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| **Agenda item:** | **9** |
| **Attachment:** | **C** |

**HRA BOARD & LT COVER SHEET**

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| **Date of Meeting:** | Leadership team: 11th September 2017  Board: 13th September 2017 |

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| **Title of Paper:** | Finance report - for the 4 months ended 31 July 2017 |
| **Purpose of Paper:** | To enable an informed understanding of our financial performance for the 4 months to 31 July 2017  To 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 aspect 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:   * **No significant variances** at this stage of the year * Year to date financial performance reports a small **underspend** position of **£32k (0.8%)** on revenue expenditure and **£7k (3.0%)** underspend on capital expenditure * HRA continues to manage costs well against budget however there is a growing risk that meeting our budgeted expenditure is at an unacceptable cost to our capacity to respond to change. * We continue to chase DH on the outcome of 2 business cases submitted (executive restructure £160k and SIP £260k). Given the delay in DH decision we have requested that the SIP additional funding be allocated over 2 financial years (17/18 and 18/19) to give us sufficient time to procure the necessary resources in the available timeframe. * 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** |

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

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| **Name:** | Sylvia Hazard and Karen Williams |
| **Job Title:** | Deputy Director of Finance and Director of Finance |
| **Date:** | 5th September 2017 |

**Finance Report - Financial Year 2017/18**

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

**Executive Summary – Headlines**

* The HRA 2017/18 outturn for the first 4 months of the year was £4,022k (2016/17: £4,123k) and £224k (2016/17 £247k) capital. On revenue expenditure this represented a £32k, 0.8% (2016/17 £35k, 0.85%) underspend and on capital expenditure a £7k, 3.0% underspend (2016/17 £9k, 3.5%).
* Performance against our vacancy factor has been achieved for the first four months. This performance is closely monitored by recruitment panel to ensure that our services have adequate resources and service delivery is not compromised.
* Business cases (total value £420k) submitted to DH have yet to be determined. Plans are in place to manage the impact if both / either business case is unsuccessful. The delay in decision is a concern and will have implications for the SIP in particular timescales for delivery.
* We are working closely with PA Consulting and DH to determine scope and specifications to improve our systems infrastructure to meet the changing external environment and research sector requirements. Any further investment identified is currently not scoped within our grant in aid allocation and would require additional funding if approved.
* The HRA continued to meet its regulatory requirements in paying invoices quickly

**Revenue financial performance for the 4 mths-ended 31 July 2017**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2017/18** | **4 Months ended 31 July 2017 (£'000)** | | |  |
|  | **£'000** | **%** |
| **Income** | **Latest Budget** | **Budget** | **Actual** | **Variance** | **Variance** |
| Grant in Aid confirmed | 12,310 | 3,929 | 3,897 | (32) | (0.8)% |
| HRA income | 205 | 0 | 0 | 0 |  |
| Non cash revenue resource limit | 570 | 125 | 125 | 0 |  |
| **Total Income** | **13,085** | **4,054** | **4,022** | **(32)** | **(0.8)%** |
| **Expenditure** |  |  |  |  |  |
| HRA Approval | 2,741 | 907 | 902 | (5) | (0.6)% |
| Research ethics service | 3,728 | 1,242 | 1,227 | (15) | (1.2)% |
| Research systems | 1,312 | 463 | 454 | (9) | (1.9)% |
| Confidentiality Advisory Service | 280 | 76 | 70 | (6) | (7.9)% |
| **Total Services Expenditure** | **8,061** | **2,688** | **2,653** | **(35)** | **(1.3)%** |
| Chief Exec inc. Governance. | 864 | 279 | 282 | 3 | 1.1% |
| Policy | 346 | 75 | 77 | 2 | 2.7% |
| Training | 414 | 90 | 88 | (2) | (2.2)% |
| Corporate Services | 1,026 | 327 | 321 | (6) | (1.8)% |
| Finance, Procurement & Estates | 1,620 | 470 | 476 | 6 | 1.3% |
| Reserves | 184 | 0 | 0 | 0 |  |
| Depreciation | 570 | 125 | 125 | 0 | 0.0% |
| **Total Expenditure** | **13,085** | **4,054** | **4,022** | **(32)** | **(0.8)%** |
| **Surplus /Deficit** | **0** | **0** | **0** | **0** | **0** |

**Highlight report:**

**No significant issues** to report for the first quarter.

Our **vacancy factor** continues to be met with recruitment panel closely monitoring vacancies to ensure that front line services and our strategic projects are adequately resourced.

**Reserves** projects (£360k annual budget) are progressing well and are expected to fully utilise their funding allocation. The key risk continues to rest with the undetermined business cases (executive restructure and SIP) and the impact of this on our ability to deliver (quality and to time) the wide range of projects currently planned.

