

Council, 26 March 2014

Finance Report

Executive summary and recommendations

**Introduction**

The report sets out the main activities of the Finance Department since the last meeting of Council. It includes statistical information and highlights key work undertaken.

**Decision**

The Council is asked to discuss the report.

**Resource implications**

The resources for the Department are set out in the annual workplan and budget 2013-14.

**Financial implications**

None

**Appendices**

Finance Report

**Date of Paper**

17 March 2014

**Finance Department Report and  
Management Information Pack**

Andy Gillies, Finance Director

March 2014

## **1. Core processes**

Since the last Council Meeting, the Finance Department has produced the January and February management accounts. The February management accounts are attached. The budget for financial year 2014-15 has been completed and is included on the Council's agenda. There have been no significant issues with payments to staff or suppliers.

## **2. Projects**

The NetRegulate Changes 2013-14 project, which Finance sponsored, is on track to complete in April. The changes to the NetRegulate system went live in March.

## **3. Treasury**

At the end of February 2014, we had total cash and deposits of £14m, of which £5.5m was held in short term accounts at Lloyds and NatWest, earning up to 1.25%. The following have been invested for longer periods at fixed rates:

- £1.5m for 1 year with Santander, at 1.4%, maturing 11.07.14
- £1m for 6 months with Barclays, at 0.54%, maturing 21.07.14
- £1m for 9 months with Barclays, at 0.71%, maturing 20.10.14
- £1m for 12 months with Barclays, at 0.85%, maturing 20.01.15
- £2m for 12 months with NatWest, at 0.656%, maturing 20.01.15
- £2m for 12 months with Santander, at 1%, maturing 03.02.15

## **4. Procurement**

The legal services tender has been completed and the contract is in the process of being signed. We are currently progressing with procurement processes for printing services, recording and transcription services and the HR partners system. Preparation has started on the travel management tender.

## **5. Audits**

The National Audit Office carried out an interim audit on the 2013-14 accounts, and Mazars conducted an internal audit on partner expenses. Both audits were successful and the reports are on the agenda for the 20 March Audit Committee meeting.

## **6. Management Accounts for the 11 months ended 28 February 2014**

### **Income and expenditure**

The February management accounts show an operating surplus for the year to date of £2,142k. After depreciation and investment income, the surplus is £1,686k. Income is slightly ahead of budget (£23,031k actual income vs £22,656k budget) but the main cause of the surplus is a net underspend on the operating expenditure budget of £1,162k, of which £685k is in the Fitness to Practise department.

We have commissioned a professional revaluation of our freehold land and buildings as at 31 March 2014 for the purpose of the 2013-14 Annual Report and Accounts. Freehold land and buildings are stated in our accounts at market value for existing use. The draft report from the valuers indicates that there will be a loss on revaluation of around £700k to record in our accounts for the year ending 31 March 2014.

Therefore the final result for 2013-14, including income and expenditure for March, the loss on revaluation and other year end adjustments will be a surplus, and is likely to be in the range £0.5m to £1m. For the purpose of the 2014-15 budget, we have assumed a result for 2013-14 of £0.75m.

### **Balance sheet and cash flow**

The increase in the value of land and buildings is the payment of the £725k balance of the purchase price on 186 Kennington Park Road at the beginning of the financial year. The balance sheet at 28 February does not yet reflect the downward revaluation of land and buildings.

The increase in the value of intangible assets includes the capitalised cost of new systems developments under major projects.

The cash balance at the end of February was £13,964k, a decrease of £1,620k over the financial year so far. Deferred income was £13,582k, a decrease of £2,555k. Cash and deferred income balances are closely related. We receive cash in advance from registrants on renewal; we recognise the portion of the renewal fee that relates to the current financial year, and carry forward the portion that relates to the following financial year in deferred income, and in cash.

A net cash outflow in 2013-14, and the related reduction in the deferred income liability, is consistent with the two year renewal cycle and the (smaller in terms of numbers) professions renewing during 2013-14. The renewal cycle means that we expect a net cash inflow and an increase in the deferred income liability in 2014-15.

