



CHILDREN AND FAMILY COURT ADVISORY AND SUPPORT SERVICE

Paper for the Board meeting on 10 December 2010

BUDGET STRATEGY 2011/12

1. AIM AND PURPOSE

- 1.1 To provide the Board with the latest analysis of cost pressures and potential savings impacting on the Cafcass Revenue Budget for 2011/12.

2. RECOMMENDATIONS/ACTION FOR THE BOARD

- 2.1 To consider the proposed Budget Strategy for 2011/12.

3. SHORT SUMMARY

- 3.1 While the outcome of the current Comprehensive Spending Review (CSR) is still not known at the time of writing, financial planning is needed now in order to both prepare for a range of scenarios about the possible 2011/12 funding settlement, as well as to maximise the opportunity of using uncommitted funds in the current financial year to assist with the costs of implementing any changes arising from the final budget outcome and/or help mitigate some of the financial risks faced in the new financial year.

4. BACKGROUND

- 4.1 The overall level of commitments in 2011/12 and the main changes to them remain as previously reported and are set out below. These give rise to a spending requirement of £131.650m. This compares to the 2010/11 revenue grant excluding Transformation Programme Funding of £128.2m.

	£m
Budget 2010/11	138,200
One off Transformation Programme funding	(10,000)
Estimated Pay, Tax and pension increases (note 4.2)	2,500
Increase in VAT (note 4.3)	0.500
General inflation impact (note 4.4)	0.450
Revised spending requirement	131,650

- 4.2 The annual revaluation of the West Yorkshire Pension Scheme will take place at the end of the current financial year. This valuation will be used to determine the revised rate of Employers Pension Contributions for the three years ended 31 March 2014. The decision regarding that rate will be after the start of the new financial year so a best estimate is needed in order to set sufficient funds aside in developing the overall

budget for next year. The deficit on the pension fund rose from £112m to £203m at the end of March 2010. At the time of the last valuation the scheme deficit rose from £58m to £120m. This generated an increased employer contribution rate of 1.7% per annum, equivalent to £1.3m. Given the growth in deficit is higher than that at the previous revaluation it would be prudent to make provision for a potential annual increase in the order of £2m. To the extent this amount is not required, then the excess can be redirected towards other priorities. In addition, the 2009 pre Budget report indicated an increase in Employers National Insurance Contributions in 2011/12 of 0.5%. A provision of £0.500m has been included to meet this increase.

- 4.3 The Government has previously stated its intention to increase the rate of VAT by 2.5% from January 2011. An estimate of £0.500m has been included to cover this cost.
- 4.4 A general inflation estimate of £0.450m has also been included particularly in relation to contracts with annual increases built in.
- 4.5 The impact of these changes over the next three financial years is set out below.

	2011/12 £m	2012/13 £m	2013/14 £m
Opening Budget	128,200	131,650	134,100
Pay, tax and pension	2,500	2,000	2,000
Increase in VAT rate	0,500	0	0
General Inflation	0,450	0,450	0,450
Spending requirement	131,650	134,100	136,550
Growth on 10/11 level	3,450	5,900	8,350

5. MEASURES TO REDUCE SPENDING IN 2011/12

Review of Corporate Services including Transformation Programme benefits

- 5.1 This review identifies a number of non-frontline posts across each of the corporate Directorates within Cafcass (Finance, HR, IT, Communications, Policy and Governance), which have been identified by the relevant National Office Director for replacement or deletion as necessary. The identified roles are almost exclusively National Office roles (although in some cases held by staff located outside of the Cafcass National Office, within one of the three Operational Areas). As well as the cashable efficiencies to be achieved through the review of these roles, the proposed changes will serve to streamline and improve the effectiveness and impact of a number of back-office functions within the organisation, enhancing the way in which these functions contribute to improved outcomes on the frontline and improving their Value For Money.
- 5.2 Savings of £2.1m are anticipated from 2011/12 rising slightly in 2012/13.

