March 2021

Finance report – Underspends

Meeting	OLC Board	**Agenda item** **Paper No.**	**5** **113.4A**
Date of meeting	31 March 2021	**Ime required**	15 minutes

Title	**Finance Report Month 11 2020/21 - underspend**
Sponsor	Michael Letters (Head of Finance)
Status	OFFICIAL
To be communicated to:	OLC Board / ARAC

Executive summary

1. This paper provides a report on the financial position at the end of Month 11 (February 2021)
2. The paper highlights a significant movement in the holiday pay accrual forecast
3. Process and reporting recommendations are made

Recommendation/action required

Board is asked to **NOTE** the report.

Board is asked to **CONSIDER** the reporting suggestions

1. Background

This paper provides a summary of the anticipated year end underspend position for 2020/21, and in particular the forecasting of the holiday pay accrual issue discussed at the recent MoJ Business Assurance Meeting. This builds on discussion at ARAC meeting 10th March 2021 and provides OLC Board with further detail on the movement in forecast underspend from Period 9 (December) to Period 11 (February).

The forecast underspend is £99k.This represents 0.74% of the expenditure budget.

Since identifying budgetary errors in Quarter 2 the prime focus of financial management has been to avoid an overspend. Detailed monthly forecasts have sought to capture all anticipated expenditure to ensure that we deliver close to the budget.

At the end of December the forecast was for a small underspend which needed to be managed carefully to avoid overspend.

2. Period 9 expenditure forecast

In December 2020 a forecast of £23,000 revenue expenditure underspend. The main variances at this point were identified as follows:

	£000	£000
Month 9 forecast underspend		**-23**
Budgetary Savings in Q4		
reduction in holiday accrual	-85	
Further delay in recruitment - Finance BP / EDI Manager / Policy Officer / Risk Mgr	-20	
misc underspend	-6	
		-111
Budgetary Pressure in Q4		
additional professional and legal fees (including ET support)	7	
additional IT expenditure (CMS changes)	10	
bad debt write off	9	
[redacted] FoI exempt S. 40	9	
		35
Month 11 forecast underspend		**-99**

From this point the Executive closely managed discretionary expenditure to minimise the risk of over-spend.

3. Forecast movement from P9 to P11

Each month the actual spend is reviewed, and the forecast revised to take into account emerging issues. Until the February adjustment to holiday pay, avoiding an overspend has been the key financial risk that the executive have been managing.

Since December, the following movements have been identified. The major movement is the reduction in annual leave accrual required:

4. Forecasting of holiday pay accrual

The risk of an overspend due to increased holiday being carried forward was identified in September and put into the interim budget submission which was raised at the 28th September board meeting (£100,000 estimate). This risk followed decisions made on annual leave by the Executive Team at the time of the first Covid lockdown in March 2020. This has resulted in a more complex leave situation than would normally be required to manage including the availability of special leave for some staff in addition to annual leave throughout this period.

In November a detailed review of outstanding leave was undertaken by HR, and caps applied to the amount of leave that could be carried forward. This was communicated to all staff. The cost of the leave was calculated at this point and estimated to be an increase of £170,000.
At the same time, the rewarding success forecast was reduced by £24,000 to reflect the realisation that KPIs triggering the all staff award would not be met, partially mitigating the forecast overspend.

As part of preparation for year end, an update was requested from HR which highlighted that significantly more leave had been taken than anticipated, and that the accrual increase would be £85,000 less than previously forecasted. This was reported at February month end. This has undoubtedly been affected by the further lockdown announced by the Prime Minister in early January and the impact on subsequent actions taken by the Executive relating to the taking of annual leave and special leave (specifically the requirement use annual leave before applying for special leave)

This approach has allowed the active management of leave by HR, and the updating of forecast outturn. Historically, this has been reviewed at year end, not throughout the year.

Advice received from MoJ Centre of Excellence Finance Team have indicated that that MoJ and other NDPBs tend to complete this review at year end rather than forecasting in advance. The Executive Team are further reflecting on current practice to assess how we ensure procedures both align with wider practice and help prevent a similar issue arising in future years.

5. Mitigating Actions

The Executive are looking at mitigating actions to spend some of the underspend, whilst recognising that there is limited time to take many actions.

This includes bringing forward the commissioning of a legal review into employment tribunal risks and identifying where overtime can be deployed in operations.

The forecast has been built in a necessarily prudent manner, and so the mitigating actions are not likely to deliver any significant savings, since some overtime was already forecast, and will counteract some small underspends that will emerge such as unpaid sick leave in March that could not have been forecast (c. £3k).

In our review of planned expenditure and likely end year position it has become clear that a planned consultancy project for data modelling will not be delivered as planned due to delays in tendering for this work. Procurement rules prevented this from being expediated when the delay was known.

As a result, the forecast of £20k for this will need to be removed.

The Executive team will be provided with a full review of the circumstances which led to this delay.

As a result, the current forecast is for a £119k underspend.

6. Process Improvements

We will provide ARAC with monthly reporting from Q3 of the forecast full year outturn.

We have discussed with MoJ how they manage outstanding leave, and have had confirmation that they just adjust this at the year end. However, we will monitor this from Q3 on a monthly basis so that we can manage the situation, and take corrective action if necessary, and update the full year forecast accordingly on a monthly basis.