# **Management Accounts**

## **28 February 2014**

**Management Accounts  
February 2014  
Index**

<b>Variance analysis</b>	<b>3 and 4</b>
<b>Income and expenditure</b>	<b>5</b>
<b>Statement of financial position (balance sheet)</b>	<b>6</b>
<b>Capital expenditure and projects</b>	<b>7</b>
<b>Cash flow</b>	<b>8</b>
<b>Graphs</b>	<b>9</b>

## Commentary for Core Departments

### Income & Expenditure variance analysis for the 11 months ended 28 February 2014.

#### Income

Department	Movement YTD	Budget YTD	Variance	%	Reforecast - Month 6	Reforecast - Month 9	Comments
<b>Total Income</b>	23,031,094	22,656,436	(374,657)	2%	22,556,337	22,886,786	Income was £373k above budget for the year-to-period 11. Income is slightly ahead of both budget and reforecast overall. Shortfalls in Renewal fees (£359k) and Readmission fees (£105k) are offset by higher than budgeted International Scrutiny fees £378k and Graduate Registration £486k. By profession, main variances are Social Workers £384k and Practitioner Psychologists £74k ahead of budget offset by Paramedics (£85k) and OD Practitioners (£68k) behind budget.

#### Expenditure

Department	Movement YTD	Budget YTD	Variance	%			Comments on key variances
<b>Chair</b>	78,345	72,009	(6,336)	(9%)	69,784	82,462	(£6k) over budget, due to training costs (£4.6k) and Council Committee costs (£1.8k)
<b>Chief Executive</b>	387,654	346,699	(40,955)	(12%)	351,286	357,060	£24k Payroll savings: due to a reorganisation of support staff. (£59k) Professional fees overspends; on legal costs largely due to costs of constitution orders and DOH rehab of offenders as well as one-off costs for "FAST" Business Model review. (£9k) Overspends in Office Services largely due to one-off spends on office decoration
<b>Council</b>	210,227	215,160	4,933	2%	232,691	228,476	Underspend on Council/Committee fees and T&S offset by overspend vs budget for appointments
<b>Communications</b>	972,357	1,035,060	62,703	6%	999,716	990,720	£25k payroll savings: due to staff vacancies £16k underspends in office services; due to underspends within courier services. £13k underspends in travel and subsistence expected to reverse.
<b>Depreciation</b>	650,688	718,370	67,682	9%	650,688	650,688	Underspend reflects underspend on capital expenditure budget
<b>Education</b>	776,043	971,423	195,380	20%	907,206	799,734	£125k payroll savings: due to staff secondments to projects and backfill not utilised as well as new EO post not recruited to. £41k partner savings: underspend linked to lower number of visits than forecast. Unlikely to reverse so will produce a permanent saving. £10k travel and subsistence savings: underspend primarily linked to lower number of visits than forecast. Unlikely to reverse so will produce a permanent saving.
<b>Facilities Management</b>	1,389,805	1,331,964	(57,841)	(4%)	1,209,856	1,316,326	£158k spend in month includes £64k on office equipment <£1k, taking that line £110k over budget YTD. Cumulative variances: £15k payroll: savings on 1 additional FTE budgeted from 1 April (being covered by security staff) (£159k) office services: small equipment < £1k (£110k) due to furniture for 186 Kennington Park Road not meeting the capitalisation threshold; and higher than budgeted usage of stationary and other services (£21k) £102k property services: net underspend is due to successful valuation appeal re business rates £142k, overspends in building refurbishments of (£55k), underspends in cleaning to date of £30k and Power underspends of £26k offset by higher repairs (£15k) due to unbudgeted costs in 186 Kennington Park Rd and security (£11k) for security cover. (£23k) Stannery St: Unbudgeted legal fees (£7k) and higher than expected running costs (£16k)

