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| **Agenda item:** | **10** |
| **Attachment:** | **E** |

**HRA BOARD & LT COVER SHEET**

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| **Date of Meeting:** | Board: 22nd November 2017 |

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| **Title of Paper:** | Finance report - for the 7 months ended 31 October 2017 |
| **Purpose of Paper:** | To enable an informed understanding of the HRA’s financial performance for the 7 months to 31 October 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 **£36k (0.5%)** on revenue expenditure and **£92k (18.9%)** underspend on capital expenditure. * Our **forecast** for the year remains on track with **no underspend position** anticipated. * £160k executive restructure business case has now been included in DH GIA figures, increasing our **GIA revenue funding** to **£12,469k**. * Following DH’s decision not to support our **SIP** business case (£260k) we have confirmed with our sponsor that we will not be able to progress business analytics, organizational development and customer relationship management elements of our programme this year. * Research systems business case has been submitted with DH sponsor and finance approval. It is anticipated that a decision will be made in the next two weeks. Plans are in place to address the need for increased capacity with some roles being advanced, at risk, ahead of the decision. * 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:** | 13th November 2017 |

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

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

**Executive Summary – Headlines**

* The HRA 2017/18 outturn for the first 7 months of the year was £7,220k (2016/17: £7,173k) and £388k (2016/17 £419k) capital. On revenue expenditure this represented a £36k, 0.5% underspend (2016/17 £29k, 0.4% overspend) and on capital expenditure a £92k, 18.9% underspend (2016/17 £21k, 4.8%).
* DH have approved our executive restructure business case £160k and increased our grant in aid accordingly. More details on our strategic reserves allocation is provided later in this report.
* Following our accountability meeting, we have written to DH to confirm which elements of our service improvement programme will be curtailed and / or delayed due to non-approval of our SIP business case. We have also asked for a deep dive to help us explore with DH, what we might have done differently to successfully secure the funds.
* The business case for enhancement and replacement of our current research systems has been submitted with strong DH support and DH finance approval. We hope to hear in the next two weeks the outcome of this case.
* The HRA continued to meet its regulatory requirements in paying invoices quickly and key finance deadlines.

**Revenue financial performance for the 7 mths-ended 31 October 2017**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2017/18** | **7 Months ended 30 Sep 2017 (£'000)** | | |  |
|  | **£'000** | **%** |
| **Income** | **Latest Budget** | **Budget** | **Actual** | **Variance** | **Variance** |
| Grant in Aid confirmed | 12,469 | 6,886 | 6,849 | (36) | (0.5)% |
| HRA income | 205 | 113 | 113 | 0 | - |
| Non cash revenue resource limit | 570 | 258 | 258 | 0 | - |
| **Total Income** | **13,244** | **7,257** | **7,220** | **(36)** | **(0.5)%** |
| **Expenditure** |  |  |  |  |  |
| HRA Approval | 2,767 | 1,598 | 1,594 | (4) | (0.3)% |
| Research ethics service | 3,721 | 2,253 | 2,230 | (22) | (1.0)% |
| Research systems | 1,312 | 765 | 754 | (10) | (1.3)% |
| Confidentiality Advisory Service | 280 | 147 | 131 | (16) | (10.6)% |
| **Total Services Expenditure** | 8,080 | 4,762 | 4,710 | (52) | (1.1)% |
| Chief Exec inc. Governance. | 836 | 459 | 464 | 5 | 1.1% |
| Policy | 295 | 134 | 136 | 2 | 1.8% |
| Training | 419 | 171 | 167 | (4) | (2.6)% |
| Corporate Services | 1,032 | 579 | 590 | 11 | 2.0% |
| Finance, Procurement & Estates | 1,693 | 894 | 896 | 2 | 0.2% |
| Reserves | 319 | 0 | 0 | 0 | 0.0% |
| Depreciation | 570 | 258 | 258 | 0 | 0.0% |
| **Total Expenditure** | **13,244** | **7,257** | **7,220** | **(36)** | **(0.5)%** |
| **Surplus /Deficit** | **0** | **0** | **0** | **0** |  |

**Highlight report:**

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

**Payroll costs**

Salary costs remain slightly behind the original budget set, net of vacancy factor. Steps have been taken to tackle this and future resourcing needs using a variety of strategies including:

* Recruitment of additional amendment support to release capacity within the ethics service, particularly at REC assistant roles
* Holistic approach adopted for REC assistant roles in London where recruitment and retention of these ‘entry level’ roles is tough due to market conditions. Experienced REC assistants from Bristol are providing support with backfill provided by agency staff based in Bristol (where the market is better for recruitment and retention)
* Additional roles have been recruited to providing greater capacity to support development of our current and future research systems (business analyst and tester) and further roles are being progressed to ensure sufficient capacity to deliver the research systems business case
* FTC roles have been reviewed and extended where appropriate to provide greater resilience and reflect the extension of the change programme arising from the research systems business case

**Reserves**

Reserves are being closely monitored by the senior leadership team on a fortnightly basis. Following the positive decision by DH on our executive team restructure funding we have reviewed our portfolio and taken steps to address strategic risks (social care and workforce development) as well as ensure funds are invested in the service improvement programme and research systems development

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| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Strategic aims** | | | | |
| Reserves projects |  | **1** | **2** | **3** | **4** | **5** |
| Service improvement programme | 100,000 |  |  |  |  |  |
| Website development | 85,000 |  |  |  |  |  |
| ICT service manager and associated projects | 85,000 |  |  |  |  |  |
| Additional project and programme capacity | 50,000 |  |  |  |  |  |
| Business analyst and tester | 50,000 |  |  |  |  |  |
| North East office relocation | 30,000 |  |  |  |  |  |
| Human Tissue Authority - direct dialogue project | 25,000 |  |  |  |  |  |
| Apprenticeship levy | 21,000 |  |  |  |  |  |
| Workforce development | 10,000 |  |  |  |  |  |
| Tissue Bank research | 10,000 |  |  |  |  |  |
| Social Care | 10,000 |  |  |  |  |  |
| **Total** | **476,000** |  |  |  |  |  |

**Strategic aims key:**

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| --- |
| 1. Championing health and social care research |
| 2. Leading improvements that make it easier to conduct high quality research in the UK |
| 3. Develop a pro-active, strategically focussed organisation |
| 4. Capitalising upon technological and data development |
| 5. Ensuring the HRA is managed and governed effectively and provides value for money for the tax payer |

**Key variances to highlight:**

***Approval and ethics services, £52k underspend, 1.1% variance:***

* **Research ethics:** £22k underspend due to greater staff turnover then planned at band 4 & 5 and savings generated through moving to e-review (print, paper, postage). Plans are now in place to address future resourcing shortfalls in the service and these are being closely monitored to ensure service delivery maintained at current levels.
* **Research systems**: £10k underspend due mainly to speed of recruitment of extra roles to the team (business analyst / tester). Both new members are now in post.
* **CAG:** £16k underspend due to delays in recruitment and lower meeting costs. The team are exploring how this underspend might be best utilised to meet the strategic and operational needs of the service.

**Corporate services, £11k overspend, 2.0%**

* **Human Resources:** £5k overspend due to increased utilisation of NHS BSA for recruitment services and vacancy factor – team is fully staffed.
* **Public involvement**: £2k overspend due primarily to vacancy factor – team is fully staffed. Our reforecast will be adjusted to reflect this in future months.

**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 and submit a business case for this project.
2. The **funding** available to support the RS systems change programme is **time-limited** and must be spent by 31/03/2019. It is anticipated that the new systems will be more economical to maintain given technological advances and the drive to simplify our approach, however the risk of project over-run means that there may be a time delay in achieving these savings placing pressure on service delivery. We are developing a financial strategy to address this risk which will be discussed with the Board shortly.
3. DH and stakeholder support for the **research systems business case** is strong and aligned. There is a risk that despite this support, the need to gain the necessary **approvals** in order to progress this project might significantly impact on timelines risking the financial viability of this project. We continue to work closely with DH to ensure we do all we can to enable the speedy approval of our case and then the implementation of the first two elements of the project – programme delivery partner and market appraisal before the end of the 2017/18 financial year.
4. Our current **business model,** like many government funded organisations**,** needs to adapt in order to sustain future real-terms funding reductions. Work is underway to ensure our change progamme is informed by our customers and also the financial requirements determined by our reducing funding envelope.

