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

**HRA BOARD & LT COVER SHEET**

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| **Date of Meeting:** | Board: 18th October 2017 |

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| **Title of Paper:** | Finance report - for the 6 months ended 30 September 2017 |
| **Purpose of Paper:** | To enable an informed understanding of the HRA’s financial performance for the 6 months to 30 September 2017 and forecast position for the year.  To share the steps being taken to ensure our resources are being utilized to best effect to achieve our strategic goals.  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:   * Year to date financial performance reports an **underspend** position of **£53k (0.8%)** on revenue expenditure and **£21k (5.0%)** underspend on capital expenditure. * Our **forecast** for the year remains on track with **no underspend position** anticipated. * DH have **approved** our **executive restructure** business case (£160k) and adjusted our grant in aid accordingly. * Our **SIP** business case (£260k) **was not approved** due to lack of available resources. * Following the Board discussion at their last meeting, a business case for research systems enhancement and replacement (up to £3.2m additional funds) has been prepared based on the independent review’s findings. This case is necessary to achieve sign-off from DH. This is included as a separate agenda item for the Board. * The executive have agreed an action plan to address identified shortfalls in capacity in the short to medium term although this remains a significant risk. * The HRA continues to meet its regulatory requirements in paying invoices quickly and meeting key finance deadlines. |
| **Suitable for wider circulation?** | **Yes** |
| **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 |
| **Date:** | 11th October 2017 |

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

**Health Research Authority as at 30 September 2017**

**Executive Summary – Headlines**

* The HRA 2017/18 outturn for the first 6 months of the year was £6,241k (2016/17: £6,157k) and £409k (2016/17 £374k) capital. On revenue expenditure this represented a £53k, 0.8% underspend (2016/17 £4k, 0.1% overspend) and on capital expenditure a £21k, 5.0% underspend (2016/17 £18k, 4.8%).
* DH have approved our executive restructure business case £160k and increased our grant in aid accordingly. Our business case requesting £260k additional funds for SIP over two years has been rejected due to limited funds available. The business case for enhancement and replacement of our current research systems has been produced and is presented as a separate agenda item for the Board.
* As a result of these decisions and consideration of our forecast out-turn position for 2017/18, the executive have reviewed our strategic resourcing priorities and agreed an action plan to address capacity and capability gaps within service delivery and the change programme(s),
* Salary costs are now tracking below budget net of vacancy factor with staff turnover higher than predicted at budget setting. Actions have been identified and are being implemented to help mitigate the impact of this on service delivery and the change programme
* The HRA continued to meet its regulatory requirements in paying invoices quickly and key finance deadlines.

**Revenue financial performance for the 6 mths-ended 30 September 2017**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2017/18** | **6 Months ended 30 Sep 2017 (£'000)** | | |  |
|  | **£'000** | **%** |
| **Income** | **Latest Budget** | **Budget** | **Actual** | **Variance** | **Variance** |
| Grant in Aid confirmed | 12,310 | 6,079 | 6,026 | (53) | (0.9)% |
| HRA income | 205 | 102 | 102 | 0 | - |
| Non cash revenue resource limit | 570 | 258 | 258 | 0 | - |
| **Total Income** | **13,085** | **6,439** | **6,386** | **(53)** | **(0.8)%** |
| **Expenditure** |  |  |  |  |  |
| HRA Approval | 2,767 | 1,367 | 1,354 | (13) | (0.9)% |
| Research ethics service | 3,723 | 1,967 | 1,936 | (31) | (1.6)% |
| Research systems | 1,312 | 668 | 662 | (6) | (0.9)% |
| Confidentiality Advisory Service | 280 | 123 | 108 | (15) | (12.1)% |
| **Total Services Expenditure** | **8,082** | **4,125** | **4,060** | **(65)** | **(1.6)%** |
| Chief Exec inc. Governance. | 922 | 390 | 393 | 3 | 0.8% |
| Policy | 311 | 130 | 116 | (14) | (10.9)% |
| Training | 419 | 138 | 139 | 1 | 0.6% |
| Corporate Services | 1,040 | 501 | 513 | 12 | 2.3% |
| Finance, Procurement & Estates | 1,619 | 752 | 762 | 10 | 1.1% |
| Reserves | 122 | 0 | 0 | 0 | - |
| Depreciation | 570 | 258 | 258 | 0 | - |
| **Total Expenditure** | **13,085** | **6,294** | **6,241** | **(53)** | **(0.8)%** |
| **Surplus /Deficit** | **0** |  |  |  |  |

**Highlight report:**

Year to date figures remain within 1% of budget and well within our financial KPI of 3%.

