



## CHILDREN AND FAMILY COURT ADVISORY AND SUPPORT SERVICE

### Paper for the Board Meeting on 10 December 2009

## FINANCE REPORT OCTOBER 2009 FINANCIAL RESULTS QUARTER 2 FORECASTS

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### **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 2009
- 1.2 To provide the Board with an update on the forecast financial position for the current financial year.
- 1.3 To update the Board on progress with the preparation of service area budget allocations for 2010/11.

### **2 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.
- 2.3 To note the approach and progress made with the 2010/11 revenue budget.

### **3 OVERVIEW**

- 3.1 The organisation's budget holders have delivered their second financial forecast for 2009/10. These forecasts demonstrate the implementation and impact of measures put in place by the Chief Executive intended to balance the Cafcass budget for the current financial year.
- 3.2 While the results are showing the effect of containment action the level that has been achieved is below that anticipated giving rise to an increase in the forecast overspend from £1.7m (October Board) to £2.3m. This change in forecast can be traced to revisions to a number of overspend targets considered through the Star Chamber process (£0.295m) and a substantial increase in the forecast deficit in the Central area (£0.430m) compared to Quarter 1. In addition, a risk analysis of the basis of preparation of the forecasts indicates a further potential net risk in the order

of up to £1m, if the containment implicit in the area forecasts is not effective and no further areas of spending reduction are identified.

- 3.3 The October Management Accounts show an overspend on the year to date position of £2.2m. This is a reduction on the overspend at September 2009 of £0.581m. This comprises an overspend across operational areas of £3.2m and an underspend on National Office and central budget of £0.670m.
- 3.4 The balance sheet remains consistent with previous months.
- 3.5 While the current cash flow forecast indicates a deficit at year end this is considered manageable and is a significant improvement on earlier forecasts, prior to the reprofiling of grant funding, in particular relating to the overspend in 2008/09.

#### **4 ANALYSIS OF RESULTS**

- 4.1 The management accounts for October are summarised in Appendices 1 and 2. These tables show a continuation of overspend but at a reduced level compared to September 2009. Care should be taken to make too quick an assumption this trend will continue. However, the forecast spend by month for the remainder of this year is consistent with the level of budget allocated for the remainder of the financial year. For many areas however successful containment action is needed to reduce spending to budgeted levels, let alone bring below in order to mitigate overspending in prior months. This is challenging due to demand from courts continuing at very high levels, in public law especially.
- 4.2 The North Operational Area is showing an underspend in its year to date position of £0.202m. An underspend of £0.238m is forecast. The budget has been profiled in line with the resource planning assumptions where a larger amount has been allocated to earlier months in anticipation of spending falling over the latter part of the year. The spending levels forecast for the period from November 2009 are £12.660m compared to budget remaining over the same period of £12.529m. It is imperative the area reviews spending intentions in order to deliver on the outturn position as forecast overall.
- 4.3 The Central Operational Area is showing an overspend on its year to date position of £1.494m. An overspend of £1.343m is currently forecast, implying a need to underspend over the remaining five months in order as a minimum to stay within its current outturn forecast. Forecast spending for the remaining five months is £12.573m compared with budget remaining of £12.668m. Again the budget over the first part of the year has been profiled at a slightly higher average per month than the latter. The main reason for the deteriorating position is a difficulty recruiting permanent staff and a consequential dependence on agency staff covering key front-line positions.
- 4.4 The South Operational Area is showing an overspend on its year to date position of £1.937m. An overspend of £1.893m is forecast. Again this implies a need to underspend over the remaining months. Forecast spending over the final part of the

year is estimated at £16.331m compared to remaining budget of 16.576m. Less budget has been profiled during the first seven months than the average of the annual budget would imply.

- 4.5 The overall position across National Office budgets is an underspend of £1m. This reflects the introduction of additional grant funding (£1.5m) as a result of the reprofiling of the three year funding through agreement with the DCSF and the impact of the freeze on estates spending to support the budget (£0.800m). This offsets the delayed milestone payment under the Flex contract and the cost of a number of improvement activities set in the budget at the start of the financial year including the shift in SMs to 1:10.
- 4.6 At the time of writing, the November management accounts are in hand and the results of these will be available to the Board meeting through a verbal update. This will provide essential information regarding the ongoing direction of commitment and containment actions.
- 4.7 In addition, the preparation of the third Quarter projections will be brought forward to using the November management accounts, which in turn is essential work for assessing the impact of proposed budget allocations for 2010/11 during December so this work will be timely. Projections are now being updated on a monthly basis. The results of the work in December will form a briefing to members for circulation early in January 2010.