## Expenditure

Department	Movement YTD	Budget YTD	Variance	%			Comments on key variances
Finance	733,154	657,070	(76,085)	(12%)	746,707	750,713	(£44k) Payroll: overspends due temporary staff covering Finance Director and Management Accountant roles. (£6k) Office services: unbudgeted cost of scanning invoices to disc. (£5k) Professional fees: overspend on taxation advice re Partner and Council member payments (£25k) Bank charges: overspend due to higher credit card charges
Fitness to Practise	10,563,960	11,249,637	685,676	6%	10,828,054	10,604,504	£32k payroll: YTD underspends. (£82k) Office services: higher than budgeted expenditure on room hire and catering, forecast to continue to year-end. £33k professional fees: lower hearings numbers will produce a permanent saving of circa £52k £61k department costs: mainly due to phasing on training although a £15k permanent saving is expected on training as well as £29k on legal insurance £10k small project cost: after minimal spend in first half year, projects are now active and the underspend is expected to reverse £640k partners: lower hearings numbers will produce a permanent saving, expected to be £223k.
Human Resources	570,433	468,338	(102,095)	(22%)	540,461	566,570	(£47k) payroll: overspend in recruitment costs expected to continue with high levels of activity. (£51k) professional fees : Legal expenses (£53k) offset by underspend in Employee Assistance Programme £8k (£5k) organisational training: Variance due to timing differences.
Human Resources Partners	328,226	395,307	67,080	17%	378,344	342,029	£60k partner costs: Lower than budgeted recruitment cost of partners, activity occurring later than planned. £7k other costs: £4k saving on legal costs budget and various small savings across other categories.
IT Department	1,341,380	1,287,359	(54,021)	(4%)	1,325,349	1,421,475	(£6k) payroll: Overspends in Payroll (£25k) small projects costs overspends (£9k) Staff training - Timing difference
Major Projects	155,604	121,181	(34,423)	(28%)	333,804	214,450	Costs incurred later than budgeted due to slower than expected start up of projects. Reprofiled project portfolio expected to produce operating spend of circa £157k lower than budget by year-end.
Operations Office	544,427	632,528	88,102	14%	546,652	543,273	£103k payroll: due to 2 project manager vacancies compared to budget £17k Small Projects: delay in starting projects, expected to reverse £24k training and subscriptions, £9k savings, remainder due to budget phasing (£51k) professional fees: unbudgeted legal fees for advice on operations issues
Policy	277,480	369,563	92,084	25%	321,728	321,185	£33k Payroll: savings due to staff secondment to DOH £30k Communications: lower costs than budgeted for Standards of Proficiency £29k other costs: small savings in several areas including travel, printing and training
Registration	2,307,955	2,261,901	(46,054)	(2%)	2,310,295	2,339,908	£11k Payroll: staff vacancies (£26k) Office services: timing differences on printing and stationary costs (£16k) Partners: higher costs of international registration assessors due to higher volumes
Secretariat	251,204	260,751	9,547	4%	249,201	257,838	(£4k) Payroll: Overspends due to increase in temporary staff costs offset by vacancies in establishment costs. £12k Professional Fees: Underspends on legal advice, expected to reverse.
Operating expenditure	21,538,944	22,394,320	855,376	4%	22,001,822	21,787,411	



## Income and Expenditure

Accounting Period

[Period 11 13-14](#)

Cost Centre Name

[All Cost Centres](#)

Department Name

[All Departments](#)

	Movement	Movement YTD	Budget YTD	Variance YTD	% Variance YTD
Graduate Registration fees	116,159	1,112,807	626,528	(486,279)	(78)
Readmission fees	17,480	179,175	284,166	104,991	37
Renewal fees	1,826,284	20,019,674	20,379,003	359,329	2
International scrutiny fees	93,240	873,340	495,305	(378,035)	(76)
Grandparenting fees	0	420	0	(420)	
UK scrutiny fees	36,850	843,987	871,435	27,448	3
<b>Registration Income</b>	<b>2,090,013</b>	<b>23,029,403</b>	<b>22,656,436</b>	<b>(372,967)</b>	<b>(2)</b>
Cheque/credit card write offs	(2)	1,691	0	(1,691)	
<b>Total Income</b>	<b>2,090,010</b>	<b>23,031,094</b>	<b>22,656,436</b>	<b>(374,657)</b>	<b>(2)</b>
Chair	5,345	78,345	72,009	(6,336)	(9)
Chief Executive	42,958	387,654	346,699	(40,955)	(12)
Council & Committee	21,126	210,227	215,160	4,933	2
Communications	85,719	972,357	1,035,060	62,703	6
Education	77,252	776,043	971,423	195,380	20
Facilities Management	169,090	1,389,805	1,331,964	(57,841)	(4)
Finance	70,598	733,154	657,070	(76,085)	(12)
Fitness to Practise	881,732	10,563,960	11,249,637	685,676	6
Human Resources	74,119	570,433	468,338	(102,095)	(22)
Human Resources Partners	28,180	328,226	395,307	67,080	17
IT Department	145,940	1,341,380	1,287,359	(54,021)	(4)
Major Projects	18,546	155,604	121,181	(34,423)	(28)
Operations Office	95,212	544,427	632,528	88,102	14
Policy	19,278	277,480	369,563	92,084	25
Registration	184,263	2,307,955	2,261,901	(46,054)	(2)
Secretariat	16,061	251,204	260,751	9,547	4
<b>Operating expenditure</b>	<b>1,935,418</b>	<b>20,888,256</b>	<b>21,675,950</b>	<b>787,694</b>	<b>4</b>
<b>Operating Surplus/(Deficit)</b>	<b>154,592</b>	<b>2,142,838</b>	<b>980,487</b>	<b>(1,162,351)</b>	<b>(119)</b>
<b>Depreciation</b>	<b>60,893</b>	<b>650,688</b>	<b>718,370</b>	<b>67,682</b>	<b>9</b>
Payroll costs for secondment to DOH	0	(6,244)	0	6,244	
Investment Income	4,199	187,158	0	(187,158)	
Impairment on Freehold land and buildings	0	0	0	0	
Impairment of Intangible Assets	0	0	0	0	
<b>Total surplus/(deficit)</b>	<b>97,899</b>	<b>1,685,552</b>	<b>262,117</b>	<b>(1,423,436)</b>	<b>(543)</b>

