



Council

Financial Performance Report: nine months to 31 Dec 2019 (inc. Q3 2019-20 forecast)

Meeting: 26 February 2020

Status: For noting

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

Purpose

1. To provide a summary of the financial reports presented to Audit & Risk Committee (ARC).

Recommendations

2. Council is asked to note the content of this report and annexes.

Strategic objective

3. This work contributes towards the achievement of the following strategic objective: organisational transformation.

Background

4. The latest financial performance of the organisation is presented to ARC every quarter and a summarised version brought to full Council for noting.

Analysis

5. ARC discussed five financial performance reports at its meeting on 10 February: the three regular reports outlined below plus the draft budget for 2020-21 (figures included in 3-year projection) and an efficiency update paper.
6. ARC was also presented with two contextual graphs illustrating the overall impact on the GOC's reserves.
7. The annexes supporting this paper are.
 - a. Reserve impact before portfolio gains. (annex one).
 - b. Reserve impact after portfolio gains. (annex two).
 - c. the nine months to 31 December 2019. (annex three)

- d. third quarter forecast (Q3) for the year to 31 March 2020 against the second quarter forecast (Q2) (annex four); and
 - e. outline financial projections on a year by year basis to 31 March 2022 (annex five).
8. To bring all these reports into context. In November 2018 we implemented longer term financial projections into our quarterly reporting processes. One of the objectives being to provide insight and focus on achieving financial stability (breakeven or better) by 2021-22.
 9. At that initial point we were projecting that reserves (before any portfolio gains) as at 31 March 2021 would be £5.042m. These latest projections indicate that reserves will be c£500k higher at £5.558m, with the position at 31 March 2022 higher at £6.238m.
 10. Taking account of actual and forecast gains on the investment portfolio, the reserves position is even healthier at £6.184m (March 2021) and £7.133m (March 2022). The graphs at annex 1 and annex 2 visually demonstrate this improvement.
 11. We also initially forecasted in May 2019 that the operating surplus in 2021-22 would be £208k. The latest projection is for a surplus of £680k; a £472k improvement.
 12. The key points from the various reports are highlighted within this cover paper, with the bulk of the narrative and financials in the respective annexes.

Headlines

13. The GOC continues to perform ahead of its financial targets and, whilst recognising there remain financial challenges ahead, it is on course to achieve a breakeven position by 2021-22.

9 months to 31 December 2019

14. The results before unrealised gains for the nine months show a net deficit of £394k. This is £480k favourable to the budgeted deficit of £874k and £111k favourable to the Q2 forecast deficit of £505k.
15. The total registrant income of £7,031k is £213k less than the budget and £26k less than the Q2 forecast. Higher than expected refunds due to the end of the three-year CET cycle contributed to the negative variance to the budget revisit.

16. The total expenditure of £7,677k is £702k favourable to budget and £136k favourable to the Q2 forecast.
17. The key drivers of the improved performance are:
- staff costs – planned delays in appointments, reviewing the need for replacing leavers, a focus on efficiencies and several current staff vacancies have driven the current positive variance. Some staff needs are being met with temporary resourcing which is categorised under “other staff costs”;
 - member costs through better organisation of education visits, including adopting more desk-based reviews and using fewer members per visit. This trend will continue in Q4 and beyond; and
 - IT expenditure reflecting slight delays and re-prioritisation of plans. It is expected that some of this work will now be deferred to next year.
18. The overall result after unrealised gains for the 9 months period is a net surplus of £173k. This is £873k favourable to the budgeted deficit of £699k and £504k favourable to the Q2 forecast deficit of £331k. The improved financial performance plus the unexpected return of our £313k rent deposit has meant the overall drawdown on our investment portfolio will only be £400k against £1,300k originally projected.
19. The portfolio valuation as at 31 December 2019 is £8,654k (31 March 2019 £8,288k) and overall reserves as at 31 December 2019 are £7,205k (31 March 2019 £7,032k) an increase of £173k.

Q3 Forecast for 2019-20

20. The forecast result before unrealised gains for the financial year to 31 March 2020 has improved from a deficit of £1,294k to a deficit of £723k - a £571k improvement. The overall income remains unchanged.
21. Total expenditure (including project expenditure) in the Q3 forecast is £10,346k which is £245k favourable to the Q2 forecast. The key drivers are:
- CEO - contingency is being released to offset external legal advice
 - Case progression - capped expert witness costs and slight overestimates of case examiner costs account for savings of £37k
 - IT shows a net saving of £51k across the department and the project
 - Progress is slower than initial plans projected, and some work will carry over into 2020-21
 - Work required for the ESR and CET projects has been reassessed resulting in lower forecasts

22. The key risks to achieving, or bettering the forecast are legal costs, including external advisory costs within case progression.

Three-year projection

23. The revisions to year 2 (2020-21) will be covered in detail within the budget paper.
24. The GOC continues to track towards a surplus in year three. The latest projection for year three is a surplus of £680k, creating scope for new projects in the out years, as discussed previously with Council.
25. Annexes one and two are graphs showing the improving future reserves position at each iteration of financial review since November 2018. These show that we are now projecting total reserves as at 31 March 2022 (accounting for modest portfolio gains) of £7,123k.

Risks

26. The following risks are associated with the issue, as identified in the corporate risk register.
- The GOC fails to deliver value for money.
 - The GOC is unable to deliver its strategic plans, programme of change, and business as usual either sufficiently quickly or effectively.
27. Reporting and monitoring financial performance against budgets and forecasts is a fundamental process in delivering this strategic objective.

Equality Impacts

28. No equality impact has been undertaken.

Devolved nations

29. There are no implications for the devolved nations.

Communications

External

30. None planned

Internal

31. The financial reports are shared with the Leadership Team as part of the regular financial reporting process.

Attachments

Annex one: Graph of Forecast Annual Reserves before Portfolio Gains.

Annex two: Graph of Forecast Annual Reserves after Portfolio Gains

Annex three: Financial performance report for nine months to 31 December 2019.

Annex four: Q3 Forecast Report for 12 months to 31 March 2020

Annex five: Three-year forecast report