

## ANNUAL DELEGATE CONFERENCE 2019

To: ADC 2019 Delegates  
Branch Secretaries

May 2019

BB/27/19

# FINANCIAL REPORT 2019 - SUMMARY

## Introduction

This briefing provides a summary of the 2019 Financial Report issued to branches and available via the PCS website. It gives a summary breakdown of the union's financial position including:-

1. **Financial Overview**
2. **PCS Annual Budget 2019**
3. **Financial Outlook 2019 - 2021**

### 1. Financial Overview

Thanks to the detailed contingency planning put in place to deal with the financial trauma that arose following the government's unlawful withdrawal of 'check-off' in 2015, combined with the financial boost from the £3m DWP compensation award, the union's financial position has improved. The High Court compensation settlement provides a platform for the launch of claims in other departments and we are working with our lawyers to that effect.

Good financial planning and budgetary controls have paid off and with the support of budget holders, the union has survived the most challenging period in our history. The successful delivery of the new 3 year plan will further consolidate our long journey to full financial stability by ADC 2021.

### Developments in 2018

There have been a number of positive and significant developments in 2018 that has boosted our financial position;

- The completion of the PCS Plan 2015-2017
- The stabilisation of union subscription income in 2018
- The High Court victory which has secured £3m compensation from the DWP with further claims, involving other government departments, to follow
- The delivery of our PCS rental strategy for 2 vacant floors in HQ which has secured £1m worth in rental agreements per annum to date
- The launch of a new plan for 2018-20 which envisages union growth over a 3 year period.

### Unfinished Business

We need to maintain an ongoing balance between income and expenditure. This is essential to avoid a rapid erosion of our bolstered reserves and to avoid

a return to previous financial difficulties.

As part of our ongoing financial monitoring and planning, the NEC has agreed a mid-point financial review of the financial plan which will take place following conference.

### Membership and Income

Membership subscription income, after collection costs, was £21.0m in 2018 compared to £20.9m in 2017 and £21.3m in 2016. The relative stabilisation of subscription income last year, compared to previous years, provides a launch pad for growth in the future.

The unlawful withdrawal of check-off had a dramatic impact on our finances. In the worst year, 2015, our membership fell by 37,000. We now have 50,000 fewer members than at the start of 2015. However, the magnificent efforts of our reps in the Direct Debit campaign helped protect our financial position.

### 3 year Plan 2018-2020

At ADC 2018, we launched a new 3 year PCS plan with a strong financial component. A reminder of the plan objectives:

- Growth in membership to 200,000
- Organising strength, increasing density, reps, diversity and member participation
- Budget surplus and £2m in fighting fund
- Key industrial objectives on pay, job security and a return to national bargaining.

### Recruitment – Key to Success

Key to our future financial success is enhanced workplace organisation efforts to increase our membership as well as strengthening union leverage. This forms part of the National Bargaining Strategy being put to ADC 2019.

### Pension Challenges

As highlighted in the previous four financial reports, as with all other pension schemes, the financial crash placed the PCS staff pension schemes in a major deficit scenario. A long-term pension deficit recovery is in place under the supervision of the Pension Regulator. In 2017 deficit reduction payments increased to £3.1m per annum, as previously agreed as part of the 2012 pension

valuation. Total pension costs for the year including deficit reduction payments amounted to £4.2m.

We continue to work closely with pension trustees and the staff union to find a long term sustainable plan to tackle the deficit as well as ensuring our staff retain affordable and decent pensions.

### **Modernising the Union PCS Accommodation Strategy**

Our London HQ has been fully refurbished and 2 floors have been allocated for future rental purposes.

The income generated from renting out space in 2018 totaled £0.48m. Lease agreements for rental space in 2019 amount more than £1m per annum. The total cost of refurbishment was £3.1m. Further rental opportunities on the second floor south wing are available with an expected income of £0.25m.

Elsewhere, we are planning to move the Midlands hub into a new Unite facility in central Birmingham in 2020 and are reviewing our accommodation in Leeds as we approach the end of our lease.

### **IT Investment Strategy**

We have made a major investment in our IT infrastructure. We launched an IT digital project which will support our modernisation process, freeing up staff resources and improving the support we provide reps and their members.

### **Summary of Financial Performance**

In respect of financial performance, the key variances between 2017 and 2018 were;

#### **Income**

- Gross membership income has reduced from 2017 levels by £19k.