## Statement of Financial Position

Account by Category

[All Categories](#)

Accounting Period

[Period 11 13-14](#)

	Balance	Prior Year Balance To Close
<b>Non-Current Assets</b>		
Land & buildings, at cost or valuation	4,075,457	3,196,590
Land & Buildings Depreciation	(25,690)	(0)
	<u>4,049,767</u>	<u>3,196,590</u>
Computer Equipment, at cost	357,221	321,871
Computer equipment Depreciation	(280,639)	(247,291)
	<u>76,582</u>	<u>74,580</u>
Office furniture and equipment, at cost	352,008	245,798
Office Equipment Depreciation	(230,794)	(179,275)
	<u>121,214</u>	<u>66,524</u>
Intangible assets	5,280,521	4,731,600
Intangible Depreciation	(4,052,482)	(3,513,389)
	<u>1,228,039</u>	<u>1,218,211</u>
<b>Total Non-current Assets</b>	<u><b>5,475,602</b></u>	<u><b>4,555,905</b></u>
<b>Current Assets</b>		
Other current assets	497,433	542,581
Cash & Cash Equivalents	13,964,124	15,583,979
	<u>14,461,557</u>	<u>16,126,560</u>
<b>Total Assets</b>	<u><b>19,937,159</b></u>	<u><b>20,682,465</b></u>
<b>Current Liabilities</b>		
Trade and other payables	515,869	954,302
Other Liabilities	1,863,824	1,423,848
Deferred Income	13,582,216	16,137,527
	<u>15,961,909</u>	<u>18,515,677</u>
<b>Total Assets Less Liabilities</b>	<u><b>3,975,249</b></u>	<u><b>2,166,788</b></u>
General fund b/fwd	(2,166,788)	(1,920,740)
This Period's Profit/Loss	(1,685,552)	(7,649)
Grant Income	(122,909)	(238,399)
<b>Total</b>	<u><b>(3,975,249)</b></u>	<u><b>(2,166,788)</b></u>

## Management Accounts to 28 February 2014

### Summary of Capital Expenditure

	Actual YTD £	Budget 2013/14 YTD £	Variance £	Budget 2013/14 Full Year £
<b>Property</b>				
Purchase of Whitefield House - 186 Kennington	725,000	725,000	-	725,000
Project 186 Kennington (not allocated)	3,405		(3,405)	
	<b>728,405</b>	<b>725,000</b>	<b>(3,405)</b>	<b>725,000</b>
<b>Office Equipment</b>				
Coffee machines	9,840	9,840	-	14,000
Installation Air Condition Stannary Street	77,383	77,383	(0)	100,000
Franking machine	16,141	16,141	(0)	
CCTV	-	-	0	10,000
Access Control Whitefield House	2,845	2,845	(0)	10,000
Cable	-	9,333	9,333	14,000
	<b>106,210</b>	<b>115,542</b>	<b>9,332</b>	<b>148,000</b>
<b>Information Technology</b>				
Software Licences	139,800	97,099	(42,701)	97,099
Hardware replacement (servers, switches & drives)	36,387	195,510	159,123	92,000
Hardware new services & starters	-		0	103,510
	<b>176,187</b>	<b>292,609</b>	<b>116,422</b>	<b>292,609</b>
	<b>559,583</b>	<b>648,390</b>	<b>88,807</b>	<b>1,152,129</b>
<b>Total Capital Expenditure</b>	<b>1,570,385</b>	<b>1,781,541</b>	<b>211,156</b>	<b>2,317,738</b>

