

**BRITISH LIBRARY BOARD**

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**CORPORATE FINANCIAL REPORT: QUARTER 1, 2016/17**

**PURPOSE OF THE PAPER**

To report financial performance as at the end of June 2016.

**ABSTRACT (SUMMARY)**

This report provides information on the Library's financial position in 2016/17. It summarises the forecast position as at the end of quarter 1 and highlights risks to achievement of its financial targets.

In particular, the Board is asked to note that the current forecast shows a planned call on reserves of £6,509k made up of the following:

- Resource DEL - £3,089k
- Annually Managed Expenditure - £30k
- Capital DEL- £3,390k

The general reserves brought forward into 2016/17 were £30.0m, up £0.2m from the previously reported figure following year-end audit adjustments. The forecast general reserves level at the end of the year is expected to be £24.2m of which £7.2m is undesignated.

**ACTION REQUESTED**

The Board is asked to **note** the contents of this report.

Head of Finance  
July 2016

## CORPORATE FINANCIAL REPORT: QUARTER 1, 2016/17

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### 1. INTRODUCTION

- 1.1 The attached report covers the Library's financial performance as at the end of June for the financial year 2016/17. It summarises the current forecast position and highlights risks to achievement of its financial targets.

In particular, the Board is asked to note that the current forecast shows a planned call on reserves of £6,509k made up of the following:

- Resource DEL - £3,089k
- Annually Managed Expenditure - £30k
- Capital DEL- £3,390k

- 1.3 The general reserves brought forward into 2016/17 were £30.0m, up £0.2m from the previously reported figure following year-end audit adjustments. The forecast general reserves level at the end of the year is expected to be £24.2m of which £7.2m is undesignated.

### 2. RESOURCE BUDGETARY IMPACTS OVER THE YEAR (RDEL)

- 2.1 The BL's budgetary framework delegates budget responsibilities from the Chief Executive, as Accounting Officer, to Chief Officers. As part of this responsibility the Library requires each Senior Leadership Team manager to review their financial performance regularly and to advise the Executive of any potential deviation from budget and to report any remedial actions being taken to address these.
- 2.2 The original budget, as agreed by the Board, for resource expenditure for 2016/17 was £104,383k, funded by £90,622k in Grant in Aid and £13,665k in incoming funds from other sources, resulting in a small deficit of £96k. In addition, expenditure of up to £7,760k was approved against reserves relating to the St Pancras Transformed Programme, the potential costs of severance packages and a number of carry-over requests from 2015/16. Of this only £1,533k was factored into the original resource budget. Following a review of planned movements on restricted funds a net deficit of £892k was also built into the original planning figures.
- 2.3 Since the original resource budget was set, a number of internal and external factors have occurred that have necessitated adjustments to the in-year budgets set. In order to provide a clear audit trail of these over the year, they are summarised in the table and explained below:

<b>Major Revisions to Forecast/Budget – Impact on net expenditure – increase/(decrease)</b>	<b>GIA £000</b>	<b>Commercial Contribution £000</b>	<b>External Funds £000</b>	<b>Total £000</b>
Original Budget – Surplus/(Deficit)	(6,681)	5,052	(892)	<b>(2,521)</b>
<i>Adjustments:</i>				
Commercial Services re-forecast (see 2.4)	-	(232)	-	<b>( 232)</b>
Other Income/cost adjustments (see 2.5)	(581)	878	-	<b>297</b>
New Business Cases (see 2.6)	(374)	-	-	<b>( 374)</b>
Budget savings identified (see 2.7)	1,200	-	-	<b>1,200</b>
Approved Carry Overs from 15/16 (see 2.8)	(1,606)	(22)	-	<b>(1,628)</b>
Net managed transfers between revenue and capital (see 2.9)	(63)	-	-	<b>( 63)</b>
Forecast movement on Restricted Funds (see 2.10)	-	-	192	<b>192</b>
Carry Over requests into 16/17	-	-	-	<b>0</b>
Other Adjustments (see 2.11)	(410)	420	-	<b>10</b>
<b>IN-YEAR TOTAL – Surplus/(Deficit)</b>	<b>(8,515)</b>	<b>6,096</b>	<b>( 700)</b>	<b>(3,119)</b>

2.4 The forecast revenues and cost of our Commercial Services are regularly reviewed at the Business Performance Group. Increased income and associated costs were added for the Membership scheme, PLR, space rentals and publishing. The forecast for Events was reduced by £246k due to delays in making the planned spaces available as part of St Pancras transformed.

