

To:	Legal Services Board		
Date of Meeting:	18 September 2019	Item:	Paper (19) 44

Title:	Finance Report to 31 August 2019		
Author / Introduced by:	Melanie Stewart, Head of Finance		
Status:	Official		

Summary:
This paper summarises the financial outturn as at the end of August 2019, and the forecast position for the full year. It also sets out the rationale for the increase in the capital expenditure budget.

Recommendation:
The Board is invited to review the Finance Report and ratify unbudgeted capital expenditure arising from the office move and IT transformation project

Risks and mitigations	
Financial:	There are no financial risks – this is a factual report
Legal:	There are no legal risks - this is a factual report
Reputational:	The LSB must demonstrate effective management of its funds. This report facilitates Board scrutiny of LSB's financial management and decision-making in relation to allocation of resources.
Resource:	There are no resource risks - this is a factual report

Consultation	Yes	No	Who / why?
Board Members:		✓	N/A- routine update and commentary
Consumer Panel:		✓	
Others:	N/A		

Freedom of Information Act 2000 (Fol)		
Para ref	Fol exemption and summary	Expires
Para 10 (a), final part of first sentence and Para 10 (e), final sentence	Section 43(2): commercially sensitive information	

LEGAL SERVICES BOARD

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Finance report to 31 August 2019

Purpose

1. This paper provides a commentary on the LSB's financial performance for the five months ended 31 August 2019. Variance analysis is attached (**Appendix 1**).

Recommendation

2. The Board is invited to **review** the Finance report and to **ratify** unbudgeted capital expenditure.

Performance to 31 August

3. Expenditure to the end of August is £1,452k (August 2018 - £1,467k) against a budget of £1,490k (May 2018 - £1,515k). A £38k underspend compares with a £12k underspend for the same period in 2018/19.
4. The bank balance at 31 August 2019 is £5.1m.
5. A commentary on the more significant variances (reported in Appendix 1) and the potential implications for the year-end projection is as follows:
 - a. *Colleague costs*: The budget to the end of August is £41k overspent largely for the following reasons:

	£'000 fav / (unfav)
<ul style="list-style-type: none">• One policy manager vacancy remains unfilled• One policy associate vacancy will be filled later than expected (October)• Pay review budgeted from July but neither approved nor paid to staff	20
Pro-rated provision for staff training, not utilised	13
Use of external recruitment agencies more frequent than anticipated	(14)

Performance appraisals were completed in August which is expected to lead to staff taking up external training opportunities at a faster rate. A change in the recruitment strategy for staff has led to less reliance on more costly, external recruitment agencies which is projected to lead to lower expenditure on recruitment in 2019/20, compared to 2018/19. HR will continue to challenge recruiting managers to make the case for the use of agencies, and to ensure they are used only exceptionally.

- b. *LSB Board*: The £2k variance relates to a payroll error which has been rectified and will see the adverse variance reversed by the end of the second quarter of 2019/20.
- c. *Accommodation*: The budget anticipated that costs relating to The Rookery would be incurred from August 1st. The lease was not completed until September 1st leading to savings in rent, rates and service charges.
- d. *Outsourced Services and IT costs*: The BMG employee engagement survey was brought forward and the £6k cost was incurred earlier than budgeted. IT costs are £3k higher than budgeted, partly due to dual running costs relating to licences for new services being incurred longer than budgeted.
- e. *Office costs*: Timing differences relating to the billing of annual licences and subscriptions have resulted in a £5k variance to budget in the year to date.
- f. *Governance and support services*: £2.5k relating to NED Consumer Panel recruitment have been incurred earlier than budgeted. 2018-19 internal audit fees were under-accrued by £1.7k.
- g. *Legal costs*: The provision for expenditure on external legal advice has not been fully utilised in the year to date.
- h. *Research*: Costs in relation to the technology project and the individual legal needs survey have been incurred later than budgeted resulting in a £9k underspend in the year to date.