Review of the Operational Management Structure

- 5.3 To move from the existing 21 Service areas to 18 from 1 April 2011. This would mean a reduction of 4 Head of Service areas posts savings £300,000. Changes in boundaries and changes in individual Head of Service portfolios will require a dual sign off by the Chief Executive and relevant Operational Director/s, to ensure developments are consistent with the direction of travel in the Family Justice Review. Existing stable

service areas will retain their current Head of Service, and attention will be limited to those areas in need of significant further improvement.

- 5.4 The Service Manager to FCA ratio will be set at 1:12 from 1 April 2011. This will mean a reduction in frontline Service Manager roles of 20, giving savings of £1.170m per annum. Care will be taken to ensure that where individual teams need a lower ratio because of specific local factors, sufficient funding will be made available to support this.
- 5.5 The Service Manager QI function will be reduced from the existing 39 to 19 from 1 April 2011. This will bring savings of £1.170m per annum.
- 5.6 The 6 Business Support Officer (Health & Safety and Property) posts will go down to 6 to 3 (from 2 to 1 per operational area). This will save £119,000. The KLPD Administrator posts will go down from 6 to 3 (from 2 to 1 per Operational area). This will save £93,000.
- 5.7 The Business Support restructure will deliver savings of £865,000 per annum from 1 April 2011.
- 5.8 The proposals set out above would enable a balanced budget to be set for 2011/12 without further reductions provided grant funding of no less than £126m were awarded for next year. The calculation of the spending requirement rolls forward the Corporate Contingency Reserve of £2m that was a feature of the 2010/11 budget. While this is available to manage any minor variations to grant funding in the short term, as indicated in paragraph 4.5 above, the spending requirement for subsequent years will continue to rise. Notwithstanding the range of potential outcomes from the Family Justice Review, to maintain a steady state budget for 12/13 onwards will require additional spending reductions beyond those set out here. Savings in the order of £1-£1.5m could be found from further reductions in Service and Specialist Service Manager roles together with the deletion of additional corporate services posts. Further cuts in these areas are not however without risk, particularly those with critical responsibilities for casework quality.
- 5.9 Further work on financial planning beyond March 2012 should therefore be prioritised soon after the findings of the Family Justice Review become clear.

6 FORCED LEASE BREAKS – IMPACT OF NEW GOVERNMENT GUIDANCE

- 6.1 Among a number of measures introduced by the government to tackle the budget deficit is a change in government policy preventing the signing of private sector leases and requiring the exercise of lease breaks, in order to reduce the size of the government estate overall. There is no doubt that reducing the government estate is much needed but this has the potential to impact negatively on the Estates workstream within the Transformation Programme and the Cafcass budget strategy going forward.
- 6.2 This has already caused some delays and a loss of benefit, but the Transformation Programme can still deliver a reduction in the Cafcass estate this year from the current 89 buildings to 73. This is a reduction of 18% in one year through the closure of 22 locations and the opening of 6 which will all utilise vacant government property.
- 6.3 There are also a number of buildings within the estate where leases are not expiring this year and that have lease breaks there was no intent to trigger. However, the

changes in government policy more recently require that all lease breaks should be exercised. 6 key offices have lease breaks in 2010/11 that are not recommended for exercise due to operational demands in those locations. These offices are at Norwich, Northampton, Lincoln, Chelmsford, Lancaster and Ilford (for which agreement has now been given to remain). The estimated cost of moving out of these properties, paying for dilapidations and fitting out and moving into alternative offices could be in the region of £1.7m. Further work is in hand to provide more detailed estimates of likely costs and to identify alternatives on the government estate for each closure but no funding has been made available to meet this additional external pressure.