2.5 Additional income and associated costs from a number of sources have resulted in a net increase in funds of £297k. This includes income for the Print Copy Unit, additional ticket income from the touring exhibitions/events and additional overhead recovery from projects.

2.6 New Business Cases were approved during the year totalling £374k for:

- Living Knowledge Network Project Team - £33k
- Collection Management - Additional Resource - £37k
- Digital Scholarship - Enhance R&D Project Capacity - £54k
- Film Consultant - £22k
- Apprenticeship Manager - £73k
- E-Commerce project - £128k
- Learning - increase to original figures – £27k

2.7 Total savings of £1,200k have been identified to date. The requirement to fund severance payments has been re-forecast in line with current plans and reduced by £1,000k. This will be added back to the severance reserve. Following completion of the rates review it was possible to reduce the expenditure in this area by £200k.

2.8 Resource budget carry-overs from 2015/16 of £1,628k were approved by the Executive as part of the year-end financial review.

2.9 Forecast adjustments between Resource and Capital of £63k were made in the quarter.

- 2.10 The balances on restricted and designated funds have been forecast to reduce the net expenditure by £192k mainly as a result of additional funding from the Melon foundation, Polonsky, BIPC and income into the catalyst endowment fund.
- 2.11 Other adjustments include a reclassification of exhibitions to commercial and exchange rate differences totalling £10k.
- 2.2 **Non-cash RDEL**, which incorporates depreciation and impairments, is forecast to be under by £2,297k prior to any in-year revaluations. Following the major impact of the revaluation of St Pancras last year we requested and received additional cover for the resulting increase in depreciation ensuring the variance and potential impact of this was minimised.

### 3. CAPITAL BUDGETARY IMPACTS OVER THE YEAR (CDEL)

- 3.1 The original core capital expenditure budget for 2016/17 as agreed by the Board was £3,250k against GIA DEL of £3,221k creating a small deficit of £29k to be funded from reserves. DCMS later confirmed a revised allocation of £3,289k. Additional expenditure from reserves of £3,270k was incorporated in relation to the St Pancras Transformed project having initially been factored into the resource budget in the original planning paper approved by Board.
- 3.2 Since the original capital budget was set, a number of internal and external factors have occurred that have necessitated adjustments to the in-year budgets set. In order to provide a clear audit trail of these over the year, they are summarised in the table and explained below:

	Core £000	External Funds £000	Total £000
Original Budget – Surplus/(Deficit)	(3,270)	-	<b>(3,270)</b>
Approved Carry Overs from 15/16 (see 3.3)	(183)	-	<b>( 183)</b>
Net managed transfers between revenue and capital (see 3.4)	63	-	<b>63</b>
<b>IN-YEAR TOTAL – Surplus/(Deficit)</b>	<b>(3,390)</b>	<b>0</b>	<b>(3,390)</b>

- 3.3 Capital budget carry-overs from 2015/16 of £183k were approved by the Executive as part of the year-end financial review.
- 3.4 Forecast adjustments between Resource and Capital of £63k were made in the quarter.

### 4. FORECAST RESERVES POSITION

- 4.1 The table below summarises the final balances brought forward at the end of 2015/16 and the forecast use of these near-cash reserves over the current financial year. The balances brought forward are in line with the final audited accounts for 2015/16. Audit adjustments of £0.2m increased the balance available above previously reported levels.

<b>General Reserve</b>	<b>Balance at 01/04/16 £k</b>	<b>In-year movement £k</b>	<b>Balance at 31/03/17 £k</b>
BL Reserves	30,025	(5,809)	<b>24,216</b>
Trust Funds and Restricted Funds	27,939	(700)	<b>27,239</b>
<b>TOTAL</b>	<b>57,964</b>	<b>(6,509)</b>	<b>51,455</b>

- 7.3 Based on the current level of risk and updating the levels proposed and allocated during this financial year it is anticipated that the reserves levels will be as below at the year-end:

<b>Reserve designation</b>	<b>Amount</b>
Restructuring Reserve	£4.0m
Provision for risk of Asbestos remediation works required to meet Health and Safety.	£0.2m
St Pancras Transformed reserve	£1.1m
Capital Contingency	£1.0m
Accounting Adjustment Prepayment (non-cash)	£5.1m
Carry-Over Requests – new and approved	£0.0m
Planning commitments – IT storage	£0.6m
Major Acquisition reserve	£0.5m
DCMS contingency provision at 5% of GIA	£4.5m
General Provision to cover income/margin shortfalls, unforeseen claims, over-spends, exchange rate differences, copyright claims and potential tax adjustments based on 5.6% of non-restricted expenditure.	£7.2m
<b>TOTAL</b>	<b>£24.2m</b>

- 7.4 The general provision at £7.2m at the beginning of 2016/17 is felt to be adequate to support the current financial risks facing the Library.

## **8. RISKS TO FINANCIAL PLANS**

- 8.1 The full Spending Review of Public Sector expenditure reported at the Autumn Statement, on 25<sup>th</sup> November 2015, provided for a positive settlement against that expected with a “flat cash” settlement over the Spending Review period. Whilst this was gratefully received a risk still exists that the OBR’s revised forecasts are not achieved or the impact of the UK’s decision to leave the European Union results in a review of previous public expenditure decisions.
- 6.2 Revenue from Priced Services is volatile and by its nature more difficult to forecast. The more challenging targets incorporating into the Commercial Plan increase the risk of under-hitting the budgeted contributions. The overall position is closely monitored by the Business Performance Group.
- 6.3 Financial risks to achievement of the overall financial position include:

- Utilities budgets have been reduced in line with current expenditure levels. Should market issues lead to substantial changes to prices or the weather be particularly inclement there is a risk of a variance against these revised budgets.
- Asbestos remediation works are now complete but there remains the risk of finding further contamination in our older buildings.
- A potential challenge on our rates valuation or the applicability of our charity discount for commercial areas of the Library could lead to substantial increases in our rates bill.

## 9. RECOMMENDATIONS

- 9.1 The Board is asked to **note** the contents of this report.

