2 the actions that are being taken to address financial performance in 2014/15 as detailed in paragraph 23.

Strategic Objective

3. This work forms part of the Finance work programme in the 2014/15 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 being reported separately from the remainder of quarterly performance. This is to ensure that sufficient attention is given to any emerging issues as they arise and to provide an opportunity for early corrective action.

Headlines

5. Financial performance is reported quarterly to Council. The financial performance reported in this paper is for the third quarter, the nine months ended 31 December 2014.
6. This information is presented at **Annex 1** and shows a surplus of **£2.6m** compared to the budget of **£1.9m** surplus which is a positive variance of **£738k**. Council is asked to note the financial performance for the year so far.

7. The Executive remains 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.
8. **Annex 2** details the performance indicators for finance for the year so far. The income indicator is green meaning that actual income is better than budget by 1%. The expenditure indicator is red because actual expenditure is more than 5% below budget as at 31 December 2014.
9. Quarter 3 forecast data is presented in the final columns of Annex 1; this shows expected income of **£6.8m, £31k** above budget, expected expenditure of **£6.0m, £591k** below budget and a forecast **£781k** surplus for the full year compared to the budgeted surplus of **£159k**. This forecast shows an improvement in expected financial performance for the year of **£488k** in comparison with the Q2 forecast presented to Council in November 2014.
10. This is the result of:
 - 10.1 improved income levels in registrations where initially retention income was lower than budgeted but new registrations income arising throughout the year has more than made up for the initial shortfall;
 - 10.2 savings in FTP legal costs as a result of the change in the mix of cases received and the sustained careful financial management of our legal firms;
 - 10.3 savings in hearings as a result of reduced days held compared to the budget resulting in reduced fees and expenses for panellists; and
 - 10.4 specific savings from revised procurement of legal advisers and changes in the provision of transcription services.
11. The Executive intend to take the following actions at 31 March 2015 if financial performance meets the expected level:
 - 11.1 Transfer to the income and expenditure reserve sufficient funds from the surplus to meet the target for that reserve as described in the Reserves Policy; this is currently estimated at **£281k** subject to Council agreeing the proposed final budget for 2015/16 presented at **C08(15)**.
 - 11.2 Transfer other surplus funds (currently estimated at **£500k**) to the Strategic and Special Reserves for the purposes of funding the CRM project, reward project and to allow the consideration of in year resourcing requirements in 2015/16. The final budget at **C08(15)** details the other resourcing requirements we are aware of that have not yet been agreed or funded, and we expect there will be other requirements emerging during year.

12. Council is asked to note the Executive's view that work is being undertaken to safeguard the expected financial performance for the year.
13. Council is also asked to note the actions being taken to monitor and manage costs in 2014/15 as detailed in 25 below.

Analysis

14. Financial performance for the year to date is presented at Annex 1. Actual performance for the year to date shows a surplus of **£2.6m** compared to budget **£1.9m** surplus. This is an overall positive variance of **£738k**.

Income

15. Income for the nine months ended 31 December 2014 amounts to **£6.8m** compared to the budget of **£6.7m** and is a positive variance of **£40k**. An initial deficit reported has reverted to a surplus income as the year has progressed and this surplus is expected to increase further towards the end of the financial year. The reasons for the variance in income are:
 - 15.1 the budgeted flow of income from the main retention period was based on the data from 2013 and was lower than budgeted. We have identified further refinement of our revenue model that is required to ensure we can project accurately in future. This work is progressing well; and
 - 15.2 the income derived from new registrations has steadily increased through the year and has offset the variance above. We expect this will result in increased revenue over the remainder of the year as has been the case in previous years.
16. 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 to prepare quarter three forecast income presented here and also in the final budget preparation for 2015/16 presented to Council at this meeting.

Expenditure

17. Total expenditure for the nine months ended 31 December 2014 amounts to **£4.2m** compared to a budget of **£4.9m**, which is a positive variance of **£700k**.
18. There are a number of variances across the business in each area. Some of these are actual savings, some are the result of work not undertaken this year which may be deferred beyond the end of 2014/15 and still others are the result of phasing in the budget.