#### **Investment income**

- Dividend, interest and capital gains for 2018 were £32k (2017: £41k).

#### **Management of costs**

- Total employment costs have increased by £0.3 million compared to actual costs in 2017.
- Non payroll costs have decreased by £0.2 million compared to actual costs in 2017.

#### **Campaign activities**

- Campaign expenditure in 2018 was £455,507 (2017: £770,666)

#### **Balance sheet**

The balance sheet shows net assets at the end of 2018 of £32.4 million compared to net assets of £22.4 million at December 2018. This movement

includes under FRS102, a net pension reserve movement of £5.3 million. Cash and investment balances have increased by £0.66 million, from £3.16 million to £3.82 million.

### **INCOME**

#### **Membership income**

Membership subscription income, after collection costs, has reduced by £98k (2017: £374k). PCS has seen a loss of 1,648 members in 2018 (2017: 3,953). The financial impact due to the loss of members has been reduced by an increase in membership fees of 1% and a decrease in collection costs of £117k.

#### **Investment and commercial income**

Dividend, interest and capital gains for 2018 were £32k (2017: £41k). The value of the PCS investment portfolio decreased by £34k in 2018 resulting in an overall loss of £2k relating to investment income (2017:£50k gain).

#### **PCS+**

The new PCS plus membership scheme, exclusive for PCS members, is entirely free and accessible following registration and offers a range of services which can be viewed on the PCS website. In 2018, commission income amounted to £48,031.

### **EXPENDITURE**

The 2018 budget (before campaign and political fund allocations and depreciation) was set at £21.1m which represented an increase of £0.2m in expenditure compared to the actual costs in 2017.

#### **Total Staff costs**

Total staff costs were £13.3m in 2018 which amount to £0.1m more than budget. This includes gross salary costs of £8.3m, employer's National Insurance of £0.9m, pension fund contributions of £4.1m.

#### **Non Staff costs**

Non payroll costs were £7.7 million in 2018 which is £0.5 million over budget.

	<b>2018 Actual £m</b>	<b>2018 Budget £m</b>	<b>2017 Actual £m</b>
Total staff costs	13.3	13.2	13.0
Non payroll costs	7.7	7.2	7.9
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	<b>21.0</b>	<b>20.4</b>	<b>20.9</b>
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## **BALANCE SHEET**

### **Fixed assets**

The property at 160 Falcon Road is shown currently shown under two headings in the balance sheet;

- i) Freehold Property at £3.6m, this is historic cost at 31 December 2018.
- ii) Investment property at £12.9m based on current market value at 31 December 2018.

Due to Falcon Road rental usage, current accounting standards have required reclassification of part of the building from Freehold to Investment property.

Capital purchases of £537,347 for office furniture and computer equipment costs and £1,741,837 for refurbishment costs are included in the balance sheet.

### **Investments and cash balances**

Investment holdings have decreased in value from £1.415m to £1.412m. The investments of PCS remain managed by Sarasin's Fund Managers. Cash balances stood at £2.406m up by £0.662m from 2017.

### **The PCS ethical investment policy**

Full details of the ethical criteria are shown at Appendix II in the 2019 Finance Report

### **Campaign and disputes fund**

We continue to ensure expenditure is directed towards our campaign priorities. The total campaign expenditure during 2018 was £455,507. The fund stands at £144,061 at December 2018.

### **Political fund**

The political fund at the end of December 2018 had 156,765 members contributing each month. Political fund expenditure in 2018 was £55,576. The fund stands at £652,054 at December 2018.

### **Subscriptions**

Branch Briefing 81/18 advised branches of the annual increase in subscriptions. The monthly subscription increase was limited to between 4p and 21p. These increases are in line with the 1.5% government cap on civil service pay in 2019.

### **Credit Union**

At ADC 2018, we reported on the decision of the PCS Credit Union Board to enter into negotiations with 1<sup>st</sup> Class credit union with a view to merger. Membership endorsement of the merger followed and the transfer of PCS credit union undertakings took place in October.

PCS credit union interests are well represented on

the 1<sup>st</sup> Class board and a working relationship between PCS and 1<sup>st</sup> Class has been established. 1<sup>st</sup> Class will be branded as 'Your PCS credit union' and we shall promote it as an additional membership benefit.

## **2. PCS Annual Budget 2019**

This section of the Financial Report sets out the detailed budget for 2019 agreed by the NEC and the outline budgets for 2020 and 2021.