***Approval and ethics services, £21k underspend, 0.9% variance:***

* **Research ethics:** £15k underspend due mainly to interim management structures (internal development opportunities provided to fill vacant senior posts while the SIP develops).
* **CAG:** £6k variance mostly due to lower travel costs than anticipated.

***Research Systems, £9k underspend, 1.9% variance***

* **Research systems:** £2k underspend arising from a vacancy for which recruitment has now been undertaken, £2k underspend on the BGO contract currently and £5k underspend within HRA IT mostly due to travel costs being lower than expected.

**2017/18: financial risks:**

1. As previously reported, our two business cases to DH to support the **executive restructure** and our **SIP programme,** with a combined funding request of £420k, have yet to be determined. We continue to follow this up with our DH sponsor and finance teams.
2. We do not have capacity from our current GIA allocation to deliver a significant **systems change** programme. We are being supported by PA consulting who have reviewed our current systems and have specified options to address their findings. This work has been used to inform our request for additional funds to DH and Treasury and will be discussed further at the HRA Board meeting in September.
3. Our current **business model** needs to adapt in order to sustain future real terms reductions in GIA as required by the spending review. To address this we are developing a financial strategy alongside our SIP programme, to create a revised business model that enables us to deliver on our strategic, statutory and operational requirements within our allocated GIA. This will be presented to the Board on 22nd November 2017.

**Staff costs (4 mths-ended 31 July 2017)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Service** | **2017/18  budget  YTD** | **2017/18  vacancy factor  YTD** | **2017/18  budget net of vacancy factor** | **2017/18  actual** | **Variance vs budget net of vacancy factor** | **% Variance net of vacancy factor** |
| **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Research ethics service | 1,014 | (28) | 986 | 985 | (2) | (0.2)% |
| HRA Approval | 891 | (25) | 867 | 868 | 1 | 0.1% |
| Confidentiality advisory service | 62 | (2) | 60 | 60 | (0) | (0.0)% |
| Research systems | 178 | (4) | 174 | 172 | (2) | (1.2)% |
| **Total Services Staff Costs** | **2,146** | **(59)** | **2,087** | **2,085** | **(3)** | **(0.1)%** |
|  |  |  |  |  |  |  |
| Chief executive (inc Governance ) | 268 | (7) | 261 | 265 | 5 | 1.8% |
| Policy | 69 | (3) | 66 | 68 | 3 | 4.0% |
| Training | 57 | (2) | 55 | 56 | 0 | 0.2% |
| Corporate services | 280 | (7) | 273 | 266 | (7) | (2.6)% |
| Finance, Procurement and Estates | 170 | (5) | 165 | 161 | (4) | (2.4)% |
| **Total Staff Costs** | **2,989** | **(83)** | **2,906** | **2,900** | **(7)** | **(0.2)%** |

Staff costs are HRA’s most significant cost representing 72% of total budgeted expenditure. Activity in the first 4 months of the year shows that overall the level of vacancy factor built into the budgeting process appears to be matching the level of ‘turn’ in the establishment. Natural turnover of staff is providing the sufficient capacity to support the vacancy factor without any additional measures being taken to achieve the adjustment. Recruitment panel and leadership team continue to monitor variances on budget combined with operational KPIs to ensure that our business as usual delivery remains strong.

**Non-staff costs (4 mths-ended 31 July 2017)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **4 mths to 31 July 2017** | | |  |
| **Activity** | **budget** | **actual** | **variance** | **variance %** |
| **£000** | **£000** | **£000** |
| HRA Approval | 40 | 34 | (6) | (14)% |
| Research ethics service | 256 | 243 | (13) | (5)% |
| Research systems | 290 | 282 | (8) | (3)% |
| Confidentiality Advisory Service | 15 | 10 | (6) | (37)% |
| **Total services non-staff costs** | **601** | **569** | **(32)** | **-5%** |
| Chief executive inc. governance | 19 | 16 | (2) | (12)% |
| Policy | 9 | 9 | 0 | 2% |
| Training | 35 | 33 | (2) | (6)% |
| Corporate services | 54 | 56 | 2 | 3% |
| Finance, procurement & estates | 305 | 314 | 9 | 3% |
| Depreciation | 125 | 125 | 0 | 0% |
| **Total non-staff costs** | **1,148** | **1,122** | **(25)** | **(2)%** |

**No significant variances** to report at this stage of the year. Travel costs are slightly underspent (£21k) but this is expected to be rectified in part as our learning and development programme is rolled out towards the latter part of the year. The decision taken to hold our all staff meeting in Apr / May 2018 will mean that some savings are expected on the cost line, however, additional costs for SIP workshops may balance these savings.