19. We are working closely with budget holders to improve the phasing of budgets through the year and this work is ongoing and the subject of continued improvement. There is a sustained and continued focus on cost saving within the teams and an emphasis on the careful management of resources.
20. **£13k** of the contingency budget of **£50k** held by the Chief Executive and Registrar has been spent so far this year. This expenditure has been in respect of Committee recruitment and contract legal advice. This expenditure continues to be reported quarterly to Council.
21. **£18k** of the external venues budget of **£38k** has been spent so far. This expenditure is managed centrally and is being reported quarterly to Council.

Savings and underspends

22. Work in respect of corporation tax recovery is underway, but the possible recovery amounts are small, approximately **£10k**. Any amounts received will be added to the special reserve created from additional income received in 2013/14. This reserve is being used to provide external hearings space in the current year and implementing the reward project.
23. Savings have been achieved in the following areas:
 - 23.1 There are savings in the conduct of FTP cases as a result of the changes to FTP rules and revised process that is being followed. In particular, the investigation committee is meeting fewer times than was budgeted, saving **£48k**.
 - 23.2 Legal charges are **£100k** lower than budgeted for most cases however due to increased interim order cases this cost is **£41k** higher than budgeted.
 - 23.3 There have been a number of reduced hearings days compared to those planned for the period and the days will not now be made up later in the year. It is currently estimated that **120** days of hearings will be held compared to a budget of **175** days. Some of these reduced days are the result of adjourned proceedings and other are the result of hearing taking fewer days than anticipated, often due to changes in the way individual cases run. The amount of savings is estimated at **£63k**. For 2015/16 significant work is expected to take place in improving the scheduling of hearings and a more modest target for hearing days is being set.
 - 23.4 There are savings of **£48k** on case examiner costs due to the way this area was budgeted having been finalised before full details of the way costs would be incurred and with incomplete information.

- 23.5 We have identified **£16k** costs which meet the criteria for expensing to the legal contingency reserve (with its more restrictive criteria in place this year) but this is still included within the main costs at present.
- 23.6 There are **£41k** savings as a result of delays in recruitment of replacement staff in Education and Standards.
- 23.7 There are **£20k** savings on visitor panel costs as a result of deferred visits and these are now not expected to be incurred before the end of the financial year.
- 23.8 There are savings of **£25k** in recruitment and this is not expected to be expended in the remainder of the year. It is the result of changes in the balance between internal and external recruitment activities.
- 23.9 Delays in the roll out of the management and staff training programs have resulted in **£40k** savings, however this is expected to be delivered in 2015/16.

Overspends or reclassification

24. There are some overspends in other areas but these are more than offset by overall savings, and we expect to significantly exceed budget performance overall at the end of the year. Given the low level of overspends reported, these have not been expanded upon.
25. Council are asked to note the following actions that are underway:
- 25.1 enhanced monitoring of budgets with development for budget holders, and enhanced support so that they are held to account for their budget;
 - 25.2 careful control and analysis of legal costs for on-going and new FTP cases; enhanced risk assessment of cases at an early stage to enable a pro-active approach to cost management;
 - 25.3 reporting spend against either the general contingency or the external venues budget to Council each quarter with the management accounts;
 - 25.4 zero-based approach to budget planning and review in any area where a significant change in activity is expected; and
 - 25.5 further work is underway in respect of revenue phasing and budgeting income through the year.
26. These actions are expected to continue to contribute to improved financial oversight, control and performance as the year progresses. The Executive wish Council to note that vigilance in financial matters continues in the current year because the financial risks remain (especially in relation to FTP); the risks need to be managed and this remains a key priority for 2014/15 and beyond.

Projects

27. Project expenditure which is charged to the Strategic Reserve amounts to **£116k** for the year to date which is **£155k** lower than the budget. This is a result of a delay in the live launch of the CRM system which took place in September 2014. Council should note that it is expected that £126k of this reserve will be available towards the cost of CRM Phase 2 work.
28. Identify any implications decisions by Council may have on:
 - 28.1 GOC's reserves – the Q3 forecast financial performance if achieved will increase reserves by **£781k**;
 - 28.2 GOC budget – as detailed in the paper;
 - 28.3 Legislation – none;
 - 28.4 Resources – as detailed in the paper;
 - 28.5 Equality and Diversity – none; and
 - 28.6 Human Rights Act – none.