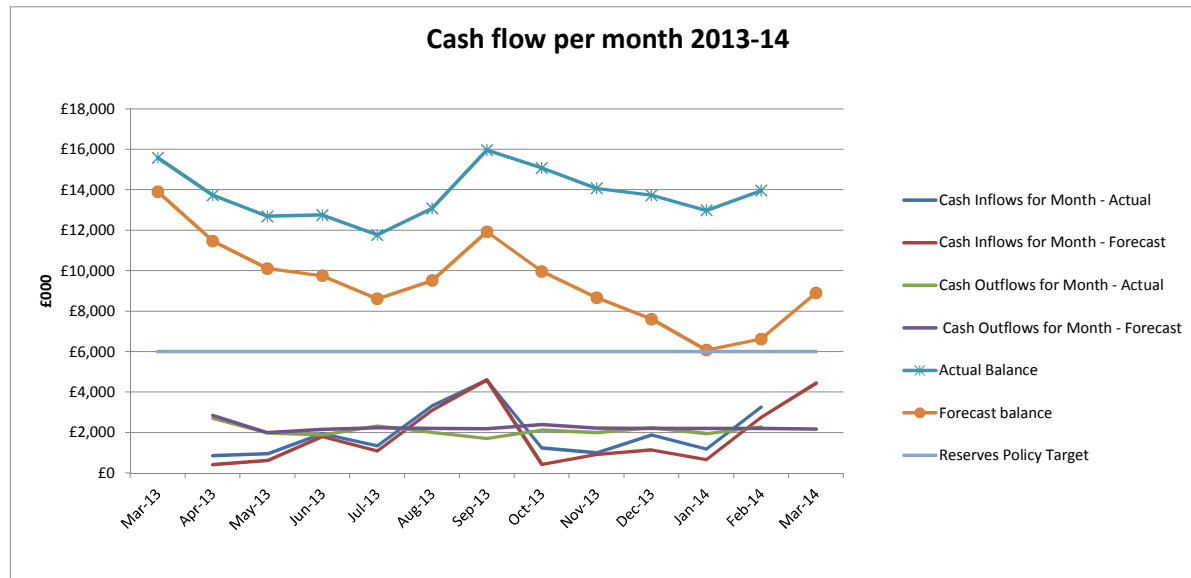
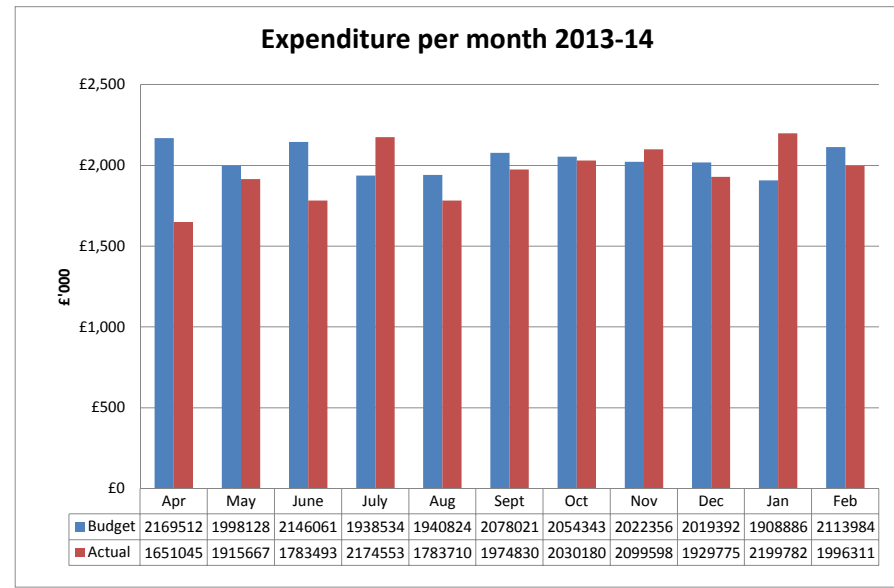
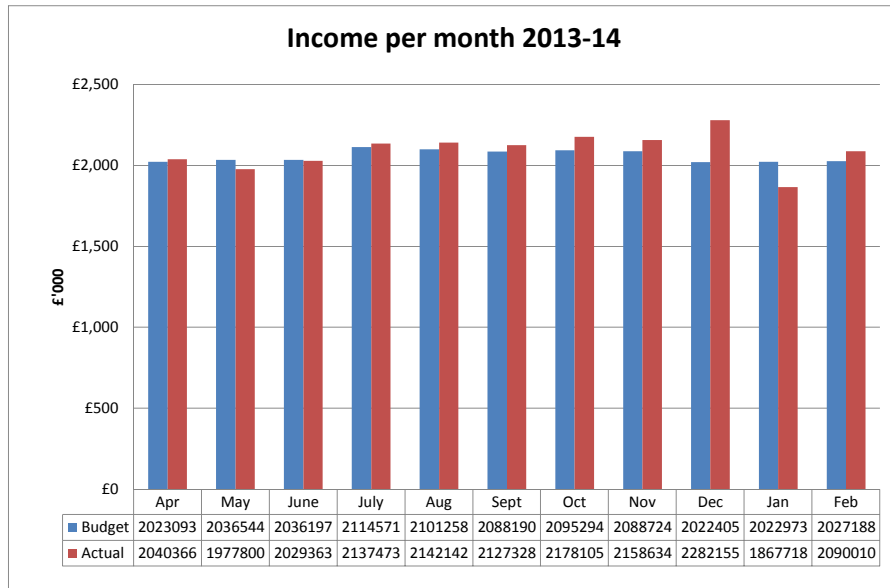
### Summary of Project Expenditure

