

Council 14 May 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.

### **Background information**

None

### **Resource implications**

The resources for the Department are set out in the annual workplan and budget 2014-15.

### **Financial implications**

None

### **Appendices**

Finance Report

**Finance Department Report and  
Management Information Pack**  
Andy Gillies, Finance Director  
May 2014

## 1. Core processes

Since the last Council Meeting, the Finance Department has produced the March management accounts, which are attached, and is preparing the draft 2013-14 Annual Report and Accounts, which will be approved at the Council's July meeting. April's management accounts (Month 1 of 2014-15) will not be complete in time for inclusion with the May Council papers but an oral update can be given at the meeting. There have been no significant issues with payments to staff or suppliers.

## 2. Projects

The changes to the NetRegulate system went live in March, but final closure of the NetRegulate Changes 2013-14 project has been delayed till May due to an issue with the Professional Indemnity project. The Finance Systems Upgrade project (Sage and PRS) is entering the start up phase and the Direct Debit review project will shortly begin initiating.

## 3. Treasury

At the end of April 2014, we had total cash and deposits of £14.5m, of which £3.5m 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:

<b>Bank</b>	<b>Deposit amount £m</b>	<b>Term Months</b>	<b>Maturity date</b>	<b>Interest rate %</b>
Santander	1.5	12	11 July 2014	1.40
Barclays	1.0	6	21 July 2014	0.54
Barclays	1.0	9	20 October 2014	0.71
Barclays	1.0	12	20 January 2015	0.85
NatWest	2.0	12	20 January 2015	0.656
Santander	2.0	12	3 February 2015	1.00
Lloyds	2.5	12	1 April 2015	1.10

All of the banks we use meet the minimum credit rating in the proposed revision of the investment policy.

#### **4. Procurement**

The legal services tender was signed in March and commenced on 1 April. We are currently progressing with procurement processes for secure printing services, recording and transcription services and the HR partners system. The tender for the M&E consultant for the 186 KPR project is being re-run following an unsatisfactory response to the first tender. Preparation has started on the travel management tender. EMT will discuss our experience of applying European Union procurement rules in May.

#### **5. Audits**

The National Audit Office's final audit of the 2013-14 accounts starts on 19 May.

#### **6. Management Accounts for the year ended 31 March 2014**

##### **Income and expenditure**

The month 12 management accounts show an operating surplus for the year of £2,170k. After depreciation, the impairment charge on freehold land and buildings, and investment income, the surplus is £725k. Income was slightly ahead of budget (£25,151k actual income vs £24,708k budget) but the main cause of the surplus as noted in previous reports was the net underspend on the operating expenditure budget of £1,430k, of which £701k is in the Fitness to Practise department.

The impairment charge of £882k is based on 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, explained below.

**Balance sheet and cash flow**

Freehold land and buildings are stated in our accounts at market value for existing use. That is not the same as open market value and reflects the current configuration of our buildings for use as hearings rooms, as well as more conventional office space. The calculation of the impairment charge is summarised below.

	<b>Park House + Stannary Street £000</b>	<b>186 Kennington Park Road £000</b>	<b>Total £000</b>
Book value at 1 April 2013 (Park House + Stannary St was valuation as at 31/3/13; 186 KPR was at cost paid up to 31/3/13)	2,100	1,097	3,197
Capital expenditure in 2013-14			
Balance of purchase price on 186 KPR		725	725
Other	3	170	173
Depreciation charged in 2013-14	(28)	-	(28)
Sub-total: book value before revaluation	2,075	1,992	4,067
Revaluation at 31 March 2014	1,950	1,235	3,185
<b>Therefore impairment required</b>	<b>(125)</b>	<b>(757)</b>	<b>(882)</b>

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

The cash balance at the year end was £16,038k, an increase of £454k over the financial year, and a net inflow of £2,074k in the month of March. Physiotherapists were in renewal during March contributing to receipts of £4,467k in the month. Deferred income at the year end was £15,815k, an decrease of £323k over the year but an increase of £1,963k in the month of March. 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.

