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| **Agenda item:** |  |
| **Attachment:** |  |

**HRA BOARD COVER SHEET**

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| **Date of Meeting:** | 17TH May 2017 |

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| **Title of Paper:** | Financial report - for the year ended 31 March 2017 |
| **Purpose of Paper:** | To enable an informed understanding of our financial performance for the year-ended 31 March 2017To improve decision making by increasing financial literacy particularly in relation to our 2017/18 financial plan and future financial strategy.  |
| **Reason for Submission:** | The Board, Accounting Officer and Leadership Team have a key governance role in the financial stewardship of the HRA. This report supports this element of the governance framework, providing the Board, Accounting Officer and senior management with essential financial information to inform strategy, inform decision making and ensure robust financial management.  |
| **Lead Reviewer:** | Steve Tebbutt |
| **Details:** | Main points to note:* Year to date financial performance reports a small underspend position of £323k (2.4%) on revenue expenditure and £140k (15.4%) underspend on capital expenditure
* A good performance, within our allocated resource and capital limits, significantly improving on 2015/16 underspend.
* Performance reflects targeted improvements in financial management implemented in year
* Pressure on strategic funds will intensify due to tightening fiscal environment and expanded operational remit
* The HRA continues to meet its regulatory requirements in paying invoices quickly.
 |
| **Suitable for wider circulation?** | **Yes, following Leadership Team and Board**  |
| **Time required for item:** | **10 minutes** |

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| **Recommendation / Proposed Actions:** | **To Approve** | **Yes** |
| **To Note** |  |
| **For discussion** |  |
| **Comments** |  |

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| **Name:** | Karen Williams |
| **Job Title:** | Director of Finance, Procurement and Estates |
| **Date:** | 10th May 2017 |

**Finance Report - Financial Year 2016/17**

**Health Research Authority as at 31 March 2017**

**Executive Summary – Headlines**

* The HRA 2016/17 outturn was £12,932k (2015/16: £12,960k) and £770k (2015/16 £960k) capital. On revenue expenditure this represented a £323k, 2.4% (2015/16 £929k, 6.7%) underspend and on capital expenditure a £140k, 15.4% underspend (2015/16 £190k, 17.9%).
* 2016/17 financial performance closely aligns with the forecast outturn, due to improvements implemented in year to enhance financial management and strategic resource allocation.
* This year sees a shift in the HRA’s expenditure distribution with a greater proportion being allocated to business as usual (service delivery) and less proportionately on strategic projects following the implementation of HRA Approval.
* The HRA continues to drive efficiencies in its activities in order to ensure public money is managed well and to meet Department of Health spending review requirements.
* Our future financial strategy and associated business plan will need to develop a business model that creates capacity to support our emerging strategic ambition whilst also ensuring our service delivery continues to meet customer need and our statutory obligations. Our service improvement programme (SIP) is an integral part in this.
* 2017/18 budget has been agreed and requires a further £90k savings to meet our resource allocation. This is achievable although will put pressure on resources for innovation and projects. To address this we are developing initiatives including a savings plan and business case to DH’s transformation pot to create sufficient financial capacity despite reducing budgets.
* The HRA continued to meet its regulatory requirements in paying invoices quickly

**Revenue financial performance for the year-ended 31 March 2017**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Full Year 2016/17 £000** |  | **FY 2015/16 £000** |
| **Income** |  | **Budget** | **Actual** | **Variance vs budget** |  | **Actual** | **Variance vs 2016/17** |
| HRA income |  | 176 | 181 | 5 |  | 198 | (17) |
| Grant in Aid confirmed |  | 12,629 | 12,341 | (288) |  | 12,509 | (168) |
| Non cash revenue (depreciation) |  | 450 | 410 | (40) |  | 253 | 157 |
|  **Total Income** |  | **13,255** | **12,932** | **(323)** |  | **12,960** | **(28)** |
|  |  |  |  |  |  |  |  |
| **Expenditure** |  | **Budget** | **Actual** | **Variance vs budget** |  | **Actual** | **Variance vs 2016/17** |
| HRA Approval inc. RES |  | 7,406 | 7,318 | (88) |  | 8,055 | (737) |
| Chief Executive inc. Governance |  | 1,573 | 1,607 | 34 |  | 1,568 | 39 |
| Corporate Services |  | 2,937 | 2,876 | (61) |  | 1,828 | 1,048 |
| Finance, Procurement and Estates |  | 889 | 721 | (168) |  | 1,256 | (535) |
| Depreciation |  | 450 | 410 | (40) |  | 253 | 157 |
|  **Total Expenditure** |  | **13,255** | **12,932** | **(323)** |  | **12,960** | **(28)** |
|  |  |  |  |  |  |  |  |
| **Surplus /Deficit** |  | **0** | **0** | **0** |  | **0** | **0** |

**Key areas to highlight:**

***HRA Approval including Research Ethics Service, £88k underspend, 1% variance:***

* Research Ethics Service within £10k (0.25%) of their budget showing tight control of costs
* Confidentiality Advisory Group underspent by £65k (25%) and Collaboration and Development team underspent by £26k (18%) due to staff vacancies including parental leave which have been or are being addressed.