**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 | 125 | 122 | (3) |
| IRAS Developments |  | 362 | 211 | 208 | (3) |
| **BGO Contract** |  | **577** | **336** | **330** | **(6)** |
| IS Team – capitalised salaries |  | 114 | 67 | 66 | (1) |
| **BGO Contract and Capitalised salaries position as at 30 September 2017** |  | **691** | **403** | **396** | **(7)** |
| ICT infrastructure |  | 24 | 0 | 0 | (0) |
| Estates |  | 85 | 85 | 0 | (85) |
| **Total Capital** |  | **800** | **488** | **396** | **(92)** |

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 agreed to fund the Skipton House costs which is good news and hence the resulting underspend. This gives us scope to invest upfront in systems and infrastructure ahead of the systems implementation business case. This opportunity is being explored as part of the research systems project.

**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%** |
| **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 7 months to 31 October 2017.

**Karen Williams**

**Director of Finance**

**13 November 2017**

**Detailed non-pay expenditure analysis**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Subjective** | **Annual** | **In month (£)** | | | **Year to date (£)** | | |  |
| **Name** | **budget (£)** | **Budget** | **Actual** | **Variance** | **Budget** | **Actual** | **Variance** | **Explanation** |
| **Meeting Rooms/Catering** | 205,793 | 11,933 | 15,820 | 3,887 | 108,681 | 108,731 | 50 |  |
| **Office equipment/Stationery/Furniture/Consumable** | 55,331 | 7,655 | 3,829 | (3,826) | 31,669 | 13,261 | (18,408) | E-review project - reducing stationery |
| **Photocopying/Printing/Postage/Storage/Waste** | 129,021 | 10,638 | 6,959 | (3,679) | 70,033 | 60,434 | (9,599) | E-review project - reducing stationery |
| **Premises - inc premise removal costs** | 801,313 | 83,226 | 74,284 | (8,942) | 486,098 | 487,777 | 1,679 |  |
| **Training Expenses - expenses/materials , conferences, workshops** | 153,250 | 14,536 | 7,681 | (6,855) | 35,672 | 21,000 | (14,672) | Phasing - expected to come in on budget |
| **Other Staff costs - Recruitment/adverts/redundancy/PILON** | 188,687 | 27,636 | 29,393 | 1,757 | 163,187 | 165,056 | 1,869 |  |
| **Travel costs - include excess mileage/interview expenses** | 573,405 | 44,874 | 55,674 | 10,800 | 324,923 | 308,133 | (16,790) | Due in part to phasing and all staff conference |
| **Chairs/Members/Participation - activity costs** | 271,927 | 21,450 | 21,729 | 279 | 152,648 | 148,576 | (4,072) | Phasing - anticipated to come in on budget |
| **Publications** | 2,124 | 0 | 0 | 0 | 2,124 | 2,214 | 90 |  |
| **Mobile Phones/Mobile Data** | 9,935 | 840 | 1,230 | 390 | 6,025 | 7,165 | 1,140 |  |
| **Statutory Costs - Health & Safety/Legal/Audit Fees/Dep. & Amort.** | 665,000 | 7,822 | 3,155 | (4,667) | 285,057 | 280,580 | (4,477) | Legal costs slightly behind expectations |
| **Computer Costs - Software/licences/system maintenance/purchases** | 329,353 | 25,342 | 29,195 | 3,853 | 198,200 | 201,487 | 3,287 |  |
| **Other External Contracts - SLA's - Premises, SBS,BSA, DH IT** | 765,852 | 39,130 | 30,453 | (8,677) | 399,272 | 414,416 | 15,144 | SBS contract renewal delayed and BSA additional support |
| **Other - Misc/Reserves** | 393,369 | 0 | (0) | (0) | 0 | (6) | (6) |  |
| **Grand Total** | **4,544,360** | **295,082** | **279,402** | **(15,680)** | **2,263,589** | **2,218,824** | **(44,765)** |  |