## **5 RISK ASSESSMENT**

- 5.1 A review of the bases of the projected forecast spend has been carried out to compliment the work of the Star Chamber and Budget Task Force (South Operational Area) scrutiny processes. In particular, comparing the forecast result with that assuming spending was maintained in line with the first seven months or, the forecast spending taken together with the cumulative position from the end of October.
- 5.2 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. The forecast underspend of £0.700m is therefore reasonably assured. To this two further areas of underspending can be added being £0.100m relating to income, approved by the DCSF for retention, relating to the granting of a copy of the CMS system to Cafcass Wales. The implementation of the Corporate Restructure also indicates potential headroom against initial estimates and resources set aside in the order of up to £0.300m.
- 5.3 There are greater risks in the forecast position for Operational Areas. There have been improvements to the systems used to capture commitments locally, particularly those relating to the use of flexible workforce. The greater risk lies in the ability to deliver the spending reductions from current commitment levels over the remaining four months of the financial year. Operational Areas added a net £0.288m overspend to the cumulative position in October where the forecast requirement from November

through to the year end is to achieve an average monthly underspend per month of £0.056m. This compares to an average over commitment level of £0.490m in the previous six months. So while the direction of travel is towards lowering commitment levels nonetheless there are concerns regarding the delivery of the forecast. Maintaining an over-commitment level for the remainder of the year consistent with the October level would generate an increase in the forecast overspend in the order of £1.4m. Similarly, comparing the level of Workforce spending in September and October to the level of workforce spend forecast to the end of the financial year would indicate a risk range in the order of £1.1m.

- 5.4 If the overspend as currently forecast is deliverable then taken together with the two additional areas of underspend identified above would give a revised forecast outturn of £1.9m. Realistically, there must be doubts regarding the delivery of the slowdown in spending in demand driven budgets with a planning assumption of a forecast outturn overspend of between £2.2 and £2.8 million. DCSF have been advised of this position, and options, in correspondence. Understandably in the circumstances, they are keeping the position under review. All efforts are being made to reduce spending to the cash limit, whilst ensuring no single front-line service or essential corporate function reaches the tipping point which precipitates service failure.

## **6 CASH**

- 6.1 Our cash expenditure to date and forecast for the remainder of 2009/10 is summarised in Appendix 3.
- 6.2 Cafcass has held a cash balance within guidance limits throughout the year. Funding has been received from the DCSF in relation to Grant in Aid, Contact Services and Contact Point, per timetables set.
- 6.3 Our cash forecast suggests that the current forecast resource overspend, discussed above, will cause a cash pressure in the year. This is off-set to some extent by the agreement with DCSF to draw forward cash from 2010/11 to effectively cover the overspend in 2008/09. This allows us to draw an additional £3.1m of cash in this financial year, which will match the cash payments made earlier this year driven by the high resource expenditure at the end of last year.

## **7 IMPACT ON BUDGET ALLOCATIONS 2010/11**

- 7.1 In order for budget holders to be clear about both their resources and commitments for the new financial year, it is important for allocations to be communicated as early as possible. The basis of allocating budget to areas next year has previously been agreed to revise the basis of allocation from one relating to caseload, to one on referral numbers. In making such a change however, it is desirable to ensure this does not give rise to substantial reductions in budget allocations where such a situation would create an overspend position. While the intention to move resources in line with referral patterns is clear, a process of dampening should be considered to avoid significant fluctuations in funding in single financial year.

- 7.2 Following the issue of budget allocations budget holders together with their Area Management Accountants and other local finance colleagues must analyse their resources against the expenditure commitments expected to arise during the new financial year. It is not the intention of this budget process to fund all and any commitments. It is a feature of the model of the budget that a contingency is established to deal both with unforeseen/unmanageable commitments. The expectation however will be that in carrying out the impact analysis of resources against commitments, budget holders will now put in place actions necessary to bring their local commitments back to within the level of their budget allocation.
- 7.3 It is taken as an underlying assumption that the priority is to direct resources to the frontline and therefore maximise funds allocated to the operational areas. While the purpose of the impact analysis will be to determine whether there are any particular areas of spending where a corporate decision to allocate additional funding is required to be made, in general this process will not encourage bids for additional funding beyond core activities and ensuring they are resourced as fully as possible. Working practices continue to evolve in light of which revised operating priorities have been set and will continue through the new financial year. These priorities acknowledge there is an underlying resource gap given recent growth in both case numbers and complexity. **In determining the distributable amount and then carrying out the impact analysis at local level there is an acknowledgement the new financial year will continue to present a significant challenge to ensure service delivery and performance can be delivered and spending held within budget.**
- 7.4 Within the National Office budget area it is generally assumed budgets will carry forward at their current funding levels with changes limited to pay award funding and the impact of the Corporate Restructure. There are a number of areas which require a more detailed review to ensure the correct baseline is being set and also where CMT need to consider an appropriate budget level where expenditure can be considered discretionary, the major ones of which are set out below.
- 7.5 The un-dampened impact of the change in allocation basis is significant and unrealistic with swings in the % change in funding from +21.6% to -19.6%. requiring a cap on on shifts in budget allocations of between -£0.350m and +£0.5m, applying to 7 service areas.

## **8 BENEFITS FOR CHILDREN**

- 8.1 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.
- 8.2 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 and not without significant risks to service delivery in the current and potentially next financial year.

## **9 DIVERSITY ANALYSIS**

- 9.1 Ensuring Equality and Diversity are central to all our work is also an operational priority for 2009/11. In much the same way as ensuring the objectives of benefits for children are met through financial planning and management, so 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, Chief Executive**  
**Julie Brown, Director of Finance**  
**December 2009**