

<b>Meeting</b>	Board	<b>Agenda Item No. Paper No.</b>	5 116.4
<b>Date of meeting</b>	18 October 2021	<b>Time required</b>	10 Minutes

<b>Title</b>	<b>Financial Report – September Month End</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>
<p>This paper shows the current full year financial forecast underspend against budget, along with key financial reporting for assurance.</p> <p><b>Financial Forecast</b> Staff costs are currently forecast to be <b>£539k</b> underspent (5%). This is an increase of <b>£57k</b> over that reported to October ARAC due to further resignations and slippage of the November investigator intake by a few weeks.</p> <p>Recruitment and retention of staff in the Resolution Centre remains a significant challenge, and an underspend of <b>£560k</b> is forecast in Resolution Centre. Over recruitment was planned from the beginning of the year to mitigate the vacancies which we had at the start of the year, but challenges in recruitment, along with significant recent attrition, means that the current recruitment activity is unlikely to recruit the volumes of staff required.</p> <p>Recruitment to replace Service Improvement team vacancies was delayed to minimise the likely impact on Operations teams and the impact on case closures. Appointments have now been made, resulting in a forecast <b>£79k</b> underspend.</p> <p>The Executive team are prioritising interim resource requirements in key areas which will be funded by the underspends from a number of Executive and Corporate vacancies. The proposals total around <b>£148k</b>.</p> <p>Non-Staff costs are also forecast to be underspent by <b>£120k</b> resulting in an overall forecast underspend of <b>£659k</b>.</p> <p><b>Financial Reporting</b> The Income and Expenditure and Balance Sheets are provided to board for assurance. Board should note the following: Case Fee Debtors The aged debt position is at a stable, and low, level. Payment of Creditors There is continued improvement in the commitment to pay supplier invoices on time.</p>
<b>Recommendation/action required</b>
Board is asked to note this report

# Financial Report

## 1. Staff Cost Forecast

### a. Operations

#### Resolution Centre

Significant efforts to recruit new investigators have been ongoing since April 2021 but, despite early success in the April recruitment for a July intake, competition in the local market has restricted the success of subsequent campaigns with intakes for September and likely November both yielding less than required numbers. LeO did not recruit to operational posts in 2020-21 to mitigate the attrition in year. As a result there were 11 investigator vacancies against budget at the start of the year resulting in an underspend of £125k in Q1.

These challenges, allied with high levels of attrition, means that LeO has been operating with an investigative FTE well below those forecast in Business Plan which has contributed to a significant underspend in staff costs in this area, in addition to having a significant impact on case closures.

Investigator FTEs	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Average
Actual / Forecast	98.8	97.7	96.9	112.3	106.8	114.8	111.8	118.8	115.8	127.8	124.8	121.8	112.3
Budget	109.7	109.7	109.7	121.7	121.7	121.7	121.7	133.7	133.7	133.7	133.7	133.7	123.7
Variance	- 11.0	- 12.0	- 12.8	- 9.4	- 14.9	- 6.9	- 9.9	- 14.9	- 17.9	- 5.9	- 8.9	- 11.9	- 11.4
Joiners / increase in hours	-	-	2.2	19.2	-	11.0	-	10.0	-	15.0	-	-	4.8
ATTRITION / decrease in hours	- 1.0	- 1.1	- 3.0	- 3.8	- 5.5	- 3.0	- 3.0	- 3.0	- 3.0	- 3.0	- 3.0	- 3.0	- 2.9

Significant recruitment happened in July, but this didn't fully make up for the vacancies from 2020-21, and along with a two week delay in joining against budget this is leading to a forecast underspend in Q2 of £132k.

Further recruitment has been planned, and when forecasting at the beginning of August (July month end process) this was forecast to bring in 13 investigators in September, and 30 in November. Since then significant changes to these forecasts have occurred:

- Only 10 investigators started in Mid-September (£56k reduction in forecast)
- Only 10 investigators are now forecast to start in November. This reduces the forecast by £294k and means that we are forecasting to recruit less than 50% of the cohort we aimed to recruit in the Autumn. Delays to the start date of this cohort to late November have reduced the forecast by a further £30k.
- 6 investigators left in August (including 2 promotions / transfers such as to a Paralegal role), adding a further £137k underspend until year end.
- Attrition is forecast at 3 each month until March.

As noted in the Agreed Data Set, recruitment within the Birmingham area for the investigator skill set is becoming increasingly challenging as a number of

organisations are recruiting from the same geographical and skills pool and the outlook for recruitment challenging as the economy opens up, people return to offices and individuals begin to look at stalled career moves. To work around this constraint, the use of a managed recruitment service was proposed to use specialist skills to attract a wider range of candidates. A proposal was issued to the Ministry of Justice in August to use a specific supplier on the CCS framework. Issues were encountered in how the managed recruitment partner service could be procured and contracted and in getting MoJ approval. As a result, to ensure a November intake was viable in terms of time, the decision was made to undertake a LeO recruitment for the November intake. This has sought to go beyond the local market and target applicants within commutable distance.

