

## Questions & Answers - AGM November 2017

Question	NACFB Response
<p><b>The accounts make reasonably good reading. I can't find any communications which detailed the budget for 2016. What were you planning to achieve and how did that compare to plan?</b></p>	<p>We published our Road Map in Feb 2016 at the EGM. Incorporated within this document was a detailed budget for both 16 and 17 reflecting the situation as we saw it at that time. We actually exceeded budgeted surplus by circa £50k as a consequence of improved income and less expenditure.</p>
<p><b>Can you explain what is the difference between direct costs and administration expenses?</b></p>	<p>Certain costs we have sit neatly as cost of sales or administration costs but due to the nature of the organisation other costs could be argued to fall in either category, so we tend to stick to a consistent split year on year for the statutory accounts. In our internal accounting we don't differentiate and look at all costs together.</p>
<p><b>We place a lot of emphasis on the CFE and Expo as revenue generating operations. Do the income lines represent true profit or are there direct costs hidden in the costs and expenses which need to be taken into account?</b></p>	<p>The CFE and Gala dinner are forecast to generate a surplus of £291,342 which is a valuable contribution toward our administration expenses and surplus. These events also deliver an excellent example of how the Association delivers collaboration within our industry which is one of our key objectives.</p> <p>Up to 2016 only the costs directly associated with these events were allocated here but for 2017 and 2018 we have now allocated all relevant costs to these events other than allocating out time from individuals already employed by the NACFB that spend some time on them. Therefore, the figures for 2017 and 2018 do represent the true profit after all costs are allocated.</p>
<p><b>The balance sheet in 2016 showed cash at bank of £782,801 so why do we have £635,831 of short term creditors?</b></p>	<p>The majority of the short terms creditors figure is accrued income whereby we have invoiced Members and Patrons for a full year of subscription but only part of this year has passed at the balance sheet date. Therefore, it is wrong to include the whole year's subscription in sales and it is included on the balance sheet as a liability for the commitment for us to provide membership for the remainder of their year. Our approach to supplier payments is to ensure our business partners are paid by on or before the agreed terms.</p>

<p><b>Can you explain why you think it is right that our balance sheet shows a total net worth of £493,791 which is membership money? Surely you invest it into membership benefits or manage membership fees to absorb it over time?</b></p>	<p>At the end of 2017, our capital account will be in the region of £650,000 to £700,000. We have, for some time, adopted a guiding principle that we should hold sufficient capital to sustain the organisation for 6 months. Our budgeted administration expenses for 2018 excluding Member Services – e.g. CFE and Gala Dinner - are £1,453,143. Six months costs are £726,571, although some of these costs would not need to be covered as they could be stopped instantly. In addition, there will be contracted costs within NACFB Member Services Ltd which we would be obliged to cover. We are therefore right on target with the value of capital that we are holding.</p>
<p><b>Why do we have debtors of £317,280? Surely the only organisations which would owe us money are the Members and Patrons? Does this indicate that about a third of the organisations that support us by value do not pay on time?</b></p>	<p>Of the debtors in the accounts there are some other debtors and prepayments and the trade debtors figure is £229,805. This represents money owed to us by Members that are paying on a monthly basis rather than paying the whole year up front. This figure has increased due to more Members moving to monthly direct debit and we anticipate that increasing further again this year. We do have some Members that don't pay on time, but we have a thorough procedure for following these up.</p>
<p><b>How safe is the £780k? Whilst this is historic, we assume that we still have cash balances of this level. Can we be happy that this is invested carefully so as not to put the capital at risk?</b></p>	<p>The majority of funds are with recognised high street banks. However, we do have some funds in other institutions to spread our risk considering the government guarantee scheme. Returns are disappointing but there should be no concern about the safety of our capital.</p>
<p><b>In February 2016 you held an EGM and launched your road map to justify the increase in membership. The key costs that you identified were HH costs £40k, compliance team costs £52k, audit checks £40k office costs £20k at total of £152k. This appeared to be on the back of a strengthened Compliance presence and activity. We appear to be here again. Can you explain what has happened? I would also like you to step through the original plan, the out turn and what has changed between the 17 budgets and your current expectation for 2017.</b></p>	<p>When we launched the Road Map we were facing into one of the most significant regulatory changes that the industry has faced. We recognised that we had a significant responsibility to deliver support to our Members and so our aim was to enhance our activity in the arena of Compliance Services. Our road map confirmed that the proposed membership increase was to be used to develop capability in both compliance and training and education as well as covering the expected increase in general administrative expenses. We also shared with you our vision that by 2018 it was our aim that your membership fee would cover all your membership and compliance needs. You might also recall that we projected a trading deficit of £33k for 2017.</p> <p>Life has moved on and whilst our direction of travel has not really changed, we have a better grip on the financials and what we want to achieve. Delivering a sound compliance service comes at a cost and whilst we initially embarked on the idea of a separate function with individual subscriptions, we are of the view that an all-embracing approach makes sense for the Membership.</p> <p>Our predicted outturn for 17 is close to £200k surplus which is far better than the Road Map deficit of £33k and the 2017 budget approved at the 2016 AGM showing a deficit of £9,768. We believe that this level of</p>