**Capital expenditure**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Plan initiative** |  | **2017/18 plan full year**  **£000** | **2017/18 budget ytd** | **2017/18 actual ytd** | **2017/18 variance ytd** |
|  | **£000** | **£000** | **£000** |
| HARP Developments |  | 215 | 72 | 69 | (3) |
| IRAS Developments |  | 362 | 121 | 118 | (3) |
| **BGO Contract** |  | **577** | **193** | **187** | **(6)** |
| IS Team – capitalised salaries |  | 114 | 38 | 37 | (1) |
| **BGO Contract and Capitalised salaries position as at 30 June 2016** |  | **691** | **231** | **224** | **(7)** |
| ICT infrastructure |  | 24 | 0 | 0 | 0 |
| Estates |  | 85 | 0 | 0 | 0 |
| **Total Capital** |  | **800** | **173** | **166** | **(7)** |

86% of the capital budget is committed. The BGO contract delivering HARP and IRAS developments as well as the internal team working on improvements to these current systems make up this amount. Department of Health have yet to confirm our capital cash limit for 2017/18 but have been fully informed of our requirements, understand that the vast majority of the expenditure is contractually committed and have given no indications that the amounts will not be approved.

The remaining amounts are allocated to improvements to the air temperature Skipton House (implemented) and the costs related to the relocation of our Northeast office which are currently being worked up in more detail by NHS BSA (furniture quote) and Atos (our ICT service provider).

**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.

|  |  |  |
| --- | --- | --- |
|  | **Number** | **Value (£)** |
| **Benchmark** | **95%** | **95%** |
| **2017/18** | **98%** | **100%** |
| **2016/17** | **98%** | **98%** |
| **2015/16** | **98%** | **97%** |

**Recommendations**

The Board is asked to review and approve the finance report for the 4 months to 31 July 2017.

**Sylvia Hazard and Karen Williams**

**Deputy Director of Finance and Director of Finance**

**05 September 2017**

**HRA non pay functional expenditure analysis 4 mths-ended 31 July 2017**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Subjective** | **Annual** | **Next year** | **In month (£)** | | | **Year to date (£)** | | | | **Name** | **budget (£)** | **plan (£)** | **Budget** | **Actual** | **Variance** | **Budget** | **Actual** | **Variance** | | **Meeting Rooms/Catering** | 210,077 | 199,077 | 21,454 | 7,114 | (14,340) | 63,457 | 61,866 | (1,591) | | **Office equipment/Stationery/Furniture/Consumable** | 55,331 | 54,937 | 3,244 | 2,531 | (713) | 11,969 | 6,939 | (5,030) | | **Photocopying/Printing/Postage/Storage/Waste** | 129,021 | 128,821 | 10,064 | 5,197 | (4,867) | 41,508 | 36,111 | (5,397) | | **Premises - inc premise removal costs** | 801,313 | 801,023 | 35,560 | 38,130 | 2,570 | 232,151 | 236,793 | 4,642 | | **Training Expenses - expenses/materials , conferences, workshops** | 162,250 | 191,250 | (24,278) | (1,610) | 22,668 | 6,005 | 8,317 | 2,312 | | **Other Staff costs - Recruitment/adverts/redundancy/PILON** | 70,500 | 5,500 | 0 | 0 | 0 | 0 | 0 | 0 | | **Travel costs - include excess mileage/interview expenses** | 584,970 | 558,651 | 36,958 | 36,795 | (163) | 184,652 | 163,489 | (21,163) | | **Chairs/Members/Participation - activity costs** | 271,927 | 271,427 | 19,450 | 20,283 | 833 | 87,299 | 85,017 | (2,282) | | **Publications** | 2,124 | 2,124 | 0 | 0 | 0 | 0 | 0 | 0 | | **Mobile Phones/Mobile Data** | 10,417 | 10,260 | 797 | 1,764 | 967 | 3,401 | 3,516 | 115 | | **Statutory Costs - Health & Safety/Legal/Audit Fees/Dep. & Amort.** | 665,000 | 665,000 | 3,345 | 8,786 | 5,441 | 139,722 | 137,152 | (2,569) | | **Computer Costs - Software/licences/system maintenance/purchases** | 323,853 | 310,753 | 29,602 | 27,555 | (2,047) | 121,394 | 122,940 | 1,546 | | **Other External Contracts - SLA's - Premises, SBS,BSA, DH IT** | 764,852 | 729,476 | 67,068 | 35,833 | (31,235) | 256,193 | 260,353 | 4,160 | | **Other - Misc/Reserves** | 184,355 | 123,668 | 0 | 610 | 610 | 0 | (4) | (4) | | **Grand Total** | **4,235,990** | **4,051,967** | **203,264** | **182,988** | **(20,276)** | **1,147,751** | **1,122,490** | **(25,261)** | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |