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| **Agenda item:** | **10** |
| **Attachment:** | **C** |

**HRA BOARD & LT COVER SHEET**

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| **Date of Meeting:** | Leadership team: 10th January 2018  Board: 17th January 2018 |

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| **Title of Paper:** | Finance report - for the 8 months ended 30 November 2017 |
| **Purpose of Paper:** | To enable an informed understanding of the HRA’s financial performance for the 8 months to 30 November 2017 and forecast position for the year-ended 31 March 2018.  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 **£51k (0.6%)** on revenue expenditure and **£89k (16.4%)** underspend on capital expenditure. * Our **forecast** performancefor the year remains on track with any small fluctuations in the forecast (currently £10k underspend) being redirected to priority strategic projects such as our service improvement programme. * **Research systems business case** has received DH sponsor, HR, Finance and FAP approval (for the first stage of the professional services element) with Minister approval imminent (now that the reshuffle is confirmed with no change for the HRA). This means we start procurement for the market appraisal element of the system and this work is already in train with assistance from DH. In parallel, GDS approval is being sought for the ICT element –meetings have been held with GDS and DH procurement to expedite this element with approval expected by the end of the week. * The first draft of the budget has been collated and now needs work is in progress to bring within funding envelope (currently £0.6m over-commitment). This exercise will be discussed with the Board on 17th January. * 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** |

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

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| **Name:** | Karen Williams |
| **Job Title:** | Director of Finance |
| **Date:** | 10th January 2018 |

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

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

**Executive Summary – Headlines**

* The HRA 2017/18 outturn for the first 8 months of the year was £8,061k (2016/17: £8,060k) and £388k (2016/17 £419k) capital. On revenue expenditure this represented a £51k, 0.6% underspend (2016/17 £36k, 0.3% overspend) and on capital expenditure a £89k, 16.4% underspend (2016/17 £26k, 5.1%). Our forecast position remains on track to achieve budget.
* We have FAP approval for the first tranche of the professional services element of our RS business case (to March 2018) and are expecting to receive Ministerial approval for this shortly. GDS approval (government digital service) is being sought for the systems element of the business case and following meetings with GDS and DH procurement to expedite this we expect to receive approvals by the end of the week. All other necessary approvals have now been received.
* We have received a response from our DH sponsor to our letter setting out the impact of the DH decision not to fund our SIP business case. We have discussed this further with Chris Whitty and a verbal update will be provided at the Board meeting.
* A first draft financial plan has been prepared based on £13.5m grant in aid (£0.2m reduction) and taking into account all reserves submissions (from the planning process) £0.5m. This draft is £0.6m over-committed. Actions have been agreed to bring the budget back in line with available resources and options will be discussed with the Board on 17th January.
* The HRA continued to meet its regulatory requirements in paying invoices quickly and key finance deadlines.

**Revenue financial performance for the 8 mths-ended 30 November 2017**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2017/18** | **8 Months ended 30 Nov 2017 (£'000)** | | |  |
|  | **£'000** | **%** |
| **Income** | **Latest Budget** | **Budget** | **Actual** | **Variance** | **Variance** |
| Grant in Aid confirmed | 12,469 | 7,741 | 7,689 | (51) | (0.6)% |
| HRA income | 205 | 113 | 113 | 0 | - |
| Non cash revenue resource limit | 570 | 258 | 258 | 0 | - |
| **Total Income** | **13,244** | **8,112** | **8,060** | **(51)** | **(0.6)%** |
| **Expenditure** |  |  |  |  |  |
| HRA Approval | 2,767 | 1,832 | 1,828 | (4) | (0.2)% |
| Research ethics service | 3,721 | 2,544 | 2,513 | (30) | (1.2)% |
| Research systems | 1,312 | 865 | 862 | (3) | (0.4)% |
| Confidentiality Advisory Service | 280 | 174 | 160 | (14) | (8.0)% |
| **Total Services Expenditure** | **8,080** | **5,415** | **5,363** | **(51)** | **(1.0)%** |
| Chief Exec inc. Governance. | 836 | 529 | 531 | 2 | 0.4% |
| Policy | 295 | 161 | 156 | (5) | (2.9)% |
| Training | 419 | 218 | 211 | (7) | (3.4)% |
| Corporate Services | 1,032 | 664 | 674 | 10 | 1.4% |
| Finance, Procurement & Estates | 1,693 | 866 | 867 | 1 | 0.1% |
| Reserves | 319 | 0 | 0 | 0 | 0.0% |
| Depreciation | 570 | 258 | 258 | 0 | 0.0% |
| **Total Expenditure** | **13,244** | **8,112** | **8,060** | **(51)** | **(0.6)%** |
| **Surplus /Deficit** | **0** | **0** | **0** | **0** |  |