As noted in last month's report, the cash flow forecast for 2013-14 contained errors, so the originally forecast cash outflow of £4,996k is not a useful benchmark.

# **Management Accounts**

## **31 March 2014**

Andy Gillies, Finance Director  
to EMT

**Management Accounts**  
**March 2014**  
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Commentary for Core Departments  
Income & Expenditure YTD Mar 2014.

Income

Department	Movement YTD	Budget YTD	Variance	%	Reforecast - Month 6	Reforecast - Month 9	Comments on key variances
<b>Total Income</b>	25,151,404	24,707,676	443,728	2%	24,765,935	24,967,405	Income is slightly ahead of both budget and reforecast overall. Shortfalls in Renewal fees (£374k) and Readmission fees (£112k) are offset by higher than budgeted International Scrutiny fees £407k and Graduate Registration fees £572k. By profession, main variances are Social Workers £436k and Practitioner Psychologists £85k ahead of budget offset by Paramedics (£89k) and OD Practitioners (£71k) behind budget.

Expenditure

Department	Movement YTD	Budget YTD	Variance	%	Reforecast - Month 6	Reforecast - Month 9	Comments on key variances
<b>Chair</b>	90,296	78,833	(11,463)	(15%)	77,374	90,052	(£11k) over budget, due to training costs (£4.6k) and Council Committee costs (£7k)
<b>Chief Executive</b>	426,584	377,444	(49,140)	(13%)	379,212	380,543	£23k Payroll savings: due to a reorganisation of support staff. (£68k) 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 maintenance.
<b>Council</b>	230,363	251,528	21,165	8%	255,031	250,816	£44k under budget on Council members' fees and T&S, offset by (£23k) overspend on appointments costs.
<b>Communications</b>	1,105,920	1,144,901	38,981	3%	1,113,243	1,111,350	£24k payroll savings: due to staff vacancies £14k underspends in office services; due to underspends within courier services. £13k underspends in travel and subsistence expected to reverse. (£18k) Overspends in communications; largely due to overspends in public affairs & stakeholder, campaigns and the Web.
<b>Education</b>	873,887	1,068,533	194,646	18%	1,035,190	918,447	£130k Payroll savings: staff seconded to projects and backfill not utilised & 1 new EO post not recruited to. £30k Partners savings: underspends particularly on Approvals due to removal of third visitor from social worker visits in Q3 & Q4, and savings on travel and accomodation. £15k Travel & Subsistence: Underspends linked to savings on travel and accomodation related approval visits.
<b>Facilities Management</b>	1,495,281	1,453,051	(42,230)	(3%)	1,314,394	1,409,061	£16k payroll savings: 1 FTE vacancy, covered by security staff (£142k) overspend on office services: small equipment < £1k (£107k) due to furniture for 186 Kennington Park Road not meeting the capitalisation threshold; and higher than budgeted usage of stationery and other services (£20k) £148k underspend on business rates due to successful valuation appeal re business rates (£63k) overspend on building refurbishment
<b>Finance</b>	812,510	715,748	(96,761)	(14%)	811,944	815,822	(£55k) Payroll: overspends due temporary staff covering Finance Director and Management Accountant roles. (£5k) Office services: unbudgeted cost of scanning invoices to disc. (£9k) Professional fees: overspend on taxation advice re Partner and Council member payments (£33k) Bank charges: overspend due to higher credit card charges
<b>Fitness to Practise</b>	11,567,448	12,268,125	700,677	6%	11,991,838	11,755,855	Payroll on budget for the year. (£83k) overspend on office services: higher than budgeted expenditure on room hire and catering. £762k net underspend on partners, of which approx £100k is due to a rationalisation of FTP accruals. Rest of underspend is due lower hearings numbers



