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| **Agenda item:** | **11** |
| **Attachment:** | **E** |

**HRA BOARD COVER SHEET**

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

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| **Title of Paper:** | Finance report - for the 3 months ended 30 June 2018 |
| **Purpose of Paper:** | To enable an informed understanding of our financial performance for the 3 months to 30 June 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
* Our confirmed **GIA revenue** allocation for 2018/19 is **£12,110k,** £200k (1.7%) reduction on previous year (2017/18 £12,310).
* **£1,752k** one-off additional funding for the **research systems transformation** has been approved by DoHSC finance (£1,500k from research funds; £252k from Brexit funding).
* **Capital and depreciation** resource limits have yet to be confirmed from DoHSC finance – we anticipate that these will be confirmed as part of the June consolidation process.
* **£500k additional cash requirement** has been agreed with DoHSC to address cash drawdown shortfall in 2017/18
* Additional funding for **Agenda for Change** pay proposals (c£120k) is being discussed with DHSC finance colleagues – likely to be confirmed by the end of the month
* In year **savings target** will be confirmed as part of the quarter1 reforecasting process and is anticipated to be in the region of **£100k - £200k**. This is tough but achievable.
* Year to date financial performance reports a small **underspend** position of £19k (0.6%) (2017/18: £46k (1.5%) on revenue expenditure and £1k (0.9%) (2017/18 £7k (4%)) underspend on capital expenditure
* A new enhanced **accounting hierarchy** has been introduced, providing greater analysis within the coding structure.
* Work is now underway to develop **improved reporting** **and financial analysis** based on this new hierarchy
* 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:** | 18th July 2018 |

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

**Health Research Authority as at 30 June 2018**

**Executive Summary – Headlines**

* The HRA 2018/19 outturn for the first 3 months of the year was £3,389k (2017/18: £3,124k) and £106k (2017/18 £166k) capital. On revenue expenditure this represented an small underspend of £19k, 0.6% (2017/18 £46k, 1.5%) and on capital expenditure a £1k, 0.9% underspend (2017/18 £7k, 4.0%).
* Senior leadership team and the workforce board are now focused on developing a target operating model to support our strategic ambition and also meet spending review requirements. Our financial plan this year is dependent on confirmation pf funding for Agenda for Change pay award c£120k and achieving savings of up to £200k on business as usual activities.
* Funding has been secured for 2018/19 research systems transform programme (£1,752k). The framework contract has been signed and the first phase of the programme planned. Contractual discussion with the incumbent supplier has commenced. To date requests for GIA funded reserves programmes are at £523k. £298k has been released to the ledger, with £26k available to be allocated, leaving £199k unfunded.
* The HRA continued to meet its regulatory requirements in paying invoices quickly

**Revenue financial performance for the 3 mths-ended 30 June 2018**

|  |  |  |
| --- | --- | --- |
|  | **2018/19** | **3 Months ended 3 June 2018**  |
| **Income** | **Latest Budget £'000** | **Budget£000** | **Actual£000** | **Variance£000** | **Variance %** |
| Grant in Aid confirmed inc RS Prog | 13,862 | 3,208 | 3,189 | -19 | -0.6% |
| HRA income | 195 | 0 | 0 | 0 | 0.0% |
| Non cash revenue resource limit | 1,000 | 200 | 200 | 0 | 0.0% |
|  **Total Income** | **15,057** | **3,408** | **3,389** | **-19** | **-0.6%** |
| **Expenditure** | **Latest Budget£000** | **Budget£000** | **Actual£000** | **Variance£000** | **Variance%** |
| Approvals - Operational | 5,083 | 1,270 | 1,270 | 0 | 0.0% |
| Approvals - Programme and Guidance | 746 | 191 | 183 | -8 | -4.2% |
| Approvals - Member Support | 552 | 138 | 151 | 13 | 9.4% |
| Research systems | 915 | 227 | 226 | -1 | -0.4% |
| Confidentiality Advisory Service | 295 | 72 | 43 | -29 | -40.3% |
| **Total Services Expenditure** | **7,591** | **1,898** | **1,873** | **-25** | **-1.3%** |
| Chief Exec and Board | 377 | 118 | 117 | -1 | -0.8% |
| Policy | 457 | 107 | 101 | -6 | -5.6% |
| Governance ( inc. Quality) | 323 | 98 | 99 | 1 | 1.0% |
| Training | 447 | 128 | 129 | 1 | 0.8% |
| Corporate Services ( inc IT Services) | 1,238 | 325 | 333 | 8 | 2.5% |
| Transformation | 2,002 | 59 | 63 | 4 | 6.8% |
| Premises | 888 | 322 | 323 | 1 | 0.3% |
| Finance, Procurement & Estates  | 709 | 153 | 151 | -2 | -1.3% |
| Reserves | 26 | 0 | 0 | 0 | - |
| Depreciation | 1,000 | 200 | 200 | 0 | 0.0% |
| **Total Non-Services Expenditure** | **7,466** | **1,510** | **1,516** | **6** | **0.4%** |
|  **Total Expenditure** | **15,057** | **3,408** | **3,389** | **-19** | **-0.6%** |