**Highlight report:**

Year to date figures remain within 1% of budget with forecast figures also tracking closely to budget, enabling an additional £10k to be redirected to service improvement programme priorities.

No significant changes to note on previous reports with individual directorates remaining within financial KPI of 3%.

**Finance view:**

Forecast figures look high when compared to the current run-rate. Further investigation and challenge is needed to ensure that HRA makes the most of the resources allocated to it, meeting our planning and spending review requirements. This will be a key finance team focus in January 2018.

Early indications for 2018/19 financial plan are £0.6m over-commitment. Senior leadership team are exploring options to bring this within spending review requirements and these options will be discussed in more detail with the Board on 17th January.

**Payroll costs**

Salary costs remain slightly behind the original budget set, net of vacancy factor. Steps taken to tackle this and future resourcing needs are being tested across the various directorates. This includes:

* 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
* Additional FT roles have been identified to support elements of the service improvement programme (corporate and public involvement workstreams) as well as roll out of ESR self service to all staff to streamline processes and free up capacity.

**Reserves**

Reserves are being closely monitored by the senior leadership team on a fortnightly basis. Any changes to our forecast position are considered and funds (if available) reallocated to strategic priority projects where appropriate.

**Key variances to highlight:**

***Approval and ethics services, £51k underspend, 1.0% variance:***

* **Research ethics:** £30k 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 in place to address future resourcing shortfalls although resourcing shortfalls remains a risk to service delivery in the short-term.
* **CAG:** £14k underspend due to delays in recruitment and lower meeting costs. Plans are now in place to secure additional resource to address operational requirements and free up capacity to meet strategic needs for the service.

**2017/18: financial risks:**

1. Current **forecasting suggests a small underspend, £10k,** which will be redirected to strategic priorities (service improvement programme). However, current expenditure levels suggest a higher level of underspend will be achieved. There is a risk **that HRA will not achieve its strategic objectives by failing to fully utilise the resources available.**  The finance team will focus on the forecast position during January as part of the 2018/19 financial planning process to ensure forecast positions are realistic and fair and that any opportunities to redirect funds to service improvement programme and other strategic priorities are maximised.
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. Systems automation and efficiency will be key priorities for the RS implementation, in particular enhancements to HARP which supports our internal processes. Work on the financial strategy will also provide efficiencies targets to help inform the transformation programme.
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. Majority of approvals have now been achieved with GPS approval due at the end of this week. Phasing of GDS approvals (alpha and beta) will also need to be carefully managed to ensure these don’t impact negatively on the overall work-plan.
4. Our current **business model,** like many government funded organisations**,** needs to adapt in order to sustain future real-terms funding reductions. We are developing our target operating model as part of our transformation progamme to ensure it is aligned with spending review requirements.