## Expenditure

Department	Movement YTD	Budget YTD	Variance	%	Reforecast - Month 6	Reforecast - Month 9	Comments on key variances
Human Resources	656,219	509,187	(147,032)	(29%)	611,498	627,250	<b>(£82k)</b> overspend on payroll: <b>(£48k)</b> overspend in recruitment costs, plus costs of maternity cover within HR team. <b>(£57k)</b> overspend on professional fees: Legal expenses <b>(£55k)</b> offset by underspend in Employee Assistance Programme <b>£9k</b> <b>(£10k)</b> overspend on organisational training
Human Resources Partners	344,723	430,768	86,045	20%	410,705	376,629	<b>£74k</b> underspend on partner costs: Lower than budgeted recruitment cost of partners. <b>£12k</b> other costs: £5k saving on legal costs budget and various small savings across other categories.
IT Department	1,465,569	1,418,367	(47,202)	(3%)	1,447,275	1,555,356	<b>(£14k)</b> overspends in Payroll <b>(£16k)</b> small projects costs overspends <b>(£9k)</b> overspend on staff training
Major Projects	186,350	420,634	234,284	56%	396,534	263,369	Costs incurred later than budgeted due to slower than expected start up of projects.
Operations Office	592,312	685,622	93,310	14%	602,591	599,112	<b>£128k</b> payroll: due to 2 vacancies compared to budget (Personal Assistant and Business Analyst). <b>£17k</b> Small Projects: delay in starting projects. Specific Department Costs :Underspends <b>£22k</b> . <b>£15k</b> training and <b>£8k</b> subscriptions <b>(£70k)</b> professional fees: unbudgeted legal fees for advice on registration issues
Policy	314,728	398,177	83,449	21%	367,627	367,083	<b>£34k</b> Payroll: savings due to staff secondment to DOH and delayed recruitment <b>£21k</b> Communications: lower costs than budgeted for Standards of Proficiency <b>£28k</b> other costs: small savings in several areas including travel, printing and training
Registration	2,543,933	2,460,640	(83,292)	(3%)	2,542,866	2,581,890	<b>(£82k)</b> overspend on printing <b>£43k</b> underspend on postage <b>(£26k)</b> overspend on Partners: higher costs of international registration assessors due to higher volumes
Secretariat	275,011	285,519	10,508	4%	273,340	281,979	<b>£14k</b> Professional Fees: Due to underspends on legal advice.
	<b>22,981,135</b>	<b>23,967,078</b>	<b>985,944</b>	<b>4%</b>	<b>23,630,662</b>	<b>23,384,614</b>	
Depreciation	719,176	885,000	165,824	19%	885,000	885,000	Underspend is a consequence of capital budget underspend.

## Income and Expenditure

Accounting Period

[Period 12 13-14](#)

Cost Centre Name

[All Cost Centres](#)

Department Name

[All Departments](#)