**Highlight report:**

**Overall**

**No significant issues** on business as usual activities at this early stage in the year. Salary costs tracking just below expectations and no significant additional budget pressures identified on non-pay activities.

**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 £40k.

**Quarter 1 reforecasting cycle** will help determine the level of savings required to fund key strategic reserves activities this year. The savings target is anticipated to be in the region of £100k - £200k once existing organisational change activity has been taken into account.

**Key variances:**

**Confidentiality advisory team:** £29k, 40%. Underspend predominantly related to vacant posts. The majority of this underspend to date is a permanent saving although not anticipated to continue at this pace once one post has been filled.

**Member support costs:** £13k, 9%. Overspend due to phasing only and is not expected to generate a permanent variance.

**Corporate Services (incl. IT services):** £8k, 2%. Overspend due to vacancy factor, anticipated to be reversed in the later months of the year once planned vacant posts materialise.

**2018/19: financial risks:**

1. **Agenda for change pay award** - £120k budget pressure. Discussions are ongoing with DHSC finance to agree funding for A4C proposals. Confirmation due by the end of July. Not included in above analysis.
2. Fixed timeframe **for research systems delivery and available funding** - risk of not effectively utilising funding for best effect to the sector given tight timescales and fixed window for funding. Further bid for 2019/20 Brexit funding and potentially SRE funding will be submitted later this year to secure funds to complete the programme in 2019/20 once more is known of current programme and future requirements.
3. **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 including organisational change, costs sharing (estates), closure of Exeter office and further digitalisation of ethics committees have generated efficiencies but more needs to be done to keep within funding envelope. Strategic priorities in 2019/20 mean significant financial pressures due to requirement to deliver on transformation agenda and achieve spending review requirements.
4. Our current **business model** will not sustain our strategic and operational objectives and yield real terms reductions in funding as required by the spending review. To address this we are developing a target operating model and associated financial strategy to create a revised business model that enables us to deliver on our requirements within our allocated GIA. This will be presented to the Board in the Autumn.

**Staff costs (3 mths-ended 30 June 2018)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Service** | **2018/19 budget YTD** | **2018/19 vacancy factor YTD** | **2018/19 budget net of vacancy factor** | **2018/19 actual** | **Variance vs budget net of vacancy factor** | **% Variance net of vacancy factor** |
| **£000**  | **£000**  | **£000**  | **£000**  | **£000**  | **£000**  |
| **Approvals Directorate** | 0 | (48) | (48) | 0 | 48 | -  |
| Approvals - Member Support  | 1 | 0 | 1 | 1 | 0 | 0.0% |
| Approvals - Operational | 1,261 | 0 | 1,261 | 1,216 | (45) |  (3.6)% |
| Approvals Programme and Guidance | 176 | 0 | 176 | 172 | (4) |  (2.3)% |
| Confidentiality advisory service | 61 | 0 | 61 | 37 | (24) |  (39.3)% |
| Training | 56 | 0 | 56 | 55 | (1) |  (1.8)% |
| **Total Services Staff Costs** | **1,555** | **(48)** | **1,507** | **1,481** | **(26)** |  **(1.7)%** |
| **Chief Executive and Board** | 103 | 0 | 103 | 103 | 0 | 0.0% |
| **Corporate Services** |  | (8) | (8) | 0 | 8 | -  |
| Corprate Services (inc IT Services) | 215 | 0 | 215 | 211 | (4) |  (1.9)% |
| Research systems | 122 | 0 | 122 | 121 | (1) |  (0.8)% |
| Transformation | 52 | 0 | 52 | 53 | 1 | 1.9% |
| **Finance, procurement and Governance** |  | (4) | (4) | 0 | 4 | -  |
| Finance and Procurement | 123 | 0 | 123 | 116 | (7) |  (5.7)% |
| Governance (inc. Quality) | 93 | 0 | 93 | 95 | 2 | 2.2% |
| **Policy** | 99 | (2) | 97 | 96 | (1) |  (1.0)% |
| **Total Staff Costs** | **2,362** | **(62)** | **2,300** | **2,276** | **(24)** |  **(1.0)%** |

The decision to continue investing in additional agency administrative support based in our Manchester office to release pressure in operational teams has proven to be affordable. This arrangement will continue under regular review by recruitment panel for the foreseeable future. The Approvals directorate remains within budget, net of vacancy factor.

For the first three months’ staff costs were slightly underspent by £24k, 1.0%, due mainly to vacant posts that are being actively recruited to or have already been filled. Recruitment panel continues to closely monitor vacancies and potential strategies to ensure frontline services are protected and strategic programmes have sufficient capacity. Future target operating model discussions and operational change processes are monitored by workforce board.

**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) while we wait confirmation of the new lease costs (due from DoHSC imminently). We are also exploring sharing space in our Manchester office with the Government Property Agency on behalf of another government agency.

**Reserves**

Requests for **GIA funded reserves** programme are currently at **£523k**. This is in addition, to our fully funded **RS transformation programme, £1,752k** (funded by DoHSC Research funding and Brexit funding).

A number ofthese **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 £199k which means that some of the reserves projects will need to be deferred / curtailed and further savings identified in order to achieve our grant in aid allocation.

**Reserves:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme** | **Requested****£000** | **Committed** **£000** | **Deferred****£000** |
| Future services programme (1) | 192 | 192 | 0 |
| Windows 10 upgrade (2) | 58 | 0 | 58 |
| Service improvement programme | 40 | 40 | 0 |
| PIER additional capacity | 43 | 18 | 25 |
| Website development | 18 | 8 | 10 |
| Technical assurance (3) | 60 | 0 | 60 |
| EU clinical trials (4) | 40 | 0 | 40 |
| CRM system (5) | 30 | 0 | 30 |
| Chief Executive recruitment  | 40 | 40 | 0 |
| **Totals** | **523** | **298** | **225** |
| **Released to ledger** | **(298)** | **(298)** | **0** |
| **Funding required** | **225** | **0** | **225** |
| **Funding available** | **26** | **148** | **26** |
| **Shortfall / in year savings target** | **199** | **0** | **199** |

1. **Future Services Programme:** £192k is our commitment to the programme for 2018/19. Early signs are that this amount may not be fully utilised this year due to delays in achieving the necessary government approvals. Some of this commitment might therefore be available to reinvest in other reserves programmes – particularly Windows 10 upgrade, reducing the net requirement here.
2. **Windows 10 upgrade:** HRA uses Windows 7 operating system which requires updating to a more resilient, supported and secure system. NHS Digital have negotiated a deal with Microsoft for the health sector to enable this to happen unilaterally. The upgrade will involve all laptops being rebuilt with the new operating system, some infrastructure changes as well as an organisational change programme. Costs are likely to be in the region of £60k plus some capital costs. The upgrade will enable HRA to improve toolset provided to staff, enhance collaboration functionality and better utilise Cloud services. Costs may be covered by slower than planned implementation of FSP and associated cost deferral (above).
3. **Technical assurance:** Planning process identified the need to increase capacity in this team following the launch of the technical assurance process. To date no additional capacity has been released to support this new service with developments being led by BAU capacity.
4. **EU clinical trials:** Again planning process identified the need to invest in this area to ensure we meet tight timescales 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 may be required.
5. **CRM system:** Service improvement programme identified the need to invest in CRM tools to support the customer support work-stream. Investment in capacity in this work-stream is being explored to ensure it aligns with other transformation programme activities. £30k capital allocation has been provisionally provided within the capital budget.

**Capital expenditure**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Plan initiative** |  | **2018/19 plan full year** | **2018/19 budget ytd** | **2018/19 actual ytd** | **2018/19 var ytd** |
|  | **£0** | **£0** | **£0** | **£0** |
| HARP Developments |  | 215 | 54 | 54 | 0 |
| IRAS Developments |  | 285 | 71 | 71 | 0 |
| **BGO Contract** |  | **500** | **125** | **125** | **0** |
| IS Team – capitalised salaries |  | 143 | 36 | 35 | (1) |
| **BGO Contract and Capitalised salaries position as at 30 June 2018** |  | **643** | **161** | **160** | **(1)** |
| Future Services Programme |  | 27 | 0 | 0 | 0 |
| ICT infrastructure  |  | 100 | 0 | 0 | 0 |
| CRM |  | 30 | 0 | 0 | 0 |
| **Total Capital** |  | **800** | **161** | **160** | **(1)** |

Confirmation of our capital GIA allocation has yet to be received from DoHSC finance for 2018/19. The capital programme has been budgeted on the assumption that we will receive funding in line with last year’s budget and consistent with requests submitted to DoHSC finance.

Investment in IRAS and HARP developments are in line with the budget for P1, reflecting activity supporting the 28th June IRAS release. As development and implementation of the new IRAS system progresses, it is anticipated that development will be diverted to system improvements for HARP and migration requirements 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.

**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 3 months to 30 June 2018.

**Karen Williams**

**Director of Finance, Procurement and Estates**

**18 July 2018**

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| **Health Research Authority** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **2018-19** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Annual Cash Flow Profile** |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **Mar** | **Total** |
| **£'000s** |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |  **£000**  |
| **Opening Balance** |  **957**  |  **929**  |  **846**  |  **1,459**  |  **1,648**  |  **1,246**  |  **1,063**  |  **914**  |  **842**  |  **811**  |  **874**  |  **895**  |  **957**  |
| **Receipts** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Debtors |  33  |  17  |  44  |  -  |  -  |  18  |  -  |  -  |  18  |  -  |  -  |  213  |  342  |
| Revenue cash limit |  1,000  |  1,000  |  2,000  |  900  |  800  |  1,000  |  1,100  |  1,200  |  1,150  |  1,150  |  1,100  |  1,462  |  13,862  |
| Capital cash limit | - | - | - | - |  100  |  100  |  100  |  100  |  100  |  100  |  100  |  100  |  800  |
| Additional Cash allocation | - | - | - |  500  | - | - | - | - | - | - | - | - |  500  |
| **Total Receipts** |  **1,033**  |  **1,017**  |  **2,044**  |  **1,400**  |  **900**  |  **1,118**  |  **1,200**  |  **1,300**  |  **1,268**  |  **1,250**  |  **1,200**  |  **1,775**  |  **15,504**  |
| **Payments** |  |  |  |  |  |  |  |  |  |  |  |  |   |
| Staff - payroll |  443  |  793  |  820  |  776  |  767  |  770  |  771  |  768  |  759  |  753  |  745  |  1,036  |  9,198  |
| Non-payroll payments  |  558  |  278  |  534  |  382  |  481  |  476  |  524  |  524  |  460  |  355  |  354  |  505  |  5,432  |
| Capital payments |  60  |  30  |  77  |  54  |  54  |  54  |  54  |  80  |  80  |  80  |  79  |  78  |  780  |
| **Total Payments** |  **1,060**  |  **1,100**  |  **1,430**  |  **1,211**  |  **1,302**  |  **1,300**  |  **1,349**  |  **1,372**  |  **1,299**  |  **1,188**  |  **1,179**  |  **1,619**  |  **15,410**  |
|   |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Closing Balance** |  **929**  |  **846**  |  **1,459**  |  **1,648**  |  **1,246**  |  **1,063**  |  **914**  |  **842**  |  **811**  |  **874**  |  **895**  |  **1,051**  |  **1,051**  |
| **Notes and Assumptions** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (1) Includes additional £500k cash cover confirmed by DHSC  |  |  |  |  |  |  |  |  |  |  |