



CHILDREN AND FAMILY COURT ADVISORY AND SUPPORT SERVICE

Paper for the Board Meeting 10 December 2010

FINANCE REPORT OCTOBER 2010 FINANCIAL RESULTS AND QUARTER TWO FORECASTS

1. AIM AND PURPOSE

- 1.1 To provide the Board with an update on the financial position of Cafcass for the seven months ended 31 October 2010.
- 1.2 To provide the Board with an update on the forecast financial position for the current financial year.

2. RECOMMENDATIONS/ACTION FOR THE BOARD

- 2.1 To note the latest financial position.
- 2.2 To note the updated information on the full year financial forecast.

3. SHORT SUMMARY

- 3.1 The organisation's budget holders have delivered their updated financial forecast for 2010/11. The results show the effect of the proactive management of budgets by individual budget holders, set at a safe minimum level of funding for each area, agreed at the start of the financial year.
- 3.2 At the end of October 2010, Cafcass is reporting spend to date of £76.828m against a budget of £81.059m, an underspend of £4.232m. Operational Areas are underspending by £1.337m, National Office £0.657m. The Transformation Programme is reporting an underspend of £2.239m, although this is primarily due to expenditure falling behind of profiled budgets for those areas.
- 3.3 The forecast position for the full financial year remains a balanced budget. The attached financial tables indicate a forecast net expenditure of £139.538m against a budget of £140.600m leaving a balance of 1.062m uncommitted (previously £2.1m against which additional Estates spending and the severance costs associated with the proposed Corporate Services review have now been offset).
- 3.4 The Statement of Financial Position shows an overall indebtedness of £207m, being mainly the Pension Liability of £202.9m together with the difference between accruals for expenses not yet invoiced by suppliers in excess of assets and other amounts recoverable. This position is consistent with the end of the previous financial year.

3.5 The latest cash flow forecast indicates a surplus at year end, which is considered manageable within the limits applied in the Financial Memorandum (cash balance to not exceed 2% of Grant In Aid).

4. BACKGROUND

4.1 The October 2010 management accounts showed expenditure within all the operational areas to be above the budgeted level for the month. The overall position for Operational Areas was an underspend of £1.337m at the end of seven months (compared to £1.563m underspent at the end of September 2010).

4.2 The overall position across National Office budgets is an underspend of £0.657m. This includes an underspend on the ICT budget, in part arising from the difference in the phasing of the budget compared to the actual occurrence of the related expenditure, but also lower service charges linked to performance levels. An underspend on the Estates budget reflects the decision to minimise general Estates expenditure focusing instead on the strategy and funding through the Transformation Programme budget. Central costs show an overspend of £0.494m being in part the uplift in the annual leave accrual arising from the increase in pay on costs in the current year and also the increased depreciation charges on equipment, that had been subject to an upward valuation at 31 March 2010.

4.3 The Transformation Programme Budget is showing an underspend against the profiled budget after seven months of £2.239m. Again, this reflects the timing difference between the budget profile and the release of expenditure. Delays caused by the introduction of measures to control the public sector deficit have impacted progress in Estates and Workforce Development projects. Revisions to milestones on the Tools for Effective Working project mean the budget is running ahead of the updated forecast spending profile. The Transformation Programme budget is expected to spend in full by 31 March 2011.

4.4 A summary of the year to date position is given as follows:

	£m
Budget profiled April – October 2010	81.059
Actual Expenditure to date April – October 2010	(76.827)
Underspend at 31 October 2010	(4.232)

4.5 Across Operational Areas an increase of £0.808m to the October 2010 year to date underspend position is forecast to the end of the year. The underspends in the North and South areas are projected to fall by £0.471m and £0.564m respectively, with an increase in the forecast underspend in Central of £0.228m. These changes in part reflect a higher allocation of budget to the first part of the financial year. Operational Areas overall are therefore projecting an outturn underspend of £0.529m.

4.6 The overall position across National Office budgets is a reducing underspend from £0.657m at the end of October to a small overspend of £0.069m by year end. In particular the ICT budget is forecast to underspend by £0.461m, against a year to date underspend of £0.248m. The Legal Team budget reflects in its forecast the impact of current and ongoing external counsel advice showing an overspend of £0.281m by year end. In contrast the Estates budget shows the forecast underspend expected (£0.500m) by holding back all but unavoidable work, focusing instead on delivery of the Estates Strategy within the Transformation Programme. The impact of the inclusion of estimates for severance costs arising from the proposed Corporate Services review together with the increased depreciation charge referred to above cause forecast spending across National Office budgets to slightly exceed their associated overall budget. The Transformation Programme itself is forecasting a projected overspend on the Estates Workstream of £1.100m, and £0.376m overspend overall. The

Transformation Programme is also supported by ringfencing Corporate Contingency funding against the overprogramming on the Cash for Change element of Frontline First and the increase scope of projects covered by the Estates workstream.

