

HMCS Board

8 June 2007

- Report title:** Summary Financial Results for 2006-07 and Quarterly Review of HMCS Resources Position
- Author:** Philip Lloyd
- Purpose of report:** To provide the Board with a review of financial performance for 2006-07 and during the last 3 months.
- Recommendations**
1. That Departmental Management Board (DMB) be requested to give HMCS £7.8m in End Year Flexibility relating to its under spend on “near cash” in 2006/07, noting that the target of £10m was achieved.
 2. That the Operations Committee put in place additional controls and monitoring of estates related expenditure.
 3. That the Asset Management Committee put in place additional controls and monitoring of Capital related expenditure.
 4. That HMCS Resources continue discussions with MoJ Corporate Finance regarding the funding of the £22m pension provision.

1. Summary Financial Results – Year ended 31st March 2007

The financial out turn for the year ended 31st March 2007, subject to audit adjustments, is set out below:

Resources DEL (Cash)			
Category	Actual £000's	Year to Date Budget £000's	RAG
Fee Income	(448,244)	(452,700)	(1.0%)
Fines Income	(99,433)	(99,100)	0.3%
Other Income	(56,753)	(56,649)	0.2%
Total Income	(604,430)	(608,449)	(0.7%)
Total Payroll	811,392	823,658	1.5%
Other Expenditure	490,571	488,606	(0.4%)
Shared Services	26,621	28,152	5.4%
Profit on Sale of Assets	(7,202)	(4,800)	50.0%
Total Cash Expenditure	1,321,382	1,335,616	1.1%
Net Cash Operating Expenditure	716,952	727,167	1.4%
Cash Underspend	Actual v Budget		10,215
Resource DEL (Non Cash)			
	Actual £000's	Year to Date Budget £000's	RAG
Notional Expenditure	205,539	200,480	(2.5%)
Total Notional Expenditure	205,539	200,480	(2.5%)
Non Cash Overspend	Actual v Budget		(5,059)

In November 2006, the Departmental Management Board (DMB) requested HMCS to under spend its “cash” Resource budget by £10m to provide a contingency against the overall DCA position.

The full year out turn was a £10.2m under spend on the “cash” resource budget. The under spend was generated from HQ policy unit budgets and from property disposals. Operational expenditure was not impacted.

Of the £10.2m under spend £7.8m scores as a “near cash” under spend in the DCA Resource Accounts. (£2.4m of profit on disposal of property does not count towards this measure.) The overall DCA position is a “near cash” under spend of £61.9m.

Recommendation: That the Board request £7.8m of End Year Flexibility from DMB. This represents the near cash under spend as recognised by DCA, noting that the target of £10m was achieved.

The full year out turn for “non-cash” was an over spend of £5.0m. The over spend reflects the inherent uncertainty created by the policy of revaluation of fixed assets. The DCA does not have any “non-cash” budgetary pressures and under spent its “non-cash” budget by £243.5m.

2. Summary Regional Results – Year ended 31st March 2007

The £10m “cash” under spend did not impact on the Regional budgets and most Regions produced an actual out turn very close to their budget.

The impact of the work force head count reductions was that most Regions under spent on their Payroll budgets. Generally this under spend was redirected towards expenditure on estate costs, which encompass maintenance costs as well as utility and security costs. Most Regions were able to control expenditure in this area, however, a couple of Regions experienced difficulties resulting in an overall over spend. The Operations Committee is addressing this.

Resources DEL (Cash)			
Region	Year to Date		RAG
	Actual £000's	Budget £000's	
Net Expenditure			
London	151,334	151,500	0.1%
South East	138,934	138,306	(0.5%)
South West	84,509	84,469	(0.0%)
Wales & Cheshire	61,002	60,857	(0.2%)
Midlands	133,297	133,426	0.1%
North East	112,367	112,617	0.2%
North West	105,284	105,572	0.3%
Royal Courts of Justice	59,573	60,126	0.9%
Total Net Cash Expenditure	846,300	846,873	0.1%
Total Underspend / (Overspend)	Actual v Budget		573

3. Civil Fee Income – Year ended 31st March 2007

Civil Fee income is an important source of funding for HMCS accounting for 29.2% of the overall Resource budget expenditure.

During the year fee income grew by 9.88% compared to 2005/06 and the additional funds proved vital in relieving cost pressures in operational budgets.