	Period Movement	Movement YTD	Budget YTD	Variance YTD	% Variance YTD
Graduate Registration fees	116,874	1,229,681	657,709	571,972	87
Readmission fees	19,205	198,380	310,000	(111,620)	(36)
Renewal fees	1,829,334	21,849,008	22,223,305	(374,297)	(2)
International scrutiny fees	100,800	974,140	567,000	407,140	72
Grandparenting fees	0	420	0	420	
UK scrutiny fees	45,050	889,037	949,662	(60,625)	(6)
<b>Registration Income</b>	<b>2,111,262</b>	<b>25,140,666</b>	<b>24,707,676</b>	<b>432,990</b>	<b>2</b>
Cheque/credit card write offs	9,047	10,738	0	10,738	
<b>Total Income</b>	<b>2,120,310</b>	<b>25,151,404</b>	<b>24,707,676</b>	<b>443,728</b>	<b>2</b>
Chair	11,951	90,296	78,833	(11,463)	(15)
Chief Executive	38,930	426,584	377,444	(49,140)	(13)
Council & Committee	20,136	230,363	251,528	21,165	8
Communications	133,563	1,105,920	1,144,901	38,981	3
Education	97,844	873,887	1,068,533	194,646	18
Facilities Management	105,475	1,495,281	1,453,051	(42,230)	(3)
Finance	79,355	812,510	715,748	(96,761)	(14)
Fitness to Practise	1,003,488	11,567,448	12,268,125	700,677	6
Human Resources	85,786	656,219	509,187	(147,032)	(29)
Human Resources Partners	16,497	344,723	430,768	86,045	20
IT Department	124,189	1,465,569	1,418,367	(47,202)	(3)
Major Projects	30,747	186,350	420,634	234,284	56
Operations Office	47,885	592,312	685,622	93,310	14
Policy	37,248	314,728	398,177	83,449	21
Registration	235,977	2,543,933	2,460,640	(83,292)	(3)
Secretariat	23,807	275,011	285,519	10,508	4
<b>Operating expenditure</b>	<b>2,092,878</b>	<b>22,981,135</b>	<b>23,967,078</b>	<b>985,944</b>	<b>4</b>
<b>Operating Surplus/(Deficit)</b>	<b>27,432</b>	<b>2,170,269</b>	<b>740,598</b>	<b>1,429,671</b>	<b>193</b>
Depreciation	68,488	719,176	885,000	165,824	19
Payroll costs for secondment to DOH	0	(6,244)	0	6,244	
Investment Income	(33,065)	(220,224)	0	220,224	
Impairment on freehold land and buildings	881,836	881,836	0	(881,836)	
Impairment of intangible assets	43,649	43,649	0	(43,649)	
Corporation Tax	26,849	26,849	0	(26,849)	
<b>Total surplus/(deficit)</b>	<b>(960,325)</b>	<b>725,227</b>	<b>(144,402)</b>	<b>869,629</b>	

## Operating expenditure split between payroll and non-payroll costs

Accounting Period [Period 12 13-14](#)  
 Cost Centre Name [All Cost Centres](#)  
 Department Name [All Departments](#)

	Total movement in period	Payroll costs				Non-payroll costs				Total costs			
		Movement YTD	Budget YTD	Variance YTD	Variance % YTD	Movement YTD	Budget YTD	Variance YTD	Variance % YTD	Movement YTD	Budget YTD	Variance YTD	Variance % YTD
Chair	11,951					90,296	78,833	(11,463)	(15)	90,296	78,833	(11,463)	(15)
Chief Executive	38,930	253,139	276,230	23,091	8	173,445	101,214	(72,231)	(61)	426,584	377,444	(49,141)	(13)
Council & Committee	20,136					230,363	251,528	21,165	8	230,363	251,528	21,165	8
Communications	133,563	502,675	526,301	23,626	4	603,245	618,600	15,355	2	1,105,920	1,144,901	38,981	3
Education	97,844	633,467	763,901	130,434	17	240,420	304,632	64,213	21	873,887	1,068,533	194,646	18
Facilities Management	105,475	200,837	216,351	15,515	7	1,294,444	1,236,700	(57,744)	(6)	1,495,281	1,453,051	(42,229)	(3)
Finance	79,355	538,204	483,365	(54,839)	(11)	274,305	232,383	(41,922)	(18)	812,510	715,748	(96,761)	(14)
Fitness to Practise	1,003,488	2,888,435	2,888,526	91	0	8,679,014	9,379,599	700,585	8	11,567,449	12,268,125	700,676	6
Human Resources	85,786	425,634	344,077	(81,557)	(24)	230,586	165,110	(65,476)	(40)	656,219	509,187	(147,032)	(29)
Human Resources Partners	16,497	120,791	121,037	246	0	223,932	309,730	85,798	25	344,723	430,768	86,045	20
IT Department	124,189	500,433	486,922	(13,511)	(3)	965,136	931,445	(33,691)	(4)	1,465,569	1,418,367	(47,202)	(3)
Major Projects	30,747					186,350	420,634	234,284	56	186,350	420,634	234,284	56
Operations Office	47,885	432,189	560,432	128,243	23	160,123	125,190	(34,933)	(22)	592,312	685,622	93,310	14
Policy	37,248	219,787	254,235	34,449	14	94,941	143,942	49,000	34	314,728	398,177	83,449	21
Registration	235,977	1,410,423	1,411,264	841	0	1,133,509	1,049,376	(84,133)	(8)	2,543,933	2,460,640	(83,292)	(3)
Secretariat	23,807	223,125	216,094	(7,031)	(3)	51,886	69,425	17,539	25	275,011	285,519	10,508	4
<b>Operating expenditure</b>	<b>2,092,878</b>	<b>8,349,139</b>	<b>8,548,736</b>	<b>199,597</b>	<b>2</b>	<b>14,621,269</b>	<b>15,418,342</b>	<b>797,073</b>	<b>5</b>	<b>22,981,136</b>	<b>23,967,078</b>	<b>985,943</b>	<b>4</b>

