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| **Agenda item:** | **11** |
| **Attachment:** | **F** |

**HRA BOARD COVER SHEET**

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| **Date of Meeting:** | Board: 24th September 2018 |

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| **Title of Paper:** | Finance report - for the 5 months ended 31 August 2018 |
| **Purpose of Paper:** | To enable an informed understanding of our financial performance for the 5 months to 31 August 2018.  To improve decision making by increasing financial literacy particularly in relation to our 2018/19 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 * **P5 reforecast** predicts a balanced financial position by the end of the year * **Capital** resource limits have been confirmed by DHSC and are consistent with outline plans discussed with the finance and sponsor teams. **Depreciation** resource limit remains unconfirmed by DHSC but is expected to be consistent with outline plans. * Additional funding for **Agenda for Change** pay proposals (c£120k) has been formally confirmed by DHSC. * Review of **reserves requirements** and some re-phasing of core projects has helped deliver a **balanced budget** with no further savings required. * Year to date financial performance reports a small **underspend** position of £**34k (0.6%)** (2017/18: £39k (0.8%) on revenue expenditure and £0k (0.0%) (2017/18 £7k (2.3%) underspend on capital expenditure * High level financially planning for **2019/20** has identified a **savings target of £600k** to meet strategic and operational objectives and remain within spending review requirements. An outline request for DHSC transition funding has been submitted to enable this organisational change. * The HRA continues to meet its regulatory requirements in paying invoices quickly. |
| **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, procurement and estates |
| **Date:** | 16th September 2018 |

**Finance Report - Financial Year 2018/19**

**Health Research Authority as at 31 August 2018**

**Executive Summary – Headlines**

* The HRA 2018/19 outturn for the first 5 months of the year was £5,405k (2017/18: £5,016k) and £267k (2017/18 £281k) capital. On revenue expenditure this represented an underspend of £34k, 0.6% (2017/18 £39k, 0.8%) and on capital expenditure a £0k, 0.0% underspend (2017/18 £7k, 2.3%).
* Forecast outturn for the year is predicted to be a breakeven position for the HRA. This includes DHSC confirmed additional resource allocation of £120k to fund Agenda for Change budget pressures..
* Capital expenditure is in line with expectations and confirmed resource allocation by DHSC. The impact of the agile development approach on capital and revenue classification has yet to be determined. This will be explored further in the Autumn. It is considered low risk as DHSC have already indicated flexibility within the overall funding envelope will be possible given the changing approach to technology.

**Revenue financial performance for the 5 mths-ended 31 August 2018**

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| --- | --- | --- | --- | --- | --- |
|  |  | **5 Months ended 31 August 2018 (£'000)** | | |  |
|  | **2018/19** |  |  |  |  |
| **Income** | **Latest Budget £'000** | **Budget** | **Actual** | **Variance** | **Variance%** |
| Grant in Aid confirmed inc RS Prog | 13,982 | 5,205 | 5,171 | -34 | -0.7% |
| HRA income | 185 | 0 | 0 | 0 | 0.0% |
| Non cash revenue resource limit | 1,000 | 200 | 200 | 0 | 0.0% |
| **Total Income** | **15,167** | **5,405** | **5,371** | **-34** | **-0.6%** |
| **Expenditure** | **Latest Budget** | **Budget** | **Actual** | **Variance** | **Variance** |
| Approvals - Operational | 5,211 | 2,142 | 2,138 | -4 | -0.2% |
| Approvals - Programme and Guidance | 801 | 328 | 319 | -8 | -2.5% |
| Approvals - Member Support | 552 | 231 | 244 | 13 | 5.5% |
| Research systems | 926 | 385 | 382 | -3 | -0.7% |
| Confidentiality Advisory Service | 220 | 82 | 73 | -9 | -10.9% |
| Total Services Expenditure | 7,710 | 3,167 | 3,156 | -11 | -0.3% |
| Chief Exec and Board | 348 | 170 | 169 | -1 | -0.8% |
| Policy | 461 | 179 | 172 | -7 | -4.0% |
| Governance ( inc. Quality) | 331 | 153 | 153 | 0 | 0.0% |
| Training | 453 | 211 | 199 | -11 | -5.3% |
| Corporate Services ( inc IT Services) | 1,266 | 511 | 510 | -1 | -0.3% |
| Transformation | 2,007 | 393 | 391 | -3 | -0.7% |
| Premises | 846 | 359 | 362 | 2 | 0.7% |
| Finance, Procurement & Estates | 715 | 260 | 259 | -2 | -0.7% |
| Reserves | 29 | 0 | 0 | 0 | 0.0% |
| Depreciation | 1,000 | 0 | 0 | 0 | 0.0% |
| **Total Expenditure** | **15,167** | **5,405** | **5,371** | **-34** | **-0.6%** |
| **Surplus /-Deficit** | **0** | **0** | **0** | **-0** |  |