### **Cash Position**

As we highlighted in the 2018 Finance Report our cash reserves had fallen last year. At the start of 2018, we agreed an overdraft facility to ensure we had cash resources before the anticipated inward flow of additional rental income from late 2018 onwards. The DWP compensation award enabled us to cancel that facility.

The past 4 years have been exceptionally challenging in respect of financial management as we had to dramatically reduce spending across the board. We are grateful for the patience and support of all budget holders and treasurers across the union.

### **2019 Budget Setting**

The 2019 budget was established by the NEC using the projections on expected subscription income. A prudent and cautious approach was adopted for that purpose. Key assumptions in the creation of this budget are detailed below.

### **INCOME**

Membership subscription income after collection costs has been budgeted at £21.2 million. An assumption has been made that our membership will remain stable in 2019 i.e. no gains or losses. This is based on an assessment of recruitment and leaver rate trends.

Allocations have been made from subscription income to campaign and political funds of £0.8 million.

### **EXPENDITURE**

General fund expenditure (before campaign and political fund allocations and depreciation) is budgeted at £21.1 million. This includes staff and non-staff costs.

### **Staffing Budget**

There has been a modest increase of £0.3 million in the staff cost budget. This includes the cost of the annual pay rise. The union has now completed its staff restructuring programme. Mirroring the decline in membership, staffing numbers have reduced by a third in the past 8 years.

Staff Costs	£10.3m
Pensions deficit recovery payment	£3.1m
Non-staff costs	£7.7m
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	Total £21.1m

Campaign and Political fund £0.8m

### Non Staff Cost Budget

The 2019 Finance report provides a detailed breakdown of the 2019 budgets allocated under the 'non staff cost' heading.

### BALANCE SHEET

#### Fixed Assets

Capital bids were carefully reviewed to ensure only essential expenditure will be incurred. Capital purchases for office furniture and computer equipment have been set at £0.48m.

#### Investments and Cash

As always the balance between holdings of cash and investments will need careful management to enable cash flows to be met but we do not anticipate a need to disinvest during 2019.

#### Reserves and funds

Expenditure on campaigns and political activities is budgeted at £0.8m which reflects the continuing campaigning needs in the current climate.

The 2019 budget has been set appropriately as we see an improvement in our financial position thanks to the collective effort to balance our books over the past four years. We believe the tide has now turned in our favour. We are rebuilding the union and creating a more dynamic, visible and strategically focused organisation. Keeping the finances in good shape is integral to our future success.

### 3. Financial Outlook 2019 – 2021

We have not yet reached a point whereby membership loss has been fully halted, although the increasing recruitment rates in 2018 and in early 2019, supported by the new PCS staffing structure and an enhanced organising drive, has meant we are on that path. It follows that the prudent and cautious approach has to continue until our membership income starts to grow again on a sustained basis.

### Conclusion

It is worth reflecting that had ADC not agreed decisive actions in 2015, we would now be in serious financial difficulties at a time when members need a union like never before.

We have successfully come through a very difficult financial period, have stabilised our position and can continue the process of rebuilding the union. Our ambition is to increase our membership and income which in turn can strengthen our organisational base and bargaining power with the employer.

Consistent with the 2018-20 plan objectives, this year's report continues to set out a course to return to budget surpluses by the end of the 3 year review period and is based on the following financial aims;

- Meeting the financial objectives set out in the 2019 Finance Report within the framework of the 2018-20 PCS Plan
- Continuing to prioritise our organising work within the National Organising Strategy to strengthen our membership levels, union organisation and financial base
- Continuing to fund our recruitment and organising priorities to increase our bargaining power
- To manage and balance employment and non-staff costs as a proportion of subscription income
- Continuing to monitor all areas of expenditure / activity and introduce IT software to record committed expenditure to assist budget and audit controls
- Continuing to work with groups and branches to develop best practice and ensure sound financial controls are in place
- Review, monitor and re-negotiate where appropriate all contracts with external providers
- Develop the union's ethical, tax justice and environmental policies on PCS investments, PCS suppliers, procurement and facilities.

In presenting the Financial Report 2019 particular thanks are due to the Finance Committee, finance staff, Special Member Auditors and Lay Treasurers at all levels of the union for their work in delivering these results and the service given to PCS members.

**Chris Baugh** National Treasurer

**Kevin McHugh** VP and Finance Committee Chair

**Jeff Evans** Director of Central Services

**May 2019**