**Payroll costs**

Salary costs are slightly behind budget net of vacancy factor and are predicted to fall further behind if corrective action is not taken. As with prior years there are a number of factors contributing to this projected underspend:

* staff taking development opportunities are progressing through the organisation creating a vacancy ‘domino’ effect
* interim structures created to build in more flexibility and less impact on staff when revised organisational structures are implemented have also resulted in a vacancy lag
* uncertainty on the executive restructure business case

Reflecting on lessons learnt from prior years a more holistic approach is being taken to address these resourcing gaps. Solutions are being looked at across a variety of teams and functions to relieve pressure points and ensuring corrective action is targeted where it is most needed with gaps being filled quickly wherever possible.

**Reserves**

Our review of performance to date and the positive decision by DH on our executive team restructure funding mean that we can allocate a further £200k to reserves funded projects (original allocation £360k). The executive have met to agree an action plan and this will be discussed in more detail at the Board meeting. Key is the need to address capacity and capability gaps given the scale of change programmes being delivered at the HRA.

***Approval and ethics services, £65k underspend, 1.6% variance:***

* **Research ethics:** £31k underspend due to greater staff turnover then planned at band 4 & 5 and savings generated through moving to e-review (print, paper, postage).
* **HRA Approval**: £13k underspend due mainly to natural ‘turn’ in the assessment team resulting in underspends in staff and staff related costs.
* **CAG:** £15k underspend due to delays in recruitment and lower meeting costs.

**Policy, £14k underspend, 10.9% variance**

* **Policy:** Underspend relates to an unfilled post which will remain vacant while we wait for the new Director of Policy to take up their role. In the meantime it has been agreed that these funds will be redirected to social care agenda to address this identified strategic risk for the HRA.

**Corporate services, £12k overspend, 2.3%**

* **Human Resources:** £8k overspend due to disputed invoice with NHS BSA for recruitment services who have agreed to issue a credit note and correct for their error. Revised costings are being prepared to address this error.
* **Public involvement**: £3k overspend due primarily to participant travel costs reflecting a greater take up of this facility. Our reforecast will be adjusted to reflect this in future months.

**Finance, procurement and estates, £10k overspend, 1.1%**

* **Estates**: £10k overspend due to increased costs of Skipton House. Sub-letting space to NHS BSA will offset these additional costs and result in an net saving by the end of the year.

**2017/18: financial risks:**

1. We do not have **capacity** (financial nor people) to deliver a significant **systems change** programme without additional investment. This is acknowledged by DH who have worked with us to develop a business case for this project. This business case sets out the resources and funding required to deliver the project identifying the need for an implementation partner to manage and deliver the programme, procurement support as well as the build and roll out. The business case format is required to gain the necessary approvals from DH sponsor, finance and commercial teams.
2. The **funding** available to support the RS systems change programme is **time-limited** and must be spent by 31/03/2019. If the systems change is not delivered within the planned timescales any cost slippage (timing and cost overrun) will need to be funded from the HRA existing GIA allocation. It is anticipated that the new systems will be more economical to maintain given technological advances and the drive to simplify our approach. Contingency planning using scenario modelling will provide some mitigation however this will remain a significant risk throughout the programme.
3. We know that our current **business model** needs to adapt in order to sustain future real terms reductions in GIA as required by the spending review. The many unknowns (new system development, external environment, outcome of SIP) mean that creating a sustainable business model over the coming months will need to be responsive to the ever changing environment HRA operates.