Full Year	Actual £'s	Budget £'s	Variance bttr/(wrse)		Prior Year £'s	Change bttr/(wrse)	
			£'s	%		£'s	%
Supreme	28,228,302	27,445,423	(782,879)	(2.85%)	27,571,972	656,330	2.38%
County	329,375,448	325,390,911	(3,984,537)	(1.22%)	308,287,375	21,088,073	6.84%
Family	54,792,630	59,342,730	4,550,100	7.67%	46,803,108	7,989,522	17.07%
Probate	16,722,553	16,129,702	(592,851)	(3.68%)	16,607,907	114,646	0.69%
Total Excl Mags	429,118,933	428,308,766	(810,167)	(0.19%)	399,270,362	29,848,571	7.48%
Magistrates	19,124,582	24,391,234	5,266,652	21.59%	8,659,539	10,465,043	120.85%
Total Incl Mags	448,243,515	452,700,000	4,456,485	0.98%	407,929,901	40,313,614	9.88%

4. Segmental analysis – Year ended 31st March 2007

The split of expenditure between the civil and family justice system and the criminal justice system has assumed more significance: -

- In April 2007 HMCS published a consultation paper (CP 5/07) on increasing civil court fees to achieve 100% full cost recovery by 2010-11 thereby securing funding for the civil courts. In 2006/07 recovery was 79% (2005/06 79%).
- Concerns have been raised by the Judiciary and wider legal community about the potential impact of the Ministry of Justice with its focus on the criminal justice system on resources made available to the civil and family justice system. In 2006/07 £613.6m was spent on civil and family justice system compared to £555.9m in 2005/06.

	Gross Income	Income foregone via REMEX	Net Income	Expenditure	Total Net surplus / (deficit)	Fee Gross against Expenditure	Recovery Target
2	£'000	£'000	£'000	£'000	£'000	%	%
Civil	369,622	12,018	357,604	335,442	22,162	110%	100
Family	76,697	21,904	54,793	182,415	(127,623)	42%	66
Non Contentious Probate	16,732	10	16,722	13,163	3,559	127%	100
Sub Total	463,051	33,932	429,119	531,020	(101,902)	87%	
Mags Civil	16,730	118	16,612	43,686	(27,075)	38%	
Mags Family	3,152	639	2,513	38,912	(36,399)	8%	
Total	482,933	34,689	448,244	613,618	(165,376)	79%	
Criminal & Other	0		134,207	981,360	(847,153)		
Court Funds Office	0		22,000	22,025	(25)	0%	
Overall Total	482,933	34,689	604,451	1,617,003	(1,012,554)		

N.B. For the purposes of the Annual Report additional items of expenditure, in particular DCA shared service costs and IT costs are added to the Resource expenditure and this is reflected in the total above.

5. Capital Expenditure – Final Quarter 2006/07

The full year out turn on the Capital budget was a net expenditure of £90.1m compared to a budget of £122.9m. This figure has changed from the Executive Committee Report due to the year end financial accounts review.

The under spend of £32.7m was largely due to the delay in the Bristol Magistrates' Court Private Developers Scheme (PDS).

Capital			
	Year to Date		RAG
	Actual £000's	Budget £000's	
Total Capital Receipts	(9,470)	(5,700)	66.1%
Total Capital Expenditure	99,614	128,587	22.5%
Total Capital Expenditure	90,144	122,887	26.6%
Capital Underspend	Actual v Budget		32,743

In the final 3 months of 2006/07 £75.6m of capital expenditure, net of receipts, took place. This compares to an annual net expenditure of £90.1m. It is recognised that allowing expenditure to be delayed until the final months of the year is not a desirable out come and an action point has been taken by the Asset Management Board.

During the final quarter Capital expenditure took place on the following buildings and schemes:

Segmental Analysis of Capital Expenditures (Includes Regions)	Expenditure Jan to March 07 £ 000's
Manchester CJC	1,521
Central London Magistrates	1,171
Hendon & Land	459
Liverpool Civil Justice Centre -credit received from developer	(752)
Warwick PDS	2,417
Carlisle	650
Schemes with expenditure under £150k	18,046
Regional RAMP schemes	33,631
Regional Buildings at Risk schemes	18,411
Total Expenditure	75,554

6. Summary Proforma Balance Sheet – As at 31st March 2007

Balance Sheet		as at 31 March 2007 £000's
Fixed assets		
Tangible fixed assets		3,231,188
Current assets		
Debtors		69,056
Cash at bank and in hand		142,187
Total assets		211,243
Creditors: amounts falling due within one year		(469,096)
Net current assets		(257,854)
Total assets less current liabilities		2,973,335
Creditors: amounts falling due after more than one year		(173,127)
Provisions for liabilities and charges		(322,427)
Total net assets		2,477,781
Taxpayers' equity		
General fund		(2,023,940)
Revaluation reserve		(453,841)
Total taxpayers' equity		(2,477,781)

The balance sheet is shown prior to any audit adjustments.