Summary of financial performance

29. Financial performance for the nine months ended 31 December 2014 shows a positive variance against budget of **£738k**. This is made up of income **£40k** higher than budget and costs **£699k** lower than budget.

Devolved Nations

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

Communications

31. Council receives a separate report on financial performance to ensure sufficient attention is paid to this key area. This report is the third one for 2014/15.

Risks

32. Sustainable financial performance is a key element in demonstrating the organisation's ability to continue in operation for the foreseeable future.
33. Council is rightly concerned to ensure that the Executive applies sufficient challenge and oversight to ensure that the budget set for 2014/15 is delivered and that satisfactory financial performance continues.
34. 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.

Recommendations

35. Council is asked to **consider and note**:
- 35.1 the contents of this report; and
 - 35.2 the actions that are being taken to address financial performance in 2014/15 as detailed in paragraph 25.

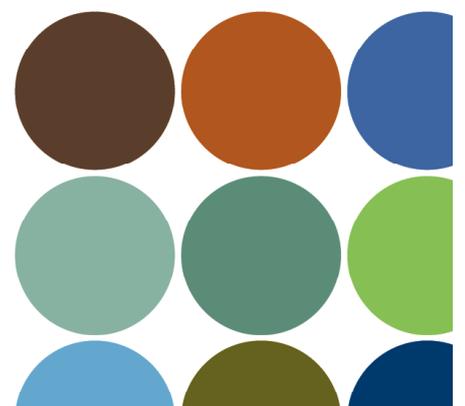
Timeline for future work

36. Savings have been identified in the areas highlighted in paragraph 23.
37. Work is continuing on developing and refining a costing model for FTP case costs to assist with modelling, monitoring and forecasting FTP costs. This is being revisited in 2014/15 to take account of any impact in respect of the new rules.
38. Work is also underway in respect of tendering for legal services from April 2015. The internal auditors looked at the FTP area during Q3 and we are considering their draft report.

Attachments

- Annex 1: Management Accounts for the nine months ended 31 December 2014
Management accounts include project expenditure
- Annex 2: Financial Performance Indicators for the nine months ended 31 December 2014

Management Accounts Report for the period of April - December 2014



Income and Expenditure Accounts including Project Expenditure

	April - December			2014-15	2014-15	2014-15	2014-15	Q3 Forecast
	Actual £'000	Budget £'000	Variance £'000	Budget £'000	Q1 Forecast £'000	Q2 Forecast £'000	Q3 Forecast £'000	Variance from Q2 £'000
Income								
Registration	6,762	6,736	25	6,749	6,613	6,719	6,775	56
Bank & Deposit Interest	21	21	0	34	34	36	28	(7)
Database Sales	4	2	2	6	6	4	5	1
Other Income	12	0	12	0	0	1	12	11
Total Income	6,799	6,759	40	6,789	6,652	6,759	6,820	60
Expenditure								
CEO's Office	130	159	28	211	211	208	209	(0)
Strategy								
Director of Strategy	109	104	(6)	137	165	146	146	0
Governance	380	396	16	557	565	569	563	6
Policy	140	157	17	185	185	182	183	(0)
Communications	94	124	30	161	161	153	142	11
Education & Standards ¹	541	631	90	828	828	774	775	(1)
Total Strategy	1,265	1,411	146	1,868	1,903	1,825	1,809	16
FTP								
Director of FTP	123	120	(3)	160	160	160	159	1
Fitness to Practise	901	1,063	162	1,443	1,420	1,457	1,223	234
Legal Compliance	43	39	(3)	58	58	54	61	(7)
Hearings	403	515	112	748	748	598	519	79
Total FTP	1,469	1,737	268	2,410	2,386	2,270	1,962	307
Resources								
Director of Resources	242	212	(30)	271	271	270	270	(0)
Facilities	193	185	(8)	240	256	251	238	12
Human Resources	251	386	136	471	465	469	449	21
Finance	127	135	8	259	259	255	255	(0)
IT	267	317	50	435	435	451	434	17
Registration	207	300	93	412	412	399	369	30
Total Resources	1,287	1,535	249	2,088	2,099	2,095	2,016	79
Depreciation & Amortisation	28	35	7	53	68	68	43	25
Total Expenditure	4,179	4,878	699	6,630	6,666	6,466	6,039	427
Net (Deficit) / Surplus	2,620	1,881	738	159	(14)	293	781	488
Project Expenditure								
Not included in the above								
CET Amortisation	44	44	0	59	59	59	59	0
CRM Amortisation	73	154	82	212	212	135	127	8
	116	198	82	271	271	194	186	8