**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 | 143 | 140 | (3) |
| IRAS Developments |  | 362 | 241 | 238 | (3) |
| **BGO Contract** |  | **577** | **384** | **378** | **(6)** |
| IS Team – capitalised salaries |  | 114 | 76 | 78 | 2 |
| **BGO Contract and Capitalised salaries position as at 30 September 2017** |  | **691** | **460** | **456** | **(4)** |
| ICT infrastructure |  | 24 | 0 | 0 | 0 |
| Estates |  | 85 | 85 | 0 | (85) |
| **Total Capital** |  | **800** | **545** | **456** | **(89)** |

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 not yet been fully allocated due to DH agreeing to cover improvements to the air temperature Skipton House (implemented) resulting in a small forecast underspend. Costs related to the relocation of our Northeast office are due to take place before the end of the year (March) although the capital element is slightly lower than previously planned. 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. .

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| --- | --- | --- |
|  | **Number** | **Value (£)** |
| **Benchmark** | **95%** | **95%** |
| **2017/18** | **98%** | **99%** |
| **2016/17** | **98%** | **98%** |
| **2015/16** | **98%** | **97%** |

**Recommendations**

Leadership team is asked to review and approve the finance report for the 8 months to 30 November 2017.

**Karen Williams**

**Director of Finance**

**4th January 2018**

**Detailed non-pay expenditure analysis**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Subjective** | **Annual** | **In month (£)** | | | **Year to date (£)** | | |  |
| **Name** | **budget (£)** | **Budget** | **Actual** | **Variance** | **Budget** | **Actual** | **Variance** | **Explanation** |
| **Meeting Rooms/Catering** | 215,793 | 27,333 | 23,070 | (4,263) | 136,014 | 131,801 | (4,213) |  |
| **Office equipment/Stationery/Furniture/Consumable** | 35,737 | (7,339) | 1,242 | 8,581 | 24,330 | 14,504 | (9,826) | E-review project - reducing stationery |
| **Photocopying/Printing/Postage/Storage/Waste** | 129,021 | 10,269 | 6,498 | (3,771) | 80,302 | 66,932 | (13,370) | E-review project - reducing stationery |
| **Premises - inc premise removal costs** | 811,023 | 14,622 | 32,526 | 17,904 | 500,720 | 520,302 | 19,582 | SKH costs (VAT), more than off-set by greater revenue NHS BSA |
| **Training Expenses - expenses/materials , conferences, workshops** | 153,250 | 14,375 | 9,437 | (4,938) | 50,047 | 30,437 | (19,610) | Phasing - expected to come in on budget |
| **Other Staff costs - Recruitment/adverts/redundancy/PILON** | 188,687 | 3,702 | 3,702 | 0 | 166,889 | 168,758 | 1,869 |  |
| **Travel costs - include excess mileage/interview expenses** | 573,465 | 52,724 | 53,671 | 947 | 377,647 | 361,803 | (15,844) | Due in part to phasing and all staff conference |
| **Chairs/Members/Participation - activity costs** | 271,927 | 21,450 | 26,776 | 5,326 | 174,098 | 175,351 | 1,253 | 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 | 1,277 | 437 | 6,865 | 8,442 | 1,577 |  |
| **Statutory Costs - Health & Safety/Legal/Audit Fees/Dep. & Amort.** | 665,000 | 6,833 | 3,474 | (3,359) | 291,890 | 284,054 | (7,836) | Legal costs slightly behind expectations |
| **Computer Costs - Software/licences/system maintenance/purchases** | 329,949 | 26,403 | 22,470 | (3,933) | 224,603 | 223,958 | (645) |  |
| **Other External Contracts - SLA's - Premises, SBS,BSA, DH IT** | 760,676 | 67,241 | 57,411 | (9,830) | 466,513 | 471,828 | 5,315 | SBS contract renewal delayed and BSA additional support |
| **Other - Misc/Reserves** | 371,428 | 0 | (1) | (1) | 0 | (7) | (7) |  |
| **Grand Total** | 4,518,015 | 238,453 | 241,553 | 3,100 | 2,502,042 | 2,460,377 | (41,665) |  |