## Statement of Financial Position

Account by Category

[All Categories](#)

Accounting Period

[Period 12 13-14](#)

	Balance	Prior Year Balance To Close
<b>Non-current assets</b>		
Land & buildings, at cost or valuation	3,185,000	3,196,590
Land & buildings depreciation	(0)	(0)
	<u>3,185,000</u>	<u>3,196,590</u>
Computer equipment, at cost	465,457	321,871
Computer equipment depreciation	(287,164)	(247,291)
	<u>178,293</u>	<u>74,580</u>
Office furniture and equipment, at cost	357,891	245,798
Office equipment depreciation	(230,957)	(179,275)
	<u>126,933</u>	<u>66,524</u>
Intangible assets	5,363,658	4,731,600
Intangible depreciation	(4,106,773)	(3,513,389)
	<u>1,256,885</u>	<u>1,218,211</u>
<b>Total non-current assets</b>	<u>4,747,111</u>	<u>4,555,905</u>
<b>Current assets</b>		
Other current assets	618,960	542,581
Cash & cash equivalents	16,038,062	15,583,979
	<u>16,657,022</u>	<u>16,126,560</u>
<b>Total assets</b>	<u>21,404,133</u>	<u>20,682,465</u>
<b>Current liabilities</b>		
Trade and other payables	806,716	954,302
Other liabilities	1,767,589	1,423,848
Deferred income	15,814,904	16,137,527
	<u>18,389,209</u>	<u>18,515,677</u>
<b>Total assets less liabilities</b>	<u>3,014,924</u>	<u>2,166,788</u>
General fund b/fwd	(2,166,788)	(1,920,740)
This period (surplus)/deficit	(725,227)	(7,649)
Grant income	(122,909)	(238,399)
<b>General fund c/fwd</b>	<u>(3,014,924)</u>	<u>(2,166,788)</u>

**Management Accounts to 31 March 2014**  
**Summary of Capital Expenditure**

Property

Purchase of Whitefield House - 186 Kennington  
 184 Kennington Park Road

Actual YTD £	Budget 2013/14 YTD £	Variance £
725,000	725,000	-
3,405		(3,405)
<b>728,405</b>	<b>725,000</b>	<b>(3,405)</b>

Office Equipment

Coffee machines  
 Installation Air Condition Stannary Street  
 Franking machine  
 CCTV  
 Access Control Whitefield House  
 Cable

20,892	14,000	(6,892)
77,383	100,000	22,617
16,141	-	(16,141)
-	10,000	10,000
2,845	10,000	7,155
-	14,000	14,000
<b>117,261</b>	<b>148,000</b>	<b>30,739</b>

Information Technology

Software Licences  
 Hardware replacement (servers, switches & drives)  
 Hardware new services & starters

150,163	97,099	(53,064)
144,624	92,000	(52,624)
-	103,510	103,510
<b>294,787</b>	<b>292,609</b>	<b>(2,178)</b>

Major Projects

<b>695,611</b>	<b>1,152,129</b>	<b>456,518</b>
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Consultancy - Design Building Purchase

-	<b>880,000</b>	<b>880,000</b>
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**Total Capital Expenditure**