	Actual £ YTD	Budget 2013/14 £ YTD	Variance £	Budget 2013/14 £
<b>Capital expenditure</b>				
MP63 HR & Partners System & Process Review Phase 1	49,824	50,374	550	52,940
MP64 Education System Build Project	176,705	253,539	76,834	129,835
MP67 NetRegulate Changes 2013	146,988	150,800	3,812	140,000
MP68 Annotation of the register	22,140	22,140	0	24,840
MP69 Computer Software	10,656	10,136		
MP70 Project 186 Kennington	150,461	158,593	8,132	944,316
MP71 Fees Review	2,808	2,808	(0)	2,300
	<b>559,583</b>	<b>648,390</b>	<b>89,328</b>	<b>1,294,231</b>

**Management Accounts to 28 February 2014****Cash Flow Statement****From 1st April 2013**

	<b>Forecast</b>	<b>Actual</b>
	£	£
Operating Surplus/(Deficit) (excl depreciation)	980,487	2,142,838
Payroll costs for secondment to DOH		6,244
Decrease/(increase) in debtors & prepayments	119,810	45,148
Increase/(decrease) in creditors		1,543
(Decrease)/increase in deferred income	<b>(5,129,436 )</b>	<b>(2,555,311 )</b>
<b>Net cash in/(out)flow from operating activities</b>	<b><u>(4,029,140 )</u></b>	<b><u>(359,538 )</u></b>
<b>Return on investments and servicing of finance</b>		
Investment Income		187,158
<b>Capital expenditure and financial investments</b>		
Purchase of tangible and intangible assets	<b>(1,261,788 )</b>	<b>(1,570,385 )</b>
<b>Financing</b>		
Income from DOH		122,909
<b>Increase/(decrease) in cash</b>	<b><u>(5,290,928 )</u></b>	<b><u>(1,619,855 )</u></b>
Cash at 1 April 2013	13,905,000	15,583,979
Cash at 28 February 2014	8,614,072	13,964,124
<b>Cash movement</b>	<b><u>(5,290,928 )</u></b>	<b><u>(1,619,855 )</u></b>

**Management Accounts to 28 February 2014**  
**Graphs**



At 28 February, the cash balance is £7.3m more than originally forecast. The 2013-14 forecast was prepared in March 2013 and the opening balance in the forecast was £1.7m less than the actual balance at 1 April 2013. Although the pattern of income from registrants was accurately predicted, the amounts that would be received were under-estimated by £4m - this is the gap between the blue line (actual receipts) and the red line (forecast receipts) at the bottom of the chart.