	<p>financial performance is the right approach so that we have the financial agility to cope with the changing landscape and the inevitable challenges that will come upon us. We would not be looking after your interests if we were unable to move quickly to address an issue that could impact on your ability to run your business. GDPR is a good example. We are on the front foot and ahead of many in supporting you.</p>
<p><b>Will you be continuing the compliance audits in 2018? If so how will these be paid for? Is this part of why the fees are being increased?</b></p>	<p>Yes, we will. The value of these visits would be diluted very quickly if we do not continue to assess and advise on Member compliance. The cost of this has been included in our plans for 2018 and so yes, the increase in membership contributes to this ongoing exercise.</p>
<p><b>Why are you planning on charging £50 for the training sessions - should they not be free? How long will the £50 fee be fixed for?</b></p>	<p>Our revised approach is to run these at breakeven. It is quite expensive to hire venues and cover travel and accommodation, so we think £50+VAT is appropriate and thinking about the quality of what we are delivering. We hope you agree that you are receiving value for money. We are also keen to get buy-in from attendees because often free courses are booked but then not attended. Therefore, a contribution towards costs is likely to ensure we do not waste Member's money by paying to hold events that are not well attended.</p> <p>We have no plans to increase this cost and I would call out that we have also made a declaration that we will be freezing membership fees for 2019.</p>
<p><b>Have you considered a 2-tier membership to accommodate those Members who are with Simply Biz and want to stay with them?</b></p>	<p>We have considered a wide range of options to deliver value to our Members. One of the overriding considerations was to try and create a proposal that actually saved our Members money.</p> <p>The Board have continued to debate how best to support the Membership over the coming years from a regulatory perspective. From our meetings with the FCA and other trade bodies, we all know that regulation has only one direction of travel. Therefore, to continue to help you as Members, the Association launched a bespoke compliance arm in 2017 catering specifically for those operating in the commercial finance space.</p> <p>We believe that this added security and support, at a very competitive price, will help you and your clients. We are here as your trusted trade body to keep you up-to-date with regulatory issues and provide technical support whenever it may be required.</p> <p>We are proposing to amalgamate the three types of subscription that we offer. Instead of subscribing to NACFB Compliance Services Ltd, paying for MyNACFB and paying the membership fee, we are proposing that all Members receive all these benefits for one membership fee.</p> <p>We are proposing a revised subscription for Members of £60 per month (£720 per annum). For Registered Individuals (RI's) there is no change, so membership remains at £210 per annum. This revised model of membership is VAT exempt and can be paid by direct debit either monthly or annually, streamlining the payments process.</p>