At the year end and following revaluation HMCS had £3.2m of Fixed Assets including £2.8bn of land & buildings. The year end cash position was £142.0m

7. Summary Workforce Position – As at 31st March 2007

Summary Workforce Position						
Region & HQ Directorates						
	Actual	Baseline	Current year Reduction	Actual	Target	Reduction outstanding to target
	FTE	FTE	FTE	FTE	FTE	FTE
London	2,832.43	2,981.30	148.87	2,832.43	2,907.30	(74.87)
South East	3,020.50	3,243.00	222.50	3,020.50	3,044.00	(23.50)
South West	1,985.69	2,048.00	62.31	1,985.69	1,997.00	(11.31)
Wales & Cheshire	1,449.70	1,436.00	(13.70)	1,449.70	1,424.00	25.70
Midlands	3,055.45	3,211.00	155.55	3,055.45	3,127.00	(71.55)
North East	2,815.28	2,900.00	84.72	2,815.28	2,854.00	(38.72)
North West	2,440.67	2,574.00	133.33	2,440.67	2,479.00	(38.33)
Royal Courts of Justice	1,249.40	1,329.00	79.60	1,249.40	1,282.00	(32.60)
HQ Directorates	779.14	787.70	8.56	779.14	795.70	(16.56)
TOTAL	19,628.26	20,510.00	881.74	19,628.26	19,910.00	(281.74)

Agenda item: 8

The targets set by DMB for the reduction in headcount to be achieved by HMCS, which include the Gershon reductions, was comfortably achieved.

The reductions were largely achieved by efficiencies made in the magistrates' courts and by reductions in managerial and administrative posts.

Resource (People)	30-Apr-06 FTE	31-Mar-07 FTE	Change FTE	Change %
Management and Administration	4,445.84	4,222.05	(223.79)	(5.0%)
Combined Court/Family Group/Probate Offices	504.74	466.04	(38.70)	(7.7%)
County Court	5,190.67	5,169.24	(21.43)	(0.4%)
Crown Court	2,593.44	2,594.18	0.74	0.00
Magistrates' Court	7,721.83	7,123.57	(598.26)	(7.7%)
Judges Lodgings	53.48	53.18	(0.30)	(0.6%)
	20,510.00	19,628.26	(881.74)	(4.3%)

8. 2007/08 Resource and Capital Budget Delegations

Direct comparison of the final 2006/07 "cash" budget to the first budget for 2007/08 is complex because of the transfer of part of the Business As Usual budget to e Delivery Group and the split of the budget between BAU and Change Projects.

The final 2006/07 "cash" Resource DEL budget was £729.7m. From this £28.2m has been transferred to eDG giving a comparative of £701.5m. The 2007/08 BAU budget is £700.5m (less £6.7m due to be transferred to Tribunal Service). In addition a "Change" budget of £114.7m has been delegated. To complicate matters £19.3m of the "Change" budget relates to policy work in the Criminal Justice Directorate that was formally classified as BAU. It has been agreed that in the next budget version it will revert to its former classification. So the "like for like" comparisons are £701.5m in 2006/07 compared to a current year BAU budget of £713.1m.

A problem currently exists on the "near cash" Resource DEL budget for the funding of movement on provisions. In previous years DCA / MoJ Corporate Finance have provided the funding for payments against the pension provisions. Therefore the HMCS Medium Term Financial Plan used for the budget allocation did not include any request for "near cash". As a consequence no "near cash" funding has been made available in the first budget and HMCS are currently unable to pay the £22m due on the MCS pension.

The final "non-cash" Resource DEL in 2006/07 was £197.9m. This has been increased to £234.0m to reflect the additional depreciation and notional cost of capital associated with the CUPID assets.

The net Capital DEL in 2006/07 was £122.9m. The 2007/08 Capital DEL budget is £107.7m, although this may be subject to change.