***Chief Executive inc. Governance £34k overspend, 2% variance:***

* Staff costs greater than budget due to interim Chief Executive arrangements and Finance Director role being recruited full time (previously 0.7).

***Corporate Services £61k underspend; 2% variance:***

* Research systems underspent by £78k due in part to renegotiated contract with BGO, a change in planned approach to system resilience and also changing to more economical contractual terms with the team

***Finance, Procurement and Estates £168k underspend, 19% variance:***

* £158k underspend on reserves projects including £70k earmarked for laptop replacement charged to capital, £70k website development costs falling to 2017/18 as well as £25k HTA direct dialogue project now also falling to 2017/18.

**Pay costs by department for the year-ended 31 March 2017**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Directorate** | **2016/17 budget** | **2016/17 vacancy factor** | **2016/17 budget net of vacancy factor** | **2016/17 actual** | **Variance vs original budget** | **Variance vs budget net of vacancy factor** | **% Variance net of vacancy factor** |
| **£000**  | **£000**  | **£000**  | **£000**  | **£000**  | **£000**  | **£000**  |
| HRA Approval inc. RES | 5,757 | (113) | 5,644 | 5,546 | (211) | (98) | (1.7)% |
| Chief Executive inc. Governance | 1,379 | (15) | 1,364 | 1,369 | (10) | 5 | 0.4% |
| Corporate Services | 1,446 | (18) | 1,427 | 1,397 | (49) | (31) | (2.2)% |
| Finance, Procurement & Estates | 390 | (4) | 386 | 403 | 13 | 17 | 4.4% |
| **Total** | **8,972** | **(150)** | **8,822** | **8,715** | **(257)** | **(107)** | **(1.2)%** |

Pay costs, at 67% of total costs, were slightly underspent by £107k, 1.2% after adjusting for the vacancy factor. This was the first year that a vacancy factor has been used and has provided a useful mechanism to help manage pay costs which have historically been underspent. Key lessons learnt from this first year are management oversight is needed to ensure sufficient capacity is available to deliver operational requirements and actively engage with external stakeholders. We also need to ensure that decisions to recruit can be taken quickly and acted upon without delay. We have adjusted our processes, particularly in relation to recruitment panel, to help ensure that this is the case.

For 2017/18 we have included a vacancy factor of £250k (2.76% of payroll) compared with equivalent £257k (2.93% of payroll) in 2016/17. This amount feels achievable and will be closely monitored by leadership team and recruitment panel to ensure operational capacity is not negatively impacted.

**Non-pay costs**

|  |  |  |
| --- | --- | --- |
|  | **2016/17** |  |
|  | **budget£000** | **Actual£000** | **Variance£000** | **% Variance** |
| HRA Approval inc. RES | 1,725  | 1,733  | 8 | 0% |
| Chief Executive inc. Governance | 638  | 631  | (7)  | (1%) |
| Corporate Services | 1,509  | 1,484  | (25)  | (2%) |
| Finance, Procurement and Estates | 561  | 369  | (192)  | (34%) |
| **Grand Total** | **4,433** | **4,217** | **(216)**  | **(5%)** |

**Reserves**

Strategic reserves were the main contributor to the non-pay costs underspend in year. £451k was spent in year compared to an original budgeted allocation of £625k, of which £262k (58%) funded strategic priorities and £189k (42%) operational requirements. This compares to £749k strategic reserves spend for 2015/16, where £676k (90%) funded strategic priorities including £160k (21%) on Judicial Review.

The tightening fiscal environment will continue to place pressure on available funds for strategic priorities. In 2017/18 £360k has been ear-marked to fund strategic priorities including service improvement programme, website and ICT infrastructure. This is to date, the lowest budgeted allocation of strategic reserves (2.9% of total expenditure) we have planned for. With further reducing grant in aid in 2018/19, the need to continue to find efficiencies and cost savings is key to create capacity to invest in future developments.

**Travel, accommodation and subsistence**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Travel costs across the HRA** | **2016/17 budget** | **2016/17 actuals** | **Variance vs budget** | **Variance** | **2015/16 actuals** | **Variance vs 2015/16** | **Variance** |
|  | **£000** | **£000** | **£000** | **%** | **£000** | **£000** | **%** |
| HRA Approval inc. RES | 427 | 423 | (4) | (10%) | 550 | (127) | (23%) |
| Chief Exec inc. Governance. | 83 | 91 | 8 | 8% | 73 | 18 | 25% |
| Corporate Services | 70 | 101 | 32 | 71% | 47 | 54 | 115% |
| Finance  | 7 | 10 | 3 | 37% | 4 | 6 | 150% |
| **Total** | **587** | **625** | **38** | **6%** | **674** | **(49)** | **(7%)** |

2016/17 travel costs were slightly more than budget due to the service improvement programme and associated workshop activity although the trend continues to be a reducing per capita travel cost. Total expenditure is 7% lower than 2016/17 and the average cost / staff member reduced for the third year running, to £3,084/staff member down from a peak of £4,161/staff member in 2014/15. Investment in smarter working and VOIP has yielded savings as anticipated. Investment in ICT infrastructure through improved contract management and forward planning of the corporate calendar should secure further savings for 2017/18.