	<p>We are also committing to freeze the membership rate of £720 for 2019. We will also be reducing the cost of our workshops to a level that covers our costs, for example the GDPR event is now £50 + VAT – down from £255 + VAT, delivering outstanding value for your business.</p> <p>The new membership subscription will apply from your normal renewal date, but the enhanced benefits package will commence on 1st January 2018. If you have already paid for NACFB Compliance Services, we will refund any fees you have paid in advance for 2018 compliance support. If you are paying monthly, we will cancel your direct debit to ensure no payments are taken for next year.</p> <p>For all these reasons we have decided that a 2-tier approach was not practical.</p>
<p><b>We don't pay for compliance with you or any other supplier. You are, in effect, making me pay for something we don't want and don't need. How can that be treating your membership fairly?</b></p>	<p>We should start by standing back from the detail and taking a broader perspective on our current trading and regulatory environment. We know the direction of travel that regulation is taking. Our discussions with the regulator suggests that they appreciate what we are doing to exercise oversight of our industry. Whilst we don't know this for sure, we continue to take the whole compliance issue seriously, they will probably continue to direct their energies on other areas. So, continuing to do what we do, which sits in the self-regulating arena, is actually helping everyone.</p> <p>Let's also think of the damaging consequences to all of us if we don't take this seriously. We all know that it wouldn't take too many bad news stories to seriously tarnish our industry. That will impact on all of us in some way or other. Anything we can do to mitigate this has to be in everyone's interest.</p> <p>So, turning to your question, we would say that whether you invest in our compliance offering directly or not, you can't and shouldn't just abdicate responsibility in the hope that the industry will continue to prosper on the back of a good regulatory reputation. This has to be worked on constantly and we all have a part to play. Even if you remain unconvinced by the argument, the benefits of this activity have to be paid for and we all need to share in the cost if we are to share in the wider benefits.</p>
<p><b>You are changing the membership fees, what are the current membership benefits?</b></p>	<p>Below we have outlined our key USPs that we cover the full spectrum of membership benefits:</p> <ol style="list-style-type: none"> <li>1. Published code of practice and minimum standards for Members</li> <li>2. Competitive PI insurance cover</li> <li>3. Comprehensive calendar of collaborative events including flagship CFE and Gala Dinner</li> <li>4. Regulation and compliance support including nationwide workshops and training delivered online via MyNACFB</li> <li>5. Access to and engagement with Patrons who deliver a comprehensive range of products and services</li> </ol>

	<ol style="list-style-type: none"> <li>6. Brand and reputation built over 25 years focused on protecting and promoting Membership expertise</li> <li>7. Collective voice on matters affecting our industry including productive relationships with the FCA and other trade bodies.</li> </ol>
<p><b>Where are the stats on the performance of the industry? We have always found this very interesting and we are disappointed that you appear to have abandoned this exercise which we believe is rather an important benefit for all of us.</b></p>	<p>We share your disappointment. We agree that this data is important, and it was for that reason we wanted to have a really good look at the quality of what we have been collecting and think carefully about how we can improve on the breadth and granularity of what we have been collecting. With this in mind we decided to pass on this year whilst looking in detail at an alternative collection process. This is in hand and we have been canvassing Members on their ability and appetite to provide us with anonymous data going forward. The feedback has been broadly positive, so you can expect to see us return to this exercise in 2018.</p>
<p><b>We could never understand why the Association moved into central London. What are your plans for the location of the Association looking forward?</b></p>	<p>We keep this under regular review. The general location is fit for purpose given the location of a great many of the Patrons that we deal with on a regular basis. We also have a great team in HH all of whom can commute to the office reasonably easily. The building does have its challenges and we may outgrow the present space. We don't want to materially increase our costs by moving to alternative premises but if we identify an alternative office in the general mid-town location, we may look into relocating. Moving out of London would constitute an unacceptable proposition because we would risk losing the great team that we have worked hard to assemble.</p>
<p><b>I don't want to change compliance provider have I any options/choice?</b></p>	<p>We are not insisting you change your current provider. What we are proposing is that we change the membership fees and benefits so that, as a Member, you will receive a full range of compliance support. It is also worth mentioning that our team are focused and specialists on compliance in the commercial space so you will be receiving a bespoke level of service.</p>