Summary Financial Results – April 2007

BAU Resources DEL (Cash)						
Category	Actual Year to Date			Full Year 2007/08		
	2007 £000's	2006 £000's	RAG	Forecast £000's	Budget £000's	RAG
Fee Income	(34,277)	(31,688)	8.2%	(465,735)	(464,800)	0.2%
Fines Income	(4,040)	(6,125)	(34.0%)	(200)	(200)	0.0%
Other Income	(2,563)	(579)	342.4%	(39,980)	(39,980)	0.0%
Total Income	(40,880)	(38,392)	6.5%	(505,915)	(504,980)	0.2%
Total Payroll	66,797	64,597	(3.4%)	825,495	825,495	0.0%
Other Expenditure	22,151	38,208	42.0%	382,270	381,335	(0.2%)
Shared Services	0	1,792	100.0%	0	0	0.0%
Total Cash Expenditure	88,948	104,597	15.0%	1,207,765	1,206,830	(0.1%)
Net Cash Operating Expenditure	48,068	66,205	27.4%	701,850	701,850	0.0%
Cash Underspend	2007 v 2006		18,137	Forecast v Budget		-
Resource DEL (Non Cash)						
	Actual Year to Date			Full Year 2007/08		
	2007 £000's	2006 £000's	RAG	Forecast £000's	Budget £000's	RAG
Notional Expenditure	14,863	15,441	3.7%	234,000	234,000	0.0%
Total Notional Expenditure	14,863	15,441	3.7%	234,000	234,000	0.0%
Non Cash Underspend	Actual v Budget		578	Forecast v Budget		-

A profiled budget for 2007/08 was not available at the time the April Oracle ledger closed. The actual out turn for April 2006 has therefore been used as a proxy.

The year to date position as at the end of April against the April 2006 position is:

- On the resource budget (cash) net expenditure is £18.1m less than last year.
- On the resource budget (non-cash) net charges are £0.6m less than last year.

9. 2007/08 Full Year Business As Usual Forecast Position

As would be expected at this time of year the full year forecast position against the current budget indicates a £Nil variance on both the “cash” and “non-cash” Resource budgets. The only known risk to this relates to the timing of CUPID property transfers, which may cause an under spend on the “non-cash” budget.

10. Summary Regional Position – April 2007

Resources DEL (Cash)						
Region	Year to Date			Full Year 2007/08		
	2007 £000's	2006 £000's	RAG	Forecast £000's	Budget £000's	RAG
Net Expenditure						
London	10,244	12,877	20.4%	151,093	151,093	0.0%
South East	10,156	11,521	11.8%	137,621	137,621	0.0%
South West	6,016	7,312	17.7%	84,807	84,807	0.0%
Wales	2,579	5,108	49.5%	48,238	48,238	0.0%
Midlands	8,393	10,951	23.4%	134,426	134,426	0.0%
North East	6,991	9,444	26.0%	114,078	114,078	0.0%
North West	8,281	8,774	5.6%	120,208	120,208	0.0%
Royal Courts of Justice	4,157	5,223	20.4%	59,752	59,752	0.0%
Total Net Cash Expenditure	56,817	71,210	20.2%	850,223	850,223	0.0%
Total Underspend / (Overspend)	Actual v Budget		14,393	Forecast v Budget		0

Regional expenditure in April was lower than for the same period last year. The regional finance teams have now produced profiled budgets and expenditure will catch up over the next few months.

11. Civil Fee Income Analysis – April 2007

Civil Fee Income Analysis						
Category	Year to Date			Full Year		
	Actual £000's	MTFP £000's	RAG	Forecast £000's	Budget £000's	RAG
Supreme	(2,314)	(2,061)	12.3%	(35,729)	(35,476)	0.7%
County	(25,003)	(24,630)	1.5%	(328,698)	(328,324)	0.1%
Family	(4,295)	(4,142)	3.7%	(56,807)	(56,655)	0.3%
Probate	(1,338)	(1,254)	6.7%	(16,824)	(16,740)	0.5%
Total Excl Mags	(32,950)	(32,087)	2.7%	(438,058)	(437,195)	0.2%
Magistrates	(1,328)	(1,255)	5.8%	(27,677)	(27,605)	0.3%
Total Incl Mags	(34,278)	(33,342)	2.8%	(465,735)	(464,800)	0.2%

Fee income during April was 3% higher than the target set in the Medium Term Financial Plan. At this stage it is too early to predict whether this is a trend or "one off". In the Full Year Forecast it is assumed to be "one off".