**Staff costs (6 mths-ended 30 September 2017)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Service** | **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** |
| Research ethics service | 1,452 | 1,446 | (6) | (0.4)% |
| HRA Approval | 1,305 | 1,304 | (1) | (0.0)% |
| Confidentiality advisory service | 97 | 90 | (7) | (7.2)% |
| Research systems | 256 | 256 | 0 | (0.0)% |
| **Total Services Staff Costs** | **3,110** | **3,096** | **(14)** | **(0.5)%** |
|  |  |  |  |  |
| Chief executive (inc Governance ) | 358 | 364 | 6 | 1.7% |
| Policy | 114 | 102 | (12) | (10.5)% |
| Training | 89 | 89 | 0 | 0.0% |
| Corporate services | 411 | 411 | 0 | 0.0% |
| Finance, Procurement and Estates | 243 | 240 | (3) | (1.2)% |
| **Total Staff Costs** | **4,325** | **3,302** | **(23)** | **(0.5)%** |

Staff costs are tracking close to budget with 0.5% overall variance at the 6 month point in the year £23k. Predictions for the next few months show that vacant posts particularly at bands 4&5 are a concern. As a result, the executive has put in place plans to help address these gaps as well as provide additional resource to support the change programme.

**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 | 107 | 105 | (2) |
| IRAS Developments |  | 362 | 181 | 178 | (3) |
| **BGO Contract** |  | **577** | **288** | **283** | **(5)** |
| IS Team – capitalised salaries |  | 114 | 57 | 56 | (1) |
| **BGO Contract and Capitalised salaries position as at 30 September 2017** |  | **691** | **345** | **339** | **(6)** |
| ICT infrastructure |  | 24 | 12 | 12 | (0) |
| Estates |  | 85 | 45 | 0 | (45) |
| **Total Capital** |  | **800** | **430** | **351** | **(51)** |

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.

The remaining amounts had been fully allocated to improvements to the air temperature Skipton House (implemented) and the costs related to the relocation of our Northeast office. DH have now confirmed that the Skipton House costs will not be recharged to the HRA and the Northeast office move has less capital investment required than previously planned. As a result we are exploring how we might best utilise this uncommitted budget to help support our research systems in preparation for the potential system change programme. .

**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%** | **99%** |
| **2016/17** | **98%** | **98%** |
| **2015/16** | **98%** | **97%** |

**Recommendations**

The Board is asked to review and approve the finance report for the 6 months to 30 September 2017.

**Karen Williams**

**Director of Finance**

**18 October 2017**

**Balance Sheet as at 30 September 2017**

|  |  |
| --- | --- |
|  | SEP-17 |
| PPE | 257,045 |
| Accumulated Depreciation | 52,531 |
| **Net PPE** | **204,514** |
| Intangible Assets | 3,794,242 |
| Intangible Assets Depreciation | 1,995,940 |
| **Net Intangible Assets** | **1,798,302** |
| Investment Property | 0 |
| Non-Current Financial Assets | 0 |
| Other Receivables Non-Current | 0 |
| **Total Other Non-Current Assets** | **0** |
| **Total Non-Current Assets** | **2,002,816** |
| Cash | 2,286,060 |
| Accounts Receivable | 137,866 |
| Inventory | 0 |
| Investments | 0 |
| Non-Current Assets Held for Sale | 0 |
| Other Current Assets | 0 |
| **Current Assets** | **2,423,927** |
| **Total Assets** | **4,426,742** |
| Accounts Payable | 1,153,232 |
| Accrued Liabilities | 0 |
| Short Term Borrowing | 0 |
| **Current Liabilities** | **1,153,232** |
| Non-Current Payables | 0 |
| Non-Current Borrowing | 0 |
| Other Liabilities | 0 |
| **Long Term Liabilities** | **0** |
| General Fund | 9,401,859 |
| Share Capital | 0 |
| Revaluation Reserve | 0 |
| Donated Assets Reserve | 0 |
| Government Grants Reserve | 0 |
| Other Reserves | 0 |
| Retained Earnings incl. In Year | (6,128,349) |
| **Total Taxpayers Equity** | **3,273,510** |
| **Total Liabilities** | **4,426,742** |