Balance Sheet as at 31 December 2014

	£'000
Fixed Assets	
Furniture & Equipment	(0)
Refurbishment	5
IT Equipment	44
Development Costs	59
CRM Phase 1	580
Total Fixed Assets	<u>688</u>
Current Assets	
Property	672
Cash and monies at Bank	849
Short term deposits	3,280
Debtors & Prepayments	163
Total Current assets	<u>4,964</u>
Current Liabilities	
Creditors & Accruals	634
Revalidation Grant	1
Total Current Liabilities	<u>635</u>
Current Assets less Current Liabilities	<u>4,329</u>
Total Assets less Current Liabilities	<u>5,017</u>
Long Term Liabilities	0
Total Assets less Total Liabilities	<u>5,017</u>
Reserves	
Strategic Reserve	510
Legal Costs Contingency Reserve	500
Income & Expenditure Reserve - General	3,987
Income & Expenditure Reserve - Designated	20
Total	<u>5,017</u>

Movement on reserves	Budget				
	Strategic reserve	Legal costs contingency reserve ³	Income & expenditure reserve		Total
			Designated ²	General	
£'000	£'000	£'000	£'000	£'000	
Balance brought forward 1 April ¹	589	500	222	1,405	2,716
Transfers during the year					0
Net surplus / (deficit) of the period				159	159
Total Reserves Available	589	500	222	1,564	2,875
Expenditure:					
Hearing venue cost			(117)		(117)
Reward project					0
Amortisation-CET	(59)				(59)
Amortisation-CRM	(212)				(212)
Total Reserves Utilised	(271)	0	(117)	0	(388)
Balance Reserve	318	500	105	1,564	2,487

Movement on reserves	Actual				
	Strategic reserve	Legal costs contingency reserve ³	Income & expenditure reserve		Total
			Designated ²	General	
£'000	£'000	£'000	£'000	£'000	
Balance brought forward 1 April	589	500	222	1,405	2,716
Transfers during the year ⁴	37			(37)	0
Net surplus / (deficit) of the period				2,620	2,620
Total Reserves Available	626	500	222	3,987	5,335
Expenditure:					
Hearing venue cost			(184)		(184)
Reward project			(18)		(18)
Information Governance	0				0
Amortisation-CET	(44)				(44)
Amortisation-CRM	(73)				(73)
Total Reserves Utilised	(116)	0	(202)	0	(318)
Balance Reserve	510	500	20	3,987	5,017

- 1 The balance brought forward in the Budget table is updated with the actual figures. All the other movements are as per budget.
- 2 The designated reserve, which was created using the rates rebate, is utilised for reward project and Hearings venue cost.
- 3 Legal contingency reserve was reduced from £750k to £500k at the end of 13/14.
- 4 £37k savings made in 13/14 by IT department is now transferred to Strategic reserve in order to utilise for CRM project.

Capital Project Cost

Capital Project- CRM Project	
	£000's
Total initial Budget (including VAT)	694
IT savings in 2013/14 ¹	37
Total budget	731
Actual Project Cost	
2012/13	149
2013/14	401
2014/15	54
Transferred to Fixed Assets	604
Balance available to spend for Phase 2	126

- 1 The 2013/14 revenue expenditure savings of IT was transferred to the strategic reserve to be utilised by CRM project.
- 2 Capital projects are amortised over 3 years from their being brought to use.
- 3 CRM Project (Phase 1) went live on the 11th September.
- 4 Phase 2 is expected to cost £244k and will start in 2015/16.

Finance Performance Indicators

Activity	Performance Indicators	2014/15 target	2013/14		2014/15		
			1/4ly Reviews		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%	-3.7%	-3.6%
	% variance of expenditure from budget	5%	-5%	-2.2%	15%	18%	14%

Note:
Q1 analysis is based on May accounts.