12. Summary “Change” Projects Financial Position – April 2007

Change Resources DEL (Cash)						
Category	Year to Date			Full Year		
	Actual £000's	Budget £000's	RAG	Forecast £000's	Budget £000's	RAG
Other Income	0	0	0.0%	0	0	0.0%
Total Income	0	0	0.0%	0	0	0.0%
Total Payroll	0	0	0.0%	31,812	31,812	0.0%
Other Expenditure	0	0	0.0%	82,868	82,868	0.0%
Shared Services	0	0	0.0%	0	0	0.0%
Total Cash Expenditure	0	0	0.0%	114,680	114,680	0.0%
Net Cash Operating Expenditure	0	0	0.0%	114,680	114,680	0.0%
Cash Underspend	Actual v Budget		-	Forecast v Budget		-

In 2007/08 HMCS will be required to monitor and report separately on expenditure on its “Change” projects.

At the end of April the facility to separately account for Change Projects was not available. The above table therefore only reflects the full year forecast position. The small value of expenditure incurred on “Change” Projects in April is currently included in the BAU figures above.

13. Capital Budget Position – April 2007

Capital						
	Actual Year to Date			Full Year 2007/08		
	2007 £000's	2006 £000's	RAG	Forecast £000's	Budget £000's	RAG
Total Capital Receipts	0	0	0.0%	(21,700)	(21,700)	0.0%
Total Capital Expenditure	344	1,166	70.5%	129,400	129,400	0.0%
Total Capital Expenditure	344	1,166	70.5%	107,700	107,700	0.0%
Capital Underspend	Actual v Budget		822	Forecast v Budget		-

A profiled capital expenditure budget for 2007/08 is not yet available. The actual out turn for April 2006 has therefore been used as a proxy.

- The year to date capital budget shows expenditure is £0.8m lower than 2006.
- The full year forecast for the capital budget is a £Nil variance.

Segmental Analysis of Capital Expenditure (Includes Regions)	Expenditure April 2007 £000's
Manchester CJC	195
Schemes with expenditure under £150k	149
GRAND TOTAL	344

14. Summary Proforma Balance Sheet – as at 30th April 2007

<u>Balance Sheet</u>	as at 30 April 2007 £000's	as at 31 March 2007 £000's
Fixed assets		
Tangible fixed assets	3,013,819	3,231,188
Current assets		
Debtors	102,594	69,056
Cash at bank and in hand	127,020	142,187
Total assets	229,614	211,243
Creditors: amounts falling due within one year	(251,481)	(469,096)
Net current assets	(21,867)	(257,854)
Total assets less current liabilities	2,991,952	2,973,335
Creditors: amounts falling due after more than one year	(173,109)	(173,127)
Provisions for liabilities and charges	(322,427)	(322,427)
Total net assets	2,496,416	2,477,781
Taxpayers' equity		
General fund	(2,043,522)	(2,023,940)
Revaluation reserve	(452,894)	(453,841)
Total taxpayers' equity	(2,496,416)	(2,477,781)

15. Summary Workforce Position – as at 30th April 2007

Summary Workforce Position						
Region	Actual	Baseline	Current year	Actual	Target	Reduction
	FTE	FTE	Reduction FTE	FTE	FTE	outstanding to target FTE
London	2,802.43	2,907.30	104.87	2,802.43	2,792.30	10.13
South East	2,984.32	3,044.00	59.68	2,984.32	2,929.00	55.32
South West	1,966.15	1,997.00	30.85	1,966.15	1,921.00	45.15
Wales & Cheshire	1,143.72	1,116.20	(27.52)	1,143.72	1,076.37	67.35
Midlands	3,024.18	3,127.00	102.82	3,024.18	3,008.00	16.18
North West	2,752.27	2,786.80	34.53	2,752.27	2,678.63	73.64
North East	2,791.22	2,854.00	62.78	2,791.22	2,746.00	45.22
Royal Courts of Justice	1,241.30	1,282.00	40.70	1,241.30	1,233.00	8.30
HQ	667.03	607.70	(59.33)	667.03	637.70	29.33
TOTAL	19,372.62	19,722.00	349.38	19,372.62	19,022.00	350.62

During April a further 124.19 FTE left HMCS putting the organisation well on target to meet the 31st March 2008 total.

16. Recommendations and Corrective Action

HMCS remains in a sound financial position.

The following recommendations are made to the Board:-

- That DMB be requested to give HMCS £7.8m in End Year Flexibility relating to its under spend on “near cash” in 2006/07, noting that the target of £10m was achieved.
- That the Operations Committee put in place additional controls and monitoring of estates related expenditure.
- That the Asset Management Committee put in place additional controls and monitoring of Capital related expenditure.
- That HMCS Resources continue discussions with MoJ Corporate Finance regarding the funding of the £22m pension provision.