LIBRARY HSLITLH	INCOME AND EXPENDITURE SUMMARY						
	June 2016						
	YEAR TO DATE				FULL YEAR		
	Original Budget £000s	Quarter 1 Forecast £000s	Actual £000s	Variance (act- Q1 Fore) £000s	Original Budget £000s	Quarter 1 Forecast £000s	Variance £000s
<b>INCOME</b>							
RESOURCE GRANT-IN-AID from DCMS	18,154	18,154	18,154	0	90,622	90,622	0
COMMERCIAL INCOME	3,182	3,179	3,035	(144)	12,895	14,362	1,468
OTHER INCOME	493	245	237	(7)	1,551	1,006	(545)
GRANTS	619	1,319	709	(610)	1,826	1,965	139
DONATIONS	2,505	2,092	2,799	707	5,069	6,101	1,032
INVESTMENT INCOME	0	0	0	0	625	625	0
INTERNAL INCOME	113	148	187	39	950	1,153	203
<b>TOTAL INCOME</b>	<b>25,065</b>	<b>25,136</b>	<b>25,120</b>	<b>(16)</b>	<b>113,538</b>	<b>115,833</b>	<b>2,296</b>
<b>OPERATING EXPENDITURE</b>							
STAFF COST - GIA	12,328	12,296	11,999	297	50,815	51,702	(888)
STAFF COST - COMMERCIAL	966	1,033	1,001	32	4,172	4,266	(94)
STAFF COST - EXTERNAL FUNDS	1,215	1,166	1,111	55	4,652	4,877	(225)
OPERATING COSTS - GIA	6,213	5,137	5,161	(24)	27,683	29,370	(1,687)
OPERATING COSTS - COMMERCIAL	801	863	760	103	3,671	4,001	(330)
OPERATING COSTS - EXTERNAL FUNDS	757	770	721	49	4,701	5,303	(601)
ACQUISITIONS	1,063	919	917	1	12,640	12,698	(58)
ACQUISITIONS - EXTERNAL FUNDS	20	1	1	(0)	40	29	11
PLR AUTHOR PAYMENTS	0	0	0	0	6,039	6,070	(31)
<b>TOTAL OPERATING EXPENDITURE</b>	<b>23,364</b>	<b>22,184</b>	<b>21,670</b>	<b>514</b>	<b>114,412</b>	<b>118,315</b>	<b>(3,903)</b>
<b>NET OPERATING POSITION</b>	<b>1,701</b>	<b>2,952</b>	<b>3,450</b>	<b>498</b>	<b>(874)</b>	<b>(2,482)</b>	<b>(1,608)</b>
<b>NON-OPERATING EXPENDITURE</b>							
SEVERANCE	13	13	(28)	42	1,527	527	1,000
UNREALISED LOSSES/GAINS AND OTHER ADJS	30	20	28	(8)	120	110	10
<b>TOTAL NON-OPERATING EXPENDITURE</b>	<b>43</b>	<b>34</b>	<b>(0)</b>	<b>34</b>	<b>1,647</b>	<b>637</b>	<b>1,010</b>
<b>NET INCREASE (DECREASE) IN RESERVES</b>	<b>1,658</b>	<b>2,918</b>	<b>3,450</b>	<b>532</b>	<b>(2,521)</b>	<b>(3,119)</b>	<b>(598)</b>
<b>NON CASH</b>							
GRANT IN AID (DEPRECIATION)	7,756	7,756	7,756	0	31,023	31,023	0
DEPRECIATION & IMPAIRMENTS - NON-COMMERCIAL	7,088	7,088	7,088	0	28,643	28,643	0
DEPRECIATION & IMPAIRMENTS - COMMERCIAL	21	21	21	0	83	83	0
DEPRECIATION & IMPAIRMENTS - EXTERNAL FUNDS	0	0	0	0	0	0	0
<b>NET DEPRECIATION POSITION</b>	<b>648</b>	<b>648</b>	<b>648</b>	<b>0</b>	<b>2,297</b>	<b>2,297</b>	<b>0</b>
<b>CAPITAL</b>							
<b>CAPITAL INCOME</b>							
CORE CAPITAL GRANT IN AID	588	588	588	0	3,289	3,289	0
MAJOR PROGRAMME GRANT IN AID	0	0	0	0	0	0	0
CAPITAL GRANTS & DONATIONS - COMMERCIAL	0	0	0	0	0	0	0
CAPITAL GRANTS & DONATIONS - NON-COMMERCIAL	0	0	0	0	0	0	0
<b>CAPITAL INCOME</b>	<b>588</b>	<b>588</b>	<b>588</b>	<b>0</b>	<b>3,289</b>	<b>3,289</b>	<b>0</b>
<b>CAPITAL EXPENDITURE</b>							
CORE	794	418	289	129	6,559	6,679	(120)
MAJOR PROGRAMMES	0	0	0	0	0	0	0
EXTERNAL FUNDS	0	0	0	0	0	0	0
<b>CAPITAL EXPENDITURE</b>	<b>794</b>	<b>418</b>	<b>289</b>	<b>129</b>	<b>6,559</b>	<b>6,679</b>	<b>(120)</b>
<b>NET CAPITAL POSITION</b>	<b>(206)</b>	<b>170</b>	<b>299</b>	<b>129</b>	<b>(3,270)</b>	<b>(3,390)</b>	<b>(120)</b>