<b>1,836,065</b>	<b>3,197,738</b>	<b>1,376,316</b>
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**Summary of Project Expenditure**

**Capital expenditure**

MP63 HR & Partners System & Process Review Phase 1  
 MP64 Education System Build Project  
 MP67 NetRegulate Changes 2013  
 MP68 Annotation of the register  
 MP69 Computer Software  
 MP70 Project 186 Kennington  
 MP71 Fees Review  
 Other Other projects, budgeted but not initiated

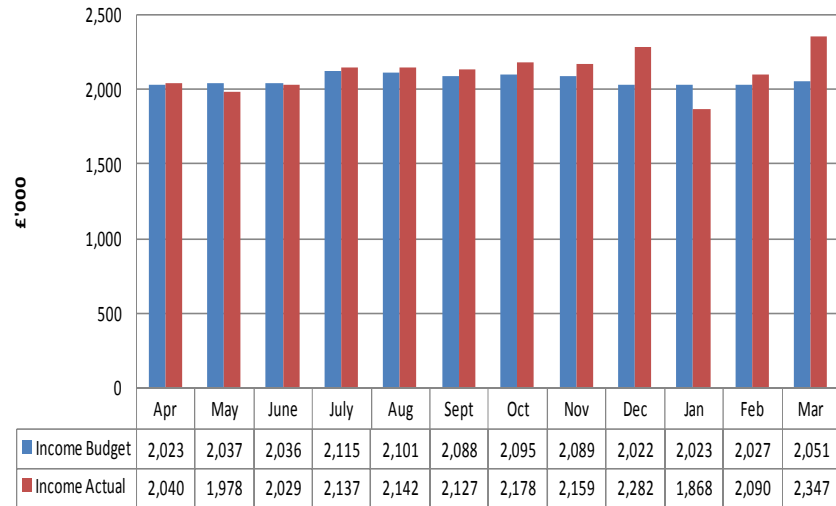
Actual £ YTD	Budget 2013/14 £ YTD	Variance £
51,000	36,888	(14,112)
270,628	526,213	255,585
158,916	45,000	(113,916)
22,140	10,000	(12,140)
20,052	-	(20,052)
170,067	100,000	(70,067)
2,808	-	(2,808)
	434,028	434,028
<b>695,611</b>	<b>1,152,129</b>	<b>456,518</b>

**Management Accounts to 31st March 2014****Cash Flow Statement****From 1st April 2013**

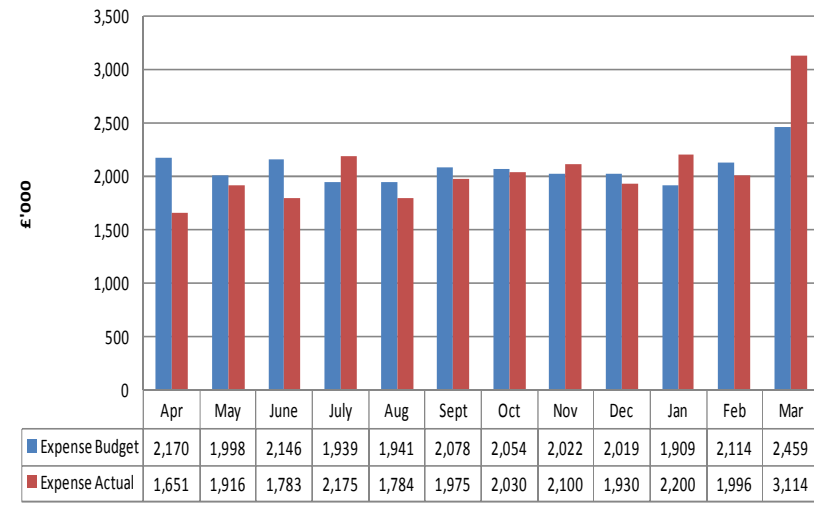
	<b>Forecast</b>	<b>Actual</b>
	<b>£</b>	<b>£</b>
Operating surplus/(deficit)	740,598	2,170,269
Payroll costs for secondment to DOH		6,244
Decrease/(increase) in debtors & prepayments		<b>(76,379 )</b>
Increase/(decrease) in creditors	408,000	196,352
(Decrease)/increase in deferred income	<b>(3,959,803 )</b>	<b>(322,623 )</b>
<b>Net cash in/(out)flow from operating activities</b>	<b><u>(2,811,205 )</u></b>	<b><u>1,973,864</u></b>
<b>Return on investments and servicing of finance</b>		
Investment Income		220,224
<b>Taxation</b>		<b>(26,849 )</b>
<b>Capital expenditure and financial investments</b>		
Purchase of tangible assets	<b>(2,185,000 )</b>	<b>(1,836,065 )</b>
<b>Financing</b>		
Income from DOH		122,909
<b>Increase/(decrease) in cash</b>	<b><u>(4,996,205 )</u></b>	<b><u>454,083</u></b>
Cash at 31 March 2013	13,905,000	15,583,979
Cash at 31 March 2014	8,908,795	16,038,062
<b>Cash movement</b>	<b><u>(4,996,205 )</u></b>	<b><u>454,083</u></b>