- 6.4 There are at least a further 11 properties with leases containing breaks during 2011/12 giving rise to a potential further unfunded pressure of £3.3m. This is a worse case and for a limited number of those offices it may be possible to combine with existing buildings. However, exit costs and dilapidations which are still averaging at circa £100,000 per office would be still payable.
- 6.5 An urgent meeting has been requested with senior colleagues within the DfE to discuss the impact of this policy change and explore the potential for making the case for funding and/or a limited exemption from the same given the overall positive existing proposals for reducing the Cafcass estate.

7 KEY STRATEGIC ISSUES FOR THE BOARD TO CONSIDER

- 7.1 The analysis of changes to the underlying spending requirement have been limited to those that are known and unavoidable. The base budget retains the existing £2m corporate contingency.
- 7.2 The proposals for spending reductions combine initiatives already in hand, such as the Transformation Programme benefits, together with options to reduce corporate services and the operational management structure. In the event more substantial reductions in spending are required then it is likely these will only be possible if linked formally to changes in the statutory responsibilities of the organisation.

8 BENEFITS FOR CHILDREN

- 8.1 The delivery of safe, high quality and timely services are two of the organisation's Operating Priorities. 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 one and three year spending plans and performance against them.

9 FINANCIAL ANALYSIS

- 9.1 This paper sets out the strategy for budget setting for the new financial year. Analyses of funds available, anticipated commitment levels and the proposed distribution of resources across major areas of spending have all been set out within the paper.

10 RISK ANALYSIS

- 10.1 In setting out the budget proposed here, an assessment has been carried out of the material areas of additional spending, and expenditure reductions, that may impact on the organisation during the course of the new financial year. This process will not have taken account of every instance of changes in the levels of expenditure and income but will have addressed the main items likely to have an impact.
- 10.2 The budget remains vulnerable in relation to three main risks. Firstly, that there is a material change in any of the assumptions regarding the nature and volume of work undertaken. Service areas have seen a growth in both public (30%) and private (15%) law work. This rise in activity comes at a point where the family justice system is already working at full capacity, thereby restricting the flow of cases through the system, increasing the number of active cases held by all agencies involved. We will continue to examine trends in referrals on a monthly basis to assess whether there are changes in levels unsustainable by the budget as currently set out. Secondly, that assumptions made in relation to the cost of activities prove unachievable, in particular the assumptions on workforce spending. We will continue to analyse performance of spend against budget both by type of expenditure and service area to identify any trends in this respect.
- 10.3 Finally, that a cost arises that has not been considered during this process that is either extraordinary in nature and/or exceptional in size. Again, while our regular budget monitoring processes would reveal such an expenditure the fact such a liability had arisen would also have been drawn to the attention of the Corporate Management Team for approval within the current scheme of delegation.
- 10.4 Managing any negative consequence of any of the above items occurring will as far as possible take place within respective local budgets, by considering opportunities to reduce and/or delay expenditure in areas not critical to service performance and delivery. The Star Chamber process used during the previous financial year to scrutinise the financial position of areas under greatest pressure will continue in the new financial year.
- 10.5 Where this is not feasible, the Corporate Management Team will consider the same approach across national and functional budget areas. Use of the contingency budget will form part of this assessment. The Expenditure Control Group will also continue to meet during the year to review financial performance and particular initiatives to improve cost effectiveness.
- 10.6 Finally, if it becomes clear the pressures can not be contained within the budget, the Accounting Officer will consider a recommendation to make an application for the use of Year End Flexibilities.
- 10.7 In finalising the individual local budgets within the allocated control totals, Operational Areas and National Office budget holders will carry out a risk assessment of their own budget and commitments. This assessment will be reviewed as part of the routine budget monitoring process with any increases in risks identified escalated to the Director of Finance and respective Corporate Management Team member.

11 DIVERSITY ANALYSIS

- 11.1 Ensuring Equality and Diversity are central to all our work is an operational priority for Cafcass. 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 CBE
Chief Executive

Julie Brown
Director of Finance

24 November 2010