**Highlight report:**

**Overall**

**No significant issues** on business as usual activities to report. Salary costs continue to track slightly below budget and no significant additional pressures identified on non-pay activities. HRA continues to predict a balanced budget for the year with any permanent savings achieved reallocated to fund transformation programme and Brexit related budget pressures.

**Transformation costs** include research systems replacement programme £1,752k, future services programme (to replace our pc infrastructure and support contract) £192k and service improvement programme activity £63k. To date expenditure is within expectations however budget pressure has been identified in relation to research systems parallel running and transition costs. Technology strategy workshop has been scheduled to determine extent of pressure and agree approach.

**Savings plan** *–* balanced budget has been achieved through reassessment of reserves requirements, (for example, reallocation of future service programme funds to Windows 10 upgrade) as well as identified permanent savings (for example Skipton House reduced rent and savings on photocopier costs).

**Key variances:**

**Confidentiality advisory team:** £9k, 10.9%. Current underspend relates to planned CAG meetings that have not been required, resulting in underspends within catering, meeting room costs and travel. These savings are likely to be permanent and will be reflected in the forecast outturn and as part of the mid-year review.

**Member support costs:** £13k, 5.5%. Overspend is due to increased Committee meeting room costs as the number of free NHS venues is decreasing. There is also a small overspend within members travel costs. This cost pressure is being reviewed and may increase slightly forecast outturn costs for 2018/19.

**Training:** £11k, 5.3%. Underspend due to training related travel costs which are less than anticipated and computer software licences. Travel costs will be monitored and potentially reduced as part of the mid-year review. No permanent savings are predicted however due to known cost pressures in e-learning development.

**2018/19: financial risks:**

1. **Complexity of research systems, interoperability and Brexit** require potentially significant further investment in our research systems. Funding is currently finite and limited. There is a risk that available resources (financial and people) are not sufficient to meet externally determined requirements. A bid for 2019/20 Brexit funding has already been identified and encouraged. A second investment business case may be required, at speed, to ensure development provides best value for the sector and public purse. Technology workshop is planned to begin to address this risk.
2. **Organisational and technological systems changes need to create £600k (approx 5%) economies** to meet spending review requirements in 2019/20 and provide funds to support policy and external engagement strategic objectives. 2017/18 savings initiatives achieved £300k reduction in our fixed cost base. Our transformation programme seeks to streamline our service and reduce our cost base in real terms. 50% required economies have been identified to date.

**Staff costs (5 mths-ended 31 August 2018)**



**Approvals:** Investment in flexible admin support to create capacity in our delivery teams has freed up experienced resource to drive forward our service improvement programme. Tight controls remain in place over the tactical use of agency staff to ensure financial targets are achieved. This includes approval of all contingent labour by a panel of senior managers who consider a variety of factors including, strategic priorities and risk assessment, financial indicators and operational performance.

**Non-staff costs**

**No significant variances** to report at this stage of the year. Our refined approach to finance business partnering has been implemented to enable the right level of focus on costs / activity proportionate to our internal assessment of risk.

