



## **Vice-Chair Finance**

**AGM 05-17**

### **REPORT TO AGM, 2017**

**By Chris Pearson**

#### **1. Introduction**

This will be my last year in the role of Vice-Chair Finance and it is my responsibility to present to Conference Napo's Annual Accounts for the financial year ended 31 December 2016; the detailed figures are set out on pages 32 to 47 of the Annual Report.

I wish I could report that the year had been an improvement on 2015 in terms of income, unfortunately this wasn't the case. Income from subscriptions was significantly lower in 2016 at £1,153,712, we received £592,031 less than in 2015 this is about one-third lower than the previous year!

The fallout from the elimination of subscription 'check-off' in the NPS, together with redundancies across the CRCs, was mostly responsible for the decline in membership which continued throughout much of the year. The one bright spot was that membership in the Family Court Section was fairly stable. The union haemorrhaged nearly one-quarter of its total probation membership over the course of 2016!

Significant steps were taken at the beginning of the year to rein in expenditure. It is credit to Officers, all staff and members that variable costs were constrained during 2016 with overall expenditure £187,766 lower than 2015. Total expenditure in 2016 was £1,446,203.

However, AGM should be aware that even this prudent approach still resulted in an overall shortfall at the end of 2016 amounting to £227,268. It should be obvious to anyone reading the accounts that our union cannot operate for too many years without significantly improving membership income or pruning expenditure further, or both!

## **2. Income in 2016**

Income from member subscriptions in 2016 was £592,031 lower than in 2015. Other income was also down on 2015, by £6,226 as a result of continuing low interest rates.

Over the course of the year Napo received £55,328 from Welsh TUC Learning project which is directly overseen by Union Officers, the Project Manager and the Finance Officer. The same amount was expended on this project during 2016.

Total income for 2016 was £598,257 lower than 2015 receipts of £1,763,527, which was itself a one-tenth drop on the year before.

Steps have been taken in the current year to improve income from deposits accounts, but reducing balances will impact on the interest received.

AGM should be under no illusion that this trend of reducing income is continuing in 2017, albeit at a lesser rate.

## **3. Expenditure in 2016**

From the outset expenditure in 2016 was curtailed. The NEC rejected the initial budget at its meeting in late 2015 and further work was undertaken by the Finance sub-committee. A revised budget was submitted to NEC in early 2016 and approved after the lengthiest financial debate I have seen at NEC. The result of this scrutiny can be seen in a detailed comparison of the 2016 and 2015 accounts.

Staff salaries in 2016 amounted to £790,072 which was £52,163 lower than the £842,235 spent in 2015. This was primarily the result of the retirement of a National Official, coupled with the decision to not recruit a replacement, as well as the maternity leave of a staff member.

Staff recruitment and training expenses were also contained during the year down by £15,265. This was the consequence of tightened procedures and changed practices.

Operating costs were lower overall than the previous year. At £195,357 these were over one-tenth less than in 2015. There were some exceptional expenses related specifically to relocation from Chivalry Road to Falcon Road at the very end of the year, amounting to £11,552. These are identifiable in the accounts with telephone costs particularly increased due to the need to completely replace the antiquated system at Napo's old office.

Committee, conference and affiliation expenditure was again lower than in the previous year by £32,767. This was achieved through a reduced budget for conferences and lower expenditure on committee meetings. Committee expenses were less than half those in 2015, or £35,777 lower. AGM should be aware that some of this last saving is the result of members pulling together to keep travel and associated costs to the minimum, but perhaps of concern this was also the result of lower activity overall. An outstanding amount of £8,757 is included in the political lobbying expenditure due to late submission of a 2015 bill. The final settlement of legal expenditure in respect of our Union's heroic attempt to challenge the implementation of TR was £20,516.

The cost of national conferences in 2016 was £55,785 which was 40 percent less than in 2015. Expenditure on conferences continues to be under careful scrutiny.

Members will be aware that branch expenditure was tightened in 2015, and was even less in 2016. Spending was just short of £100,000 for the twelve months.

Financial and legal costs were £11,743 higher which was primarily the result of legal advice required by the union during 2016. Bank charges were higher than 2015 due to the cost of collecting members' subscription via new direct debit system. Audit fees were sustained at the same level as 2015 due to sterling work undertaken by the Finance team throughout the year and in the preparing of the final accounts.

In 2016, £66,114 was expended on behalf of members through the Legal and Representation Fund. At the end of the financial year a transfer of £87,287 was made into this fund; this amount represents 5 percent of 2015 net subscription income.

