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

**HRA BOARD COVER SHEET**

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| **Date of Meeting:** | Leadership team: 13th November 2018Board: 21st November 2018 |

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| **Title of Paper:** | Finance report - for the 6 months ended 30 September 2018 |
| **Purpose of Paper:** | To enable an informed understanding of our financial performance for the 6 months to 30 September 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
* **P6 reforecast** predicts a balanced financial position on business as usual activities
* **Depreciation** resource limit remains unconfirmed by DHSC but is expected to be consistent with outline plans.
* **Research systems £250k budget pressure identified** due to GFI integration. Additional funding (£250k) agreed with DHSC and will be confirmed at Q3 consolidation schedule.
* Further **research systems** budget pressure identified for **2019/20** – business case being prepared.
* **Business planning for 2019/20** has identified savings target of £600k. Organisational change processes and vacancy control will achieve substantial proportion of requirement. Transition funding allocation confirmed by DHSC in advance of detailed request, later this year.
* The HRA continues to meet its regulatory requirements in paying invoices quickly.
 |
| **Suitable for wider circulation?** | **Yes** |
| **Time required for item:** | **5 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 October 2018 |

**Health Research Authority Finance Report: 6 months ended 30 September 2018**

**Executive Summary**

* The HRA 2018/19 outturn for the first 6 months of the year was £7,397k (2017/18: £6,241k) and £320k (2017/18 £351k) capital. On revenue expenditure this represented an underspend of £24k, 0.3% (2017/18 £53k, 0.8%) and on capital expenditure a £0k, 0.0% underspend (2017/18 £51k, 5.0%). Costs are greater than previous year due to investment in research system transformation programme £1.972m, annual commitment.)
* Forecast business as usual outturn for the year is predicted to be in line with plans. £250k budget pressure on research systems transform programme has been identified (bringing total planned costs to £2,002k). DHSC has agreed additional EU Exit funding of £250k due to direct link with clinical trials requirements and future competiveness.
* 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 is being analysed. Discussions with the auditors on classification have confirmed our approach and impact on capital / revenue allocations will be proposed by Qtr3.
* Business case to fast track research systems transformation programme is being prepared.

**Revenue financial performance for the 6 mths-ended 30 September 2018**

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| --- | --- | --- | --- |
|  |  | **6 Months ended 30 September 2018 (£'000)** |   |
|  | **2018/19** |  |  |  |  |
| **Income** | **Latest Budget £'000** | **Budget** | **Actual** | **Variance** | **Variance%** |
| Grant in Aid confirmed inc RS Prog | 14,232 | 6,829 | 6,805 | -24 | -0.4% |
| HRA income | 186 | 141 | 141 | 0 | 0.0% |
| Non cash revenue resource limit | 1,000 | 427 | 427 | 0 | 0.0% |
|  **Total Income** | **15,418** | **7,397** | **7,373** | **-24** | **-0.3%** |
| **Expenditure** | **Latest Budget** | **Budget** | **Actual** | **Variance** | **Variance** |
| Approvals - Operational | 5,193 | 2,552 | 2,552 | 1 | 0.0% |
| Approvals - Programme and Guidance | 801 | 395 | 384 | -11 | -2.8% |
| Approvals - Member Support | 552 | 277 | 281 | 4 | 1.4% |
| Research systems | 926 | 455 | 453 | -2 | -0.4% |
| Confidentiality Advisory Service | 211 | 99 | 94 | -5 | -5.1% |
| Total Services Expenditure | 7,684 | 3,777 | 3,763 | -13 | -0.4% |
| Chief Exec and Board | 339 | 200 | 200 | 0 | -0.3% |
| Policy | 461 | 215 | 213 | -2 | -1.0% |
| Governance ( inc. Quality) | 331 | 179 | 177 | -2 | -0.8% |
| Training | 453 | 245 | 241 | -4 | -1.9% |
| Corporate Services ( inc IT Services) | 1,263 | 634 | 629 | -5 | -0.8% |
| Transformation | 2,257 | 853 | 859 | 6 | 0.7% |
| Premises | 846 | 551 | 552 | 1 | 0.3% |
| Finance, Procurement & Estates  | 715 | 316 | 311 | -5 | -1.6% |
| Reserves | 68 | 0 | 0 | 0 | 0.0% |
| Depreciation | 1,000 | 427 | 427 | 0 | 0.0% |
|  **Total Expenditure** | **15,418** | **7,397** | **7,373** | **-24** | **-0.3%** |
| **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 (except transformation costs (below)). 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 £2,002k, future services programme (to replace our pc infrastructure and support contract) £192k and service improvement programme activity £63k. Expenditure includes additional budget pressures relating to EU Exit £250k anticipated to be incurred November to February 2019. Business case is being prepared in relation to transformation plans for 2019/20.