2019/20 forecast operating expenditure

- 6. At the July Board meeting it was reported that projections indicated that as at July 2019, LSB's 2019/20 expenditure would be £3.783m - £15,000 lower than the budget – and compared with £3.726m spent in 2018/19.
- 7. However, as at September 2019, total LSB expenditure for 2019/20 is projected to reduce to £3.735m - £63,000 lower than budget due to:
 - a. Colleague costs are forecast to be £37k lower than budget for the year, largely due to delays in recruitment to vacant posts and CEO performance-related remuneration not being payable in 2019/20.
 - b. Accommodation costs will be lower than budgeted, partly due to a one month delay in completing the new lease at the Rookery, and partly due to the final measurement of the net internal floor area of the new offices being calculated at 15% lower than budgeted, yielding projected savings in rent, rates and service charges for the year.
 - c. IT costs are projected to be £11k higher than budgeted, partly due to dual running costs relating to licences for new services being incurred for longer than budgeted. Web hosting costs are also expected to be

£6k higher than the £5.7k anticipated in the business case, due to the requirement to temporarily host a separate Research website in addition to hosting the main LSB and Consumer Panel websites. These additional costs will reduce in future when we are able to integrate the Research site into the main LSB site.

2019/20 forecast capital expenditure

8. The LSB is running two capital funded projects in 2019/20:
 - a. the IT transformation project, which will achieve a move from fixed 'on premise' computing to cloud computing, a refresh of end user technology from desktops to laptops and the appointment of a new managed services provider to assist with the transformation
 - b. the office move project, which will relocate LSB staff from our current offices at One Kemble Street to new office at The Rookery.
9. £150k is budgeted for the fit-out of the new offices and MOJ approved the rollover of a £100k budget for the IT project from 18/19 to 19/20, resulting in a total 2019/20 LSB capex budget of £250k.
10. In August, it became apparent that both these projects will overspend by year end for the following reasons:
 - a. The IT project is progressing to plan however expectations are that the capital budget [REDACTED] This is largely due to the decision to invest in new hardware and software that will result in ongoing operating cost savings largely from lower monthly licence costs in relation to our accounting software and lower managed service provider costs. IT operating expenditure will be around £5,000 lower in future years, after the completion of the project. However, it's important to note that while the annual saving is relatively small, the increase in IT capability and resilience for the LSB is substantial.
 - b. The office move project is due to complete when the LSB moves to new premises in early November. We have been working with JT3i, a design and fit-out company, to develop the fit-out proposal for the space. Concerns were raised early on by JT3i and the project manager that the £150k budget was very tight. Their initial estimate for the fit-out cost was £190,000, and it was agreed the additional cost of which could be funded from savings elsewhere in the LSB budget. However, in August we received a detailed but draft proposal with a projected cost of £212k (£177k plus VAT).
 - c. JT3i were challenged to revisit their proposal to find budget savings. Their final proposal for the fit-out cost was £195k including VAT.
 - d. On review of the 2019/20 budget documentation, the £150k estimate was extrapolated from the £137k cost of the move to Kemble Street in

December 2014. It transpired, however, that the new offices will require more work to bring them into use than Kemble Street required.

- e. It was anticipated that the costs of AV and IT equipment associated with the office move could be absorbed within the wider IT transformation budget but this was no longer possible on the basis of the latest projected outturn for the transformation project. [REDACTED]

- f. In addition, our policies allow for legal and project management fees associated with the project to be capitalised. While the depreciation for c£90k of this expenditure was provided for in the project's resource expenditure budget, provision for capitalised costs was not made in the capital expenditure budget.

11. Approval was sought from MoJ for an increase in the capital expenditure budget for the IT project from £100k to £125k and the office move project from £150k to £330k (which, following a value engineering exercise, has been reduced to £315k). On the basis that there is a counterbalancing resource expenditure underspend that will more than offset the £12k increase in depreciation costs in 2019/20 and £33k per annum increase in future years, MoJ has approved the capital budget overspend.
12. The scheme of delegations within the Finance Regulations states that the Chief Executive has authority to incur unbudgeted capital expenditure, subject to ratification by the Board.
13. The Board is therefore asked to **ratify** the increase in capital expenditure for the IT project from £100k to £125k, and to **ratify** the increase in capital expenditure for the office move project from £150k to £315k.