- 4.7 Of the balance of current year budget available to spend therefore, the following costs are forecast:

	£m
Balance of budget available	59.541
Operational Area forecast spend	(44.744)
National Office forecast spend	(10.838)
Transformation Programme forecast spend	(7.130)
Net movement for five months	(3.171)
Cumulative Underspend at October 2010	4.233
Forecast underspend for the year	1.062
Retain within Corporate Contingency	(1.062)
Revised forecast under/(over)spend for the year	nil

5 FORCED LEASE BREAKS AND THE ESTATES STRATEGY

- 5.1 Within the current financial year 6 offices have lease breaks prior to 31 March 2011, with a further 11 falling within 2011/12. 4 of the premises in the current year are subject to exemption requests made to the Department, 1 of which has been approved. The exemptions have been requested on the basis of the poor value for money associated with the disruption to service delivery and the exit costs in the order of £0.900m, for which no additional funding has been provided.
- 5.2 International Financial Reporting Standards require provision to be made in the current year's financial results for the costs associated with onerous contracts which in this context relate to the ongoing costs of leases falling after the year end where the property has been vacated by the end of the current financial year. The value of lease and related payments due in 2011/12 on properties currently identified as potentially being in that position is in the order of £0.700m. All steps will be taken to mitigate such costs. The costs of relocation and any dilapidations on vacating these premises in the current year have been provided for within the Estates budget element of the Transformation Programme.

6 KEY STRATEGIC ISSUES FOR THE BOARD TO CONSIDER

- 6.1 These results show the effect of the proactive management of budgets by individual budget holders, set at a safe minimum level of funding for each area, agreed at the start of the financial year. The financial position of the organisation will always remain vulnerable to significant increases in demand for services, reinforcing the need to maintain close scrutiny of results and the corporate and local strategies already in hand for the remainder of the financial year.
- 6.2 The costs associated with the requirement to exercise lease breaks have been raised as a financial risk with the Department as part of the exemption business case. While the costs associated with decisions on property changes highlighted in paragraph 5.2 above can be covered within the budget for the current year, without additional funding to exercise forced lease breaks the delivery of a balanced budget for the current year is potentially compromised.
- 6.3 Budget holders refresh their forecast position on a monthly basis. Unless a material reduction in forecast expenditure arises prior to the third quarter results becoming available it would be prudent to reserve decisions on further use of the underspend in paragraph 3.2 above until the Department has responded to the outstanding Lease Break exemption requests.

7 BENEFITS FOR CHILDREN

- 7.1 The delivery of safe, high quality and timely services have been identified as two of the organisation's Operating Priorities in 2009/11. In order to achieve this, a budget plan is needed that is sufficient in size and appropriately allocated across functions and geographic areas to ensure resources are available to support service delivery. This paper reinforces the need for continuing management and scrutiny of the organisation's three year spending plan and performance against it. The reprofiled funding settlement assisted in realigning commitments with grant allocations but bringing these back in line continues to be very challenging.

8 FINANCIAL ANALYSIS

- 8.1 The attached Appendices set out the detailed analyses of the October 2010 accounts and updated forecasts.

9 RISK ANALYSIS

- 9.1 The underlying position across the National Office position is less volatile than that in the Operational Areas with fewer variable costs and the absence of demand driven spending. There are greater risks in the forecast position for Operational Areas. The direction of travel is towards lowering commitment levels in particular to position the organisation in as strong a starting point as possible to manage the impact of any funding reductions in future financial years. This year has also seen the introduction of new areas of financial risk, brought about by decisions of Central Government on measures to control the public sector deficit.

10. DIVERSITY ANALYSIS

- 10.1 Ensuring Equality and Diversity are central to all our work is also an operational priority for 2009/11. The active management of spending against a properly constructed budget will help ensure an equitable distribution of resources to enable equality of access to services.

Anthony Douglas CBE,
Chief Executive
25 November 2010

Julie Brown,
Director of Finance