Management Accounts to 31 March 2014  
Graphs

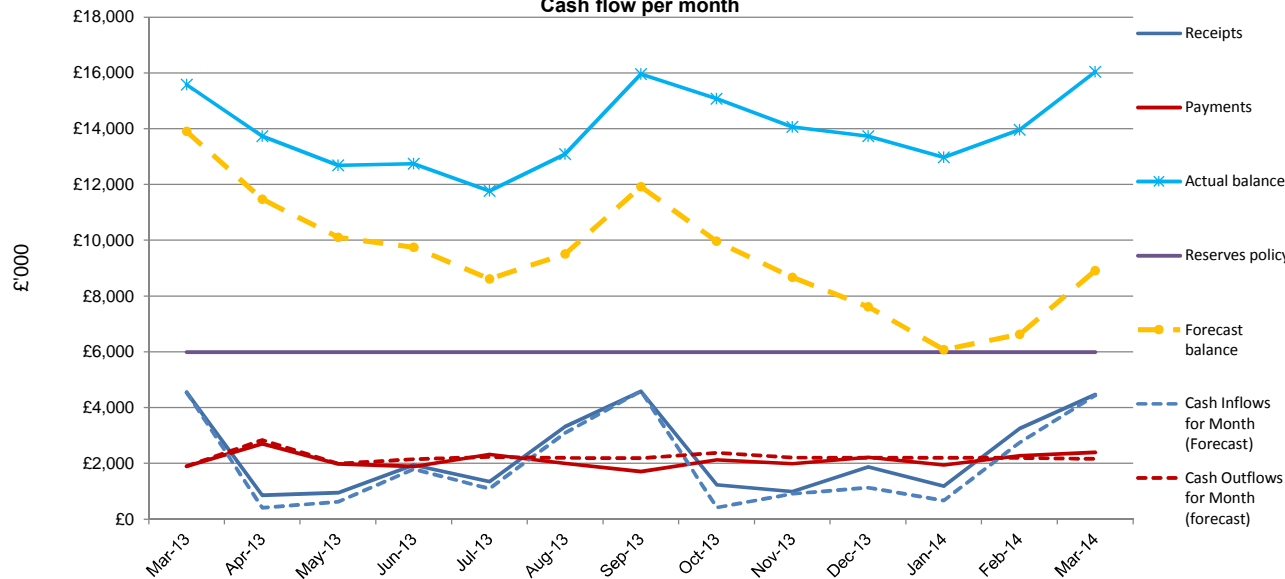
HCPC Income Per Month



HCPC Expenditure Per Month



Cash flow per month



At 31 March, the cash balance is £7.1m 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 cumulative area between the solid blue line (actual receipts) and the dashed blue line (forecast receipts) at the bottom of the chart