

10 May 2021

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## Finance report – Year End 2020-21

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<b>Meeting</b>	OLC Board	<b>Agenda Item No.</b>	5
		<b>Paper No.</b>	114.4
<b>Date of meeting</b>	17 May 2021	<b>Time required</b>	10 minutes

<b>Title</b>	<b>Finance Report – Year End 2020-21</b>
<b>Sponsor</b>	Michael Letters (Head of Finance)
<b>Status</b>	OFFICIAL
<b>To be communicated to:</b>	Members and those in attendance

<b>Executive summary</b>
<ol style="list-style-type: none"><li>1. This paper provides a report on the final finance position for 2020-21 – subject to audit adjustments</li><li>2. The final expenditure position (prior to any audit adjustments) is an underspend of £86k, and key movements from the February month end forecast are detailed.</li><li>3. Case fee income is £301,000 below budget</li><li>4. Capital expenditure was £244,000 against a budget of £250,000</li><li>5. Aged Debts at year end are £43k, compared with £276k at the prior year end.</li></ol>
<b>Recommendation/action required</b>
Board is asked to <b>NOTE</b> the report.

## 1. Introduction

The February forecast was for a underspend of £99k. There was also a high risk of not spending £20k on Business Intelligence consultancy, so Board was advised in March that the under-spend could increase to £119k.

The final expenditure position (subject to audit) shows an underspend of £86k against the revised budget.

This paper details the movements since the February forecast and also other key financial information.

## 2. Income & Expenditure, and Capital Expenditure

- Outturn Expenditure £13.162m
- Revised Budget Expenditure £13.248m
- Underspend £86k

	Month				Year to Date			
	Actual	Budget	Revised Budget	Variance	Actual	Budget	Revised Budget	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income - Levy	1,104	938	999	105	12,224	11,545	11,984	240
Income - Case fees	95	93	93	2	817	1,118	1,118	(301)
Income - Other	(23)	12	12	(35)	120	145	145	(25)
<b>Total Income</b>	<b>1,177</b>	<b>1,043</b>	<b>1,104</b>	<b>73</b>	<b>13,162</b>	<b>12,808</b>	<b>13,248</b>	<b>(86)</b>
Staff Costs	903	817	1,065	161	10,429	10,141	10,647	218
Travel & Subsistence	0	1	0	0	0	7	1	1
Fees & Consultancy	74	24	26	(48)	329	314	313	(17)
IT & Telecoms	110	97	97	(13)	1,292	1,164	1,164	(128)
Premises & Facilities	56	64	64	8	756	772	772	16
Other costs	9	3	3	(6)	77	42	42	(36)
<b>Total Cash Expenditure</b>	<b>1,153</b>	<b>1,006</b>	<b>1,256</b>	<b>103</b>	<b>12,884</b>	<b>12,440</b>	<b>12,939</b>	<b>56</b>
Interest & Charges	(0)	(7)	(7)	(7)	(2)	(82)	(82)	(80)
Depreciation	28	37	32	4	280	443	383	103
<b>Non Cash Expenditure</b>	<b>27</b>	<b>30</b>	<b>25</b>	<b>(2)</b>	<b>278</b>	<b>361</b>	<b>301</b>	<b>24</b>
<b>Total Revenue Expenditure before tax</b>	<b>1,181</b>	<b>1,036</b>	<b>1,281</b>	<b>100</b>	<b>13,161</b>	<b>12,801</b>	<b>13,241</b>	<b>79</b>
Taxation	0	7	1	0	0	7	7	7
<b>Total Revenue Expenditure</b>	<b>1,181</b>	<b>1,043</b>	<b>1,281</b>	<b>101</b>	<b>13,162</b>	<b>12,808</b>	<b>13,248</b>	<b>86</b>
<b>Surplus / Deficit</b>	<b>(4)</b>	<b>(0)</b>	<b>(177)</b>	<b>173</b>	<b>(0)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>
<b>Capital Expenditure</b>	<b>40</b>	<b>11</b>	<b>11</b>	<b>(29)</b>	<b>244</b>	<b>250</b>	<b>250</b>	<b>6</b>
Fixed Assets - IT	23	6	6	(17)	186	205	205	19
Fixed Assets - Premises	17	5	5	(12)	57	45	45	(12)

### 3. Year End adjustments

#### Rent Adjustment

A historic error, made in 2019-20, on the recognition of a rent holiday when the Edward House lease commenced in 2014 has been identified. This has been discussed with MoJ finance colleagues, and the external auditors. I am awaiting feedback from the auditors on this.

The benefit of a rent holiday at the start of the lease was spread across the ten year life of the lease, which resulted in a reduction of annual rent across the ten years.

When the lease was renegotiated, a new rent holiday was given, and the revised rent and rent holiday calculated over the remaining life of the lease (five years). The existing rent holiday adjustment was not taken account of when this calculation was prepared.

Adjusting for this error will reduce 2020-21 expenditure by **£50.5k**. The approach to correct this is subject to external audit agreement, and it is possible that a different way of approaching this could be required which adjusts last year's accounts and would have a smaller impact on this year and subsequent years.

If the above approach is agreed, the adjustment will also reduce the future budget requirement for rent by £50k p.a. until August 2024.