<p><b>How have you calculated the revised membership fee?</b></p>	<p>The calculation has been undertaken to look forward and understand the cost of delivering compliance support as well and training and education. We then calculated the appropriate level of membership fee that would enable to cover the costs and provide a sensible level of surplus  You will find online <a href="#">here</a> the budget for 2018 and, for comparison purposes, the current out-turn forecast for 2017 and the 2016 year-end results.  The key assumptions adopted in this budget are:</p> <ul style="list-style-type: none"> <li>• The proposed changes to the membership subscription</li> <li>• A phased 10% fall in Member numbers and a 5% fall in the volume of Patrons.</li> <li>• 3 additional full-time employees recruited on a phased basis</li> </ul> <p>Administration expenses include £36,000 for a possible change initiative focusing on our accounting processes and membership journey and £18,000 for a phased increase in the cost of MyNACFB licenses</p> <p>The result is a projected surplus for 2018 of £201,885. We believe that this is both practical and reasonable because:</p> <ul style="list-style-type: none"> <li>• We haven't been over optimistic with income projections. In fact, if we are able to retain current levels of Members and Patrons, there is the potential to increase income by circa £56,000.</li> <li>• Administration expenses includes some provision for us to invest in the business and to absorb, as yet unknown, cost increases.</li> </ul> <p>The most significant unknown is the increase in demand on the compliance team as Members start to use us rather than their current supplier. Whilst our expectation is that this will phase in over the year, we need to have some provision in place.</p>
<p><b>What refund arrangements are there for existing Subscribers to Compliance Services?</b></p>	<p>The new membership subscription will apply from your normal renewal date, but the enhanced benefits package will commence on 1st January 2018. If you have already paid for NACFB Compliance Services, we will refund any fees you have paid in advance for 2018 compliance support. If you are paying monthly, we will cancel your direct debit to ensure no payments are taken for next year.</p>
<p><b>We are an unregulated broker and do not fall under the scope of the FCA, which you base your additional services on.</b></p>	<p>Our view is that regulation really only has one direction of travel and it is designed to protect your clients ensuring they benefit from good outcomes. Irrespective of the type of business you currently transact, an appetite to embrace regulation is the right approach and underpins why we are proposing the changes to membership.</p>

<p><b>We do residential/personal/insurance brokering, will you be able to support me going forward? Or do I stay with SimplyBiz?</b></p>	<p>Our focus is Commercial so there are likely to be elements of your business that will need other specialists. That will be for you to decide who is best placed to provide you with help in the non-commercial space</p>
<p><b>We are signed up to another Compliance Support Provider for 12 months, do we have to pay two fees for this time?</b></p>	<p>The new membership subscription will apply from your normal renewal date, but the enhanced benefits package will commence on 1st January 2018. If you have already paid for NACFB Compliance Services, we will refund any fees you have paid in advance for 2018 compliance support. If you are paying monthly, we will cancel your direct debit to ensure no payments are taken for next year.</p> <p>Our approach is linking your compliance costs to your membership renewal. We can't design a process that covers everyone's circumstances, but we hope that we have been fair by saying that all Members will receive compliance support from 1<sup>st</sup> January 2018 irrespective of your renewal date being the date when the new membership fess become payable.</p>
<p><b>If we do not want to pay this new fee as it isn't necessary, what are the consequences?</b></p>	<p>We believe that the benefits of being a Member of the NACFB are excellent value for money at £60 per month. However, you don't have to be a Member so if you don't wish to have the benefits because you don't value them then you can choose not to renew your membership.</p>
<p><b>Is there a trial period so we can test your services compared to our current set up?</b></p>	<p>No this is not part of our planning. We have had a compliance operation in place for quite some time, with excellent feedback from Members that are paying for this service, so we are confident that this is the right way forward for our Members.</p>
<p><b>Will you continue to charge for site visits?</b></p>	<p>For follow up compliance audits, no. If you want a bespoke visit on a consultancy basis, these will need to be paid for at a tariff that would be discussed with you on an individual basis.</p>
<p><b>Paying Board Directors to improve quality, have you any proof this will work?</b></p>	<p>No, we don't because this is a first step for us. We are however focused on ensuring we do everything we can to secure good quality succession and accountability. We do have evidence that the additional emphasis of the Operations Board has increased the performance of the organisation recently. We believe the organisation has benefitted both financially and in terms of engagement, so we feel it is essential that future Board Directors can follow this approach.</p>

As the organisation has grown, so have the responsibilities of the Board. They perform a key role in setting the strategy and direction of travel for the Association. It is therefore important that there is a sound and robust succession plan in place to identify and secure new Board Members and then make sure that a training and development programme is in place so that they can progress through the Board structure and increasing levels of responsibility. As part of this process we need to make sure that Board Directors are appropriately rewarded. At present Operations Board Directors are paid £250 per day that they attend a Board meeting plus expenses.

The proposal is that Board Directors will be paid a basic amount of £3,000 per annum. If a Director attends both Advisory Board and Operations Board, they will be paid separately for each Board position. Additional amounts will be paid for Directors who are appointed to positions of additional responsibility such as Chair and Vice-Chair.

This will not fully compensate Board Directors for the time they have contributed or the time they have lost working in their own business. It is however a token and an indication of their value to the organisation. The proposed payments are made to the Director's business rather than to them personally.