A further recruitment round is planned with a current forecast of 15 investigators starting in January, adding back a forecast £159k expenditure. The use of an external recruitment agency is still being pursued to facilitate this.

Leave buy back is being considered to increase Operations capacity. This is unlikely to affect the underspend (counter acts the year end leave accrual) but will help manage the covid related accumulation of leave from last year which continues to affect the ability to meet business plan performance targets.

### **The forecast annual underspend is now £560k**

The best and worst case scenarios for recruitment could reduce the underspend by £118k (12 investigators in November and 25 in January) or increase the underspend by £118k (5 investigators in November and 10 in January).

Changes in attrition (currently assumed to be 3 a month but running higher) could also impact the forecast in either direction.

### **Other Operations Teams**

To maximise operational delivery, the decision has been made to overspend on front lines services where we can increase activity. The GET Team, Ombudsman Team, and Operations Management are now all forecast to be overspent (**Total £153k overspend**):

- **GET team**
  - Additional recruitment is being undertaken, and 4 staff joined in September with a further 6 new starters expected in November.
  - This results in a **Forecast Annual overspend is £64k**
  
- **Ombudsman Team (L2)**
  - 4 new Ombudsmen joined in July. This was over-recruitment which assumed there would be future attrition to two internal posts in Service Improvement which has now occurred.
  - Use of pool ombudsman resource to increase delivery has also been used resulting an overspend of £26k YTD, and £62k full year forecast
  - **Forecast Annual overspend is £61k**
  
- **Operations Management**

- A 4<sup>th</sup> Operations Manager has been recruited, with a start date of January.
- There has also been an OM Support Assistant in place for 6 months (until September). A replacement is not yet forecasted.
- **Forecast Annual overspend is £28k**

## b. Service Improvement and Transformation

Underspends in the Service Improvement team (£79k) and Senior Ombudsman (Transformation) post (£68k) totalling **£147k underspend** are effectively covering the overspend in Other Operations Teams. Again, this is part of a deliberate decision to divert focus (and delay recruitment in service improvement areas) towards Operations.

The Service Improvement team, which combines the quality and service complaints teams has a forecast underspend of £79k. This underspend has been caused by a number of senior and junior roles coming vacant earlier in the year (including Senior Ombudsman – Service Complaints and Data & Insight Manager who moved internally to fill the EDI Manager role on internal competition). Immediate recruitment into these roles was delayed to mitigate the adverse impact of internal transfers on operational delivery affecting closures and productivity in Operations. Two senior roles (Senior Ombudsman – Service Complaints and L2 Secondment) have now been filled by way of internal appointment, as we expected.

Recruitment for the other senior role of Quality Manager has been ongoing both internally and externally for several months, without success. Other, junior level, recruitment into the 'quality' team has been put on hold until the New Year again to mitigate the likelihood that this recruitment will be sourced internally from operational teams.

## c. Corporate

### Executive Posts

There were also a couple of Executive vacancies at the start of the year (Head of Programme Management & Assurance and Head of Transformation) which were not immediately recruited to while the new Chief Ombudsman considered the requirements for the Executive Team. The Head of Programme Management & Assurance has now been filled on a temporary basis for an initial period of 18 months following an internal competition. The Head of Transformation is likely to be vacant until Q4 resulting in a combined underspend of £111k from these vacancies.

The Executive team are prioritising interim resource requirements in key areas that have issues which need resolving which will be funded by the underspends from these vacancies.

This includes significant HR support for learning and development, reviewing and developing recruitment processes, and reviewing and developing HR policies, including those relating to performance and absence management. The current

forecast for these interim requirements is an estimated £148k, but this is contingent on identifying suitable candidates, timing, and the actual costs of the interim resource, and so is subject to revision in subsequent forecasts.

## 2. Non-Staff Costs

Non-Staff costs are forecast to be **underspent by £120k**

- A historic rent calculation error was identified in 2021 and reviewed with the external auditors in late March after the budget was set. The result of this is that the budget is £50k higher than required due to on-going recognition of a rent holiday.
- Building service costs are also forecast to be underspent, due to a rebate of £35k for 2020 being received in July.
- There are emerging underspends in IT (£35k underspend forecast) which are being carefully monitored since these can fluctuate.

**Overall Forecast Underspend £659k (4.5%)**

## 3. Budget Management

In order to manage the finances of LeO effectively, and ensure that the forecast assumptions are agreed between budget holders and finance, monthly meetings between budget holders and Finance are held to review actual and forecast costs and review and update assumptions.

In addition, a cross organisation approach is being undertaken around knowledge sharing and assumptions which underpin financial forecasting such recruitment and attrition data. This involves regular meetings and information sharing between Finance, HR, Business Intelligence and Operations.

At an Executive level, there is a monthly review of finance. In addition, a weekly progress review meeting is being held between Executive members to review progress on key forecast assumption deliverables such as operations recruitment and plans for interim resources.

## 4. Financial Reporting

### a. Income & Expenditure to 31 August 2021

	Month			Year to Date			Full Year		
	Actual	Budget	Variance	Actual	Budget	Variance	Forecast	Budget	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income - Levy	1,054	1,099	(45)	5,943	6,498	(555)	12,605	13,141	(537)
Income - Case fees	74	102	(28)	486	571	(85)	1,096	1,200	(104)
Income - Other	25	12	13	78	72	6	125	144	(19)
<b>Total Income</b>	<b>1,153</b>	<b>1,213</b>	<b>(60)</b>	<b>6,507</b>	<b>7,141</b>	<b>(634)</b>	<b>13,826</b>	<b>14,485</b>	<b>(659)</b>
Staff Costs	893	973	80	5,131	5,694	563	11,028	11,567	539
Travel & Subsistence	-	1	1	-	2	2	2	7	5
Fees & Consultancy	29	24	(5)	158	152	(6)	328	328	-
IT & Telecoms	118	115	(3)	661	690	29	1,345	1,380	35
Premises & Facilities	52	54	2	235	322	87	509	644	135
Other costs	14	4	(10)	43	28	(14)	59	54	(5)
<b>Total Cash Expenditure</b>	<b>1,106</b>	<b>1,171</b>	<b>65</b>	<b>6,228</b>	<b>6,888</b>	<b>660</b>	<b>13,270</b>	<b>13,980</b>	<b>709</b>
Interest & Charges	0	0	(0)	3	2	(0)	5	5	-
Depreciation	46	42	(5)	276	250	(26)	550	500	(50)
<b>Non Cash Expenditure</b>	<b>47</b>	<b>42</b>	<b>(5)</b>	<b>279</b>	<b>253</b>	<b>(26)</b>	<b>555</b>	<b>505</b>	<b>(50)</b>
<b>Total Revenue Expenditure before tax</b>	<b>1,153</b>	<b>1,213</b>	<b>60</b>	<b>6,507</b>	<b>7,141</b>	<b>634</b>	<b>13,826</b>	<b>14,485</b>	<b>659</b>
Taxation	-	-	-	-	-	-	-	-	-
<b>Total Revenue Expenditure</b>	<b>1,153</b>	<b>1,213</b>	<b>60</b>	<b>6,507</b>	<b>7,141</b>	<b>634</b>	<b>13,826</b>	<b>14,485</b>	<b>659</b>
<b>Surplus / Deficit</b>	<b>(0)</b>	<b>-</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>Capital Expenditure</b>	<b>4</b>	<b>-</b>	<b>(4)</b>	<b>50</b>	<b>104</b>	<b>55</b>	<b>250</b>	<b>250</b>	<b>-</b>
Fixed Assets - IT	3	-	(3)	38	52	14	125	125	-
Fixed Assets - Premises	1	-	(1)	12	52	40	125	125	-
Fixed Assets - Lease (IFRS 16)	-	-	-	744	-	-	-	-	-

### b. Balance Sheet as at 30 September 2021

Balance Sheet	As at 30
	September 2021
	£'000
Premises	993
IT Hardware & Software	372
<b>Total Non Current Assets</b>	<b>1,365</b>
Cash & Bank	12,433
Debtors	5,903
Prepayments	279
<b>Total Current Assets</b>	<b>18,615</b>
<b>Total Assets</b>	<b>19,980</b>
Creditors	(482)
Accruals	(938)
Lease Commitments	(824)
<b>Total Current Liabilities</b>	<b>(2,244)</b>
<b>Net Current Assets</b>	<b>16,371</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>

## c. Aged Debtors as at 30 September 2021

Current	30 days	60 days	90 days +	total
£'000	£'000	£'000	£'000	£'000
42	10	7	26	85
50%	11%	8%	30%	

Provision for doubtful debts	-12
Net trade debtors	<u>73</u>

Aged debts (over 60 days) remain at a low level (£33k).

## d. Trade Creditors – Days to Pay

The challenges of remote working had a significant impact on the timeliness of paying purchase invoices in 2020-21. This includes both factors out of our control such as invoices being sent late by suppliers, or not being received, and our internal processes around authorising of invoices. Remote working has hampered the ability of the finance team to chase authorisers.

There is a commitment to reducing the average payment days, and I am pleased to report that this has significantly improved in 2021-22, and the finance team continue to drive this improvement.

days to pay	2020/21	Q1	Q2
average payment days	39	29	28
% of invoices paid on time	34%	46%	65%