**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:**

**Approvals – Programme and Guidance:** £11k, 2.8%. Current underspend relates to travel costs (£7k) and pay costs. The travel budgets are currently being reviewed for re-allocation. Any in year permanent savings will be reflected in the forecast outturn.

**Transformation:** £6k, 0.7%. Overspend is due to increased travel costs above profiled budget of £4k and pay costs to date £2k higher than budget. These cost pressures are being reviewed and will be managed within the overall Transformation budget for 2018/19.

**2018/19: financial risks:**

1. **EU Exit related activity (including UK wide systems work and interoperability).** Options analysis and business case being compiled.There is a risk that available resources (financial and people) are not sufficient to meet externally determined requirements. An outline bid for 2019/20 Brexit funding has been submitted.
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. 75% required economies have been identified to date.

**Staff costs (6 mths-ended 30 September 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:** Cost sharing arrangements for SKH with NHS BSA continue to help mitigate the costs of our London office (£72k/annum) and plans are progressing to share 6-8 desks in Manchester with another government agency.

**Reserves**

Our committed **GIA funded reserves** programme have been revised to **£323k based on current knowledge.** This is in addition, to our fully funded **RS transformation programme, £2,002k** (funded by DHSC Research funding and Brexit funding).

£68k reserves funding remains available to be allocated giving a balance of £48k to be invested in the remaining 6 months of the year. Our financial plan is currently funded and SLT are reviewing strategic requirements to ensure we meet our business plan objectives and support the current organisational change processes.

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| **Programme** | **Requested****£000** | **Committed** **£000** |
| Future services programme ( incl Win 10) (1) | 212 | 212 |
| Service improvement programme | 40 | 40 |
| PIER additional capacity | 23 | 23 |
| Website development | 8 | 8 |
| EU clinical trials (2) | 20 | 0 |
| Chief Executive recruitment  | 40 | 40 |
| **Totals** | **343** | **323** |
| **Released to ledger** | **(303)** | **(303)** |
| **Reserves available** | **68** | **20** |
| **Funding available** |  | **48** |

1. **Future Services Programme:** £192k is our agreed commitment to the programme for 2018/19. Challenges in delivery (business case delays, governance) have impacted on pace of change. External review has been commissioned to manage risk. Win10 investment – roll out of new operating system and Microsoft 365 – key to support our people particularly a flexible and mobile approach to working. Atos have performed two day workshop to identify road map and confirm costs. Detailed programme is being prepared and will be discussed at ITESGB in November.
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. Initial discussions have been held with our auditors regarding the accounting treatment of the costs associated with development of the new IRAS. Work to determine the classification of costs will be explored over the next few months.

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 6 months to 30 September 2018.

**Sylvia Hazard and Karen Williams**

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

**12 October 2018**

**Cashflow profile for 2018/19**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **Mar** |  | **Total** |
| **£'000s** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Opening Balance** | **957** | **929** | **846** | **1,459** | **1,901** | **2,330** | **1,703** | **1,533** | **1,440** | **1,388** | **1,429** | **1,429** |  | **957** |
|   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Receipts** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Debtors | 33 | 17 | 44 | 62 | 60 | 98 | 0 | 0 | 18 | 0 | 0 | 119 |  | 449 |
| Revenue cash limit | 1,000 | 1,000 | 2,000 | 900 | 1,300 | 900 | 1,100 | 1,200 | 1,150 | 1,150 | 1,100 | 1,062 |  | 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** | **1,462** | **1,460** | **1,098** | **1,200** | **1,300** | **1,268** | **1,250** | **1,200** | **1,281** |  | **15,611** |
|   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Payments** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Staff - payroll | 443 | 793 | 820 | 747 | 779 | 810 | 767 | 764 | 755 | 749 | 741 | 1,032 |  | 9,198 |
| Revenue payments through SBS | 558 | 278 | 534 | 218 | 240 | 819 | 549 | 549 | 485 | 380 | 379 | 531 |  | 5,520 |
| Capital payments | 60 | 30 | 77 | 54 | 13 | 96 | 54 | 80 | 80 | 80 | 79 | 78 |  | 780 |
|   |   |   |   |   |   |   |   |   |   |   |   |   |  |  |
| **Total Payments** | **1,060** | **1,100** | **1,430** | **1,019** | **1,031** | **1,724** | **1,370** | **1,393** | **1,320** | **1,209** | **1,200** | **1,640** |  | **15,499** |
|   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Closing Balance** | **929** | **846** | **1,459** | **1,901** | **2,330** | **1,703** | **1,533** | **1,440** | **1,388** | **1,429** | **1,429** | **1,069** |  | **1,069** |

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| **Notes and Assumptions** |
| 1. Cash actuals for April to September
2. Includes additional £500k cash cover confirmed by DHSC
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