**Capital expenditure**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Plan initiative** | **2016/17 budget** | **2016/17 actual** | **2016/17 variance vs budget** | **2015/16 actual** | **2016/17 variance vs py** |
| **£000** | **£000** | **£000** | **£000** | **£000** |
| HARP Developments | 215 | 211 | (4) | 260 | (49) |
| IRAS Developments | 362 | 367 | 5 | 544 | (177) |
| IS Team – capitalised salaries | 155 | 127 | (28) | 156 | (29) |
| Capital reserve | 178 | 65 | (113) | 0 | 65 |
| **TOTAL**  | **910** | **770** | **(140)** | **960** | **(190)** |

The full year outturn for capital was in-Iine with forecast at £770k, £140k underspend due to renegotiated contract with BGO for HARP/IRAS which generated substantial savings on our planned programme of work.

**Better payments performance**

The HRA has continued to meet the duty to pay 95% of invoices in 30 days, also maintaining the internal stretched target of paying 60% of suppliers in 10 days.

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| --- | --- | --- |
|   | **Number** | **Value (£)** |
| **Benchmark** | **95%** | **95%** |
| **2016/17**  | **98%** | **98%** |
| **2015/16**  | **98%** | **97%** |

**Recommendations**

The Board is asked to review and approve the financial performance for 2016/17.

**Karen Williams**

**Director of Finance, Procurement and Estates**

**10 May 2017**

**HRA non pay expenditure analysis 2016/17**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2016/17** | **March 2017 (£)** |  | **Full Year 2016/17 (£)** |  |
| **Expenditure classification** | **budget (£)** | **Budget** | **Actual** | **Variance** | **% Variance** | **Budget** | **Actual** | **Variance** | **% Variance** |
| **Meeting Rooms/Catering** | 220,531  | 30,297  | 8,251  | (22,046) | (73%) | 220,531  | 218,935  | (1,596) | (1%) |
| **Office equipment/Stationery/Furniture/Consumable** | 67,769  | 12,274  | 11,480  | (794) | (6%) | 67,769  | 45,201  | (22,568) | (33%) |
| **Photocopying/Printing/Postage/Storage/Waste** | 159,169  | 15,180  | 8,027  | (7,153) | (47%) | 159,169  | 159,687  | 518  | 0% |
| **Premises - inc premise removal costs** | 772,027  | 76,266  | 68,413  | (7,853) | (10%) | 772,027  | 758,959  | (13,068) | (2%) |
| **Training Expenses - expenses/materials , conferences, workshops** | 116,790  | 41,698  | 41,318  | (380) | (1%) | 116,790  | 113,762  | (3,028) | (3%) |
| **Other Staff costs - Recruitment/adverts/redundancy/PILON** | 27,000  | 0  | 0  | 0  | n/a | 27,000  | 24,759  | (2,241) | (8%) |
| **Travel costs - include excess mileage/interview expenses** | 592,704  | 52,842  | 100,469  | 47,627  | 90% | 592,704  | 634,953  | 42,249  | 7% |
| **Chairs/Members/Participation - activity costs** | 280,710  | 26,994  | 24,613  | (2,381) | (9%) | 280,710  | 264,409  | (16,301) | (6%) |
| **Publications** | 2,250  | 30  | 233  | 203  | 676% | 2,250  | 2,579  | 329  | 15% |
| **Mobile Phones/Mobile Data** | 18,661  | 1,738  | 3,916  | 2,178  | 125% | 18,661  | 20,153  | 1,492  | 8% |
| **Statutory Costs - Health & Safety/Legal/Audit Fees/Dep. & Amort.** | 549,365  | 197,449  | 173,778  | (23,671) | (12%) | 549,365  | 530,139  | (19,226) | (3%) |
| **Computer Costs - Software/licences/system maintenance/purchases** | 411,172  | 118,162  | 97,371  | (20,791) | (18%) | 411,172  | 407,097  | (4,075) | (1%) |
| **Other External Contracts - SLA's - Premises, SBS,BSA, DH IT** | 1,041,179  | 239,472  | 227,996  | (11,476) | (5%) | 1,041,179  | 1,045,708  | 4,529  | 0% |
| **Other - Misc/Reserves** | 174,579  | 174,579  | 312  | (174,267) | (100%) | 174,579  | (4,138) | (178,717) | (102%) |
| **Grand Total** | **4,433,906**  | **986,981**  | **766,177**  | **(220,804)** | **(22%)** | **4,433,906**  | **4,222,204**  | **(211,702)** | **(5%)** |
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|  |  |  |  |  |  |  |  |  |  |