Without further action, or change in other expenditure, this would have resulted in an underspend of £170k. In order to mitigate the underspend position, we have;

- provided for a number of legal provisions for existing legal cases: **£27k**
- made a prudent adjustment to the dilapidations provision **£11k**
- Corrected historic depreciation calculation errors (life of asset exceeding length of lease) **£2.5k**
- Written off a further **£2.5k** of debts (net of reduction in bad debt provision)

### 4. Changes in forecast costs

There have been a number of unanticipated costs at year end. Some of this is through thorough accounting of late invoices which might have historically been picked up in the next financial year.

There are some invoices which were not included in the full year forecast. Closer working is required between finance and budget holders to avoid such oversight in 2021/22, and this will be a key focus of the new Finance Manager role.

- **Staff costs**

- £5k further reduction in holiday pay accrual. This reflects the final annual leave position; there will always be adjustments due to late leave booking.
- **Facilities**
  - £9k additional cleaning cost having finally received an invoice from MoJ for cleaning covering over 2 years which we'd been accruing for
  - £5k service charge reconciliation from the landlord
  - £4.5k annual accounts printing costs. A missing invoice from August has been highlighted by the supplier. Consequently, the cost of the 2020-21 account printing has also been accrued.
- **Fees / Other costs**
  - Legal fees not forecast **£16.5k** - £14k for employment advice / ET
  - Independent adjudicator final invoice **£6k** higher than forecast
  - Additional translation costs **£3k**

## 5. Final Expenditure Major Variances (Subject to Audit)

Annual leave accrual	-£20,000
Recruitment slippage	-£68,000
Forecasting Model Improvement	-£20,000
<b>Underspend against interim budget changes:</b>	<b>-£108,000</b>

#### Other variances

<b>Staff - payroll</b>		-£151,000
Investigator turnover	-£91,000	
reduction in annual awards	-£32,000	
GET turnover	-£18,000	
Head of service vacancies	-£11,500	
misc variances	£1,500	
<b>Other Staff Costs</b>		£21,000
recruitment / training	£1,000	
other - occupational health cost	£20,000	
<b>Premises</b>		-£16,500
Rent reduction -historic adjustment	-£50,500	
Office stationery / supplies underspend	-£10,000	
delapidation adjustment less than budget	-£8,500	
service costs increase	£23,000	
car parking loss of income	£32,000	
misc variances	-£2,500	
<b>Fees &amp; Consultancy</b>		£36,500
increased adjudication fees	£4,000	
Increased legal fees (including contingency)	£23,000	
external audit fees - reflecting additional work for 19/20 audit	£10,000	
<b>Travel</b>		-£1,500
<b>IT</b>		£127,500
Covid expenditure reported in IT costs	£12,000	
IT services - Office 365 licence costs	£72,000	
Telecoms - increased network capacity for home working	£16,000	
IT services – new payroll system	£13,000	
CMS – business critical changes	£16,000	
misc	-£1,500	
<b>Depreciation</b>		-£103,000
Reduction in CMS system depreciation (over and above £60k reduction in interim budget)	-£70,000	
Delays in 20/21 expenditure	-£20,000	
budget not adjusted for fully depreciated items	-£13,000	
Interest (net of tax) - bank interest not paid since April 2020		£73,000
<b>Other costs</b>		£36,000
Bad debt write off	£32,000	
Translation costs	£5,000	
misc	-£1,000	
		<b>£22,000</b>
<b>Total Variances</b>		<b>-£86,000</b>

## 6. Income

The full year Case Fee Income is £817,000 vs the budget of £1,118,000 a full year deficit of £301,000. This reflects the number of case closures throughout the year.

## 7. Capital Programme

The Capital Programme Budget for 2020/21 is £250,000. The final outturn position is £244,000 expenditure. The spend by category is as follows:

CMS Small changes	4,600
CMS/System Enhancements	33,300
DSE and Home Working (COVID)	41,700
AI Implementation	30,700
BI Implementation	1,100
Infrastructure and Equipment Upgrade	88,700
Office and environment upgrade	43,700
	<b>243,800</b>

## 8. Balance Sheet

Balance Sheet	As at 31 March 2021 £'000
Premises	405
IT Hardware & Software	443
<b>Total Non Current Assets</b>	<b>847</b>
Cash & Bank	18,301
Debtors	97
Prepayments	177
<b>Total Current Assets</b>	<b>18,575</b>
<b>Total Assets</b>	<b>19,423</b>
Creditors	(682)
Accruals	(775)
Lease Commitments	(230)
<b>Total Current Liabilities</b>	<b>1,686</b>
<b>Net Current Assets</b>	<b>16,889</b>
<b>Net Assets</b>	<b>17,737</b>
Retained Earnings	
Grant in Aid PY / Levy/ Reserves	(17,737)
<b>Reserves</b>	<b>(17,737)</b>

Bank balances are high as we would expect at this point of the financial year, having received all of the levy income which was invoiced in February.

## 9. Aged Debtors

**Trade debtors analysis**

Current £'000	30 days £'000	60 days £'000	90 days + £'000	total £'000
48	13	9	34	104
46%	12%	9%	33%	
Provision for doubtful debts				-12
Net trade debtors				<u>92</u>

Aged debts (over 60 days) have fallen from £276k at the start of the year to £43k.

Whilst this includes £68k of bad debt write off (mainly companies in liquidation), this also reflects the hard work and persistence of the new credit controller. Over £930k of income has been collected in the year and demonstrates a level of control which was missing a year ago – particularly in the investigation and collection of historic debts. There has also been an increased use of on-line claims (MCOL) that has helped with the recovery of some aged debts.