**Estates related costs** have been pulled out of the Approvals directorate and are now reported separately as a corporate cost. Cost sharing arrangements for SKH with NHS BSA continue to help mitigate the costs of our London office (£72k/annum) which have now been confirmed as approximately £26k/annum lower than previously estimated. We are also exploring sharing space in our Manchester office with the Government Property Agency on behalf of another government agency.

We are seeing an increase in **meeting room costs** as the availability of ‘free’ or significantly discounted meetings spaces reduce. This is issue has been known for some time and is being carefully monitored by the ethics team. The likely small increase in forecast outturn is manageable within current finance forecasts.

**Reserves**

Our **GIA funded reserves** programme have been revised to **£353k based on current knowledge.** This is in addition, to our fully funded **RS transformation programme, £1,752k** (funded by DHSC Research funding and Brexit funding).

Some **GIA funded** projects have been deferred while we understand better our forecast financial position for 2018/19. Our financial plan is currently over-subscribed by £29k although known savings on our BAU activities are likely to yield sufficient capacity to fund this small budget pressure.

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| **Programme** | **Requested**  **£000** | **Committed**  **£000** | **Deferred**  **£000** |
| Future services programme including Windows 10 and Office 365 upgrade(1) | 212 | 212 | 0 |
| Service improvement programme | 40 | 40 | 0 |
| PIER additional capacity | 43 | 23 | 20 |
| Website development | 18 | 8 | 10 |
| EU clinical trials (2) | 20 | 0 | 20 |
| Chief Executive recruitment | 40 | 40 | 0 |
| **Totals** | **353** | **303** | **50** |
| **Released to ledger** | **(303)** | **(303)** | **0** |
| **Funding required** | **50** | **0** | **50** |
| **Funding available** | **29** | **0** | **29** |
| **Shortfall / in year savings target** | **21** | **0** | **21** |

1. **Future Services Programme:** £192k is our agreed commitment to the programme for 2018/19 to achieve a strategically managed exit from our current infrastructure service provider to a new target operating model and technology solution. We are also investing in Windows 10 / office 365 – to meet cyber security requirements and provide modern, flexible technology services for our people. Total anticipated investment £212k.
2. **EU clinical trials:** There is an identified need to invest in our preparedness for EU clinical trials and align with partners. Investment in RS systems development capacity, as well as changes proposed in the Approvals team, go some way to address this however more will be required. Requirements will be finalised in the Autumn.

**Capital expenditure**

Capital expenditure is tracking expectations with no variance on plans at this stage. Confirmation of our capital GIA allocation has been received from DHSC finance for 2018/19 and is in line with anticipated budget.

Investment in IRAS and HARP developments are in line with the budget, reflecting activity supporting the 28th June IRAS release and discovery work for migration for new IRAS.

There has been provision made within the programme for the implementation of the Future Services Programme, the CRM system, and also additional laptops that will be required for the roll out of Windows 10.

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| **Plan initiative** |  | **2018/19 plan full year** | **2018/19 budget ytd** | **2018/19 actual ytd** | **2018/19 variance ytd** |
|  | **£0** | **£0** | **£0** | **£0** |
| HARP Developments |  | 215 | 90 | 90 | 0 |
| IRAS Developments |  | 285 | 118 | 118 | 0 |
| **BGO Contract** |  | **500** | **208** | **208** | **0** |
| IS Team – capitalised salaries |  | 143 | 59 | 59 | 0 |
| **BGO Contract and Capitalised salaries position as at 30 June 2018** |  | **643** | **267** | **267** | **0** |
| Future Services Programme |  | 27 | 0 | 0 | 0 |
| ICT infrastructure |  | 100 | 0 | 0 | 0 |
| CRM |  | 30 | 0 | 0 | 0 |
| **Total Capital** |  | **800** | **267** | **267** | **0** |

**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%** |
| **2018/19** | **99%** | **100%** |
| **2017/18** | **98%** | **98%** |
| **2016/17** | **98%** | **98%** |

**Recommendations**

The Board is asked to review and approve the finance report for the 5 months to 31 August 2018.

**Sylvia Hazard and Karen Williams**

**Deputy Director of Finance and Director of Finance, Procurement and Estates**

**16 September 2018**