As I stated earlier membership retention and recruitment has been an ongoing cause for concern. Following much discussion NEC agreed to enter into a contract for a members' services package as a means to compete with another union's benefits. A reasonably priced arrangement for this service, over a limited period and with a break clause, was negotiated and is identified in the accounts. It remains to be seen whether or not this has been successful in its objectives.

The printed Annual Report provided to you gives a detailed breakdown of all expenditure on pages 43 to 47.

#### **4. The Balance Sheet**

I have to report to conference that sound daily financial management by the Union Finance Officer, Theresa Boorman, and the Officers Group, wasn't sufficient to overcome the deficit in 2016.

At the end of the financial year, fixed assets were valued at £7,606 less than in 2015 due to depreciation. Sundry debtors were reduced significantly over the previous year as a result of improved efficiency in collecting members' subscriptions. At the end of the year, branches had in their bank accounts £51,546 which was £9,297 less than the previous year. Head Office bank accounts held a total of £1,146,557, this is £168,956 down on 2015 balance. Some of this money was used to fund the purchase of a new telephone system and costs related to the office move. Money was also used to assist cashflow during the year due to the shortfall in subscription income as previously mentioned.

The increase of £12,536 on sundry creditors represents accrued charges for ongoing work undertaken by Thompsons Solicitors during the year which was not billed until 2017.

The assets minus liabilities at the end of the year total £1,283,649. I would remind conference that in 2015 the balance was £1,578,231. The difference of £294,582 is mainly attributable to the deficit as reported.

## **5. Audit of 2016 Accounts**

The accounts for 2016 were audited by our independent auditors PK Audit LLP, Chartered Accountants and Statutory Auditors, and were signed off in May 2017 with no concerns reported. They stated that the accounts give a 'true and fair view of the state of the union's affairs as at 31 December 2016.'

## **6. The Future (2017)**

I reminded members at AGM last year of the government's campaign to undermine trade unions through the removal of the longstanding check-off arrangements for the payment of subscriptions directly via payroll. The effect of this was felt keenly in 2016 with the loss of 800 members in the NPS alone. Membership in the NPS has stabilised this year, but has shown no sign of recovering to the level at the end of 2015.

The loss of members in the NPS during 2016 was coupled with a steady reduction in membership across most CRCs over the same year. Membership in the CRCs has continued to decline in 2017. However, membership in the Family Courts Section has seen a slight uplift this year.

It would be remiss of me not to remind Conference of the long overdue decision to sell the offices at Chivalry Road; if the building was ever fit for purpose, it was no longer. Significant amount of money would need to be spent to keep the property in good repair and a healthy environment in which to work. In February of this year, the property was sold for £2, 100,000I less legal cost and agent fees amounting to £25,373, a net balance of £2,074,627 was received.

Following extensive investigation of a number of investment options by a small team made up of Chris Winters, Ian Lawrence, Theresa Boorman and myself, a decision was made to invest £1.7 million temporarily with Aberdeen Fund Managers Ltd via the TU Financial Management Services. We concluded that this investment vehicle, which is a Trade Union led service working with a number of sister unions, provides best fit with our ethical concerns as well as a reasonable potential return when compared to other organisations that we have investigated.

At this point I need to draw conference's attention to HMRC rules on capital gains tax. The Union only has a three year period from the date of sale of Chivalry Road, in February 2017, to reinvest in another commercial property otherwise the Union will face a capital gains tax bill of more than three hundred thousand pounds. It is essential the new NEC continues to monitor this situation as the clock counts down.

The Union is at a crossroads, both procedurally and financially. The collapse of the national negotiation council requires increased resourcing of local negotiating frameworks, together with enthused existing members and enlarged numbers of new members. Financially, Napo is more than capable of meeting its obligations at this time. However, the union cannot sustain its current level of expenditure with its existing level of income for more than another two or three years.

## **7. Thanks**

I would like to finish by thanking all of the staff at HQ for the continued hard work they put into making our union run as smoothly as it does.

It hasn't been an easy time for the Officer group and I have no illusion it will get better in the immediate future. I believe the intention of every Officer is always to work in the best interest of members; I wish my colleagues well for the coming year.

And we should never forget that ours is a member led union and without your input and activity throughout the year Napo cannot thrive and will not survive.

I would also like to wish my successor all the best for the future.

Finally, I would like to record my personal gratitude to the person I am convinced without whom the finances of this union would be in a parlous state. She is assiduous in carefully caretaking what she never ceases to remind all is 'members' money'. She looks after every penny, and I mean every penny, as if it were her own. Thank you Theresa Boorman.

## **8. Recommendations:**

- a. That AGM approve the accounts for 2015 as contained within the Annual Report**
- b. That PK Group LLP is appointed as Napo Auditors for 2017**