****

|  |  |
| --- | --- |
| **Agenda item:** | **12** |
| **Attachment:** | **E** |

**HRA BOARD COVER SHEET**

|  |  |
| --- | --- |
| **Date of Meeting:** | Leadership team: 9 January 2019Board: 23 January 2019 |

|  |  |
| --- | --- |
| **Title of Paper:** | Finance report - for the 8 months ended 30 November 2018 |
| **Purpose of Paper:** | To enable an informed understanding of our financial performance for the 8 months to 30 November 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** on business as usual front line services and KPIs being met
* **P8 reforecast** predicts a balanced financial position by the end of the year due to tight financial controls and savings achieved
* Increasing pressure on **limited reserves funding** (fully allocated and £42k at risk) means scope to manage unexpected requirements and future development constrained.
* **Depreciation** resource limit confirmed by DHSC
* Year to date financial performance reports a small **underspend** position of £**2.5k (0.02%)** (2017/18: £51k (0.6%) on revenue expenditure and £4k (0.8%) (2017/18 £89k (16.4%) underspend on capital expenditure
* High level financially planning for **2019/20** has commenced. £400k recurrent savings have already been achieved with a further £300k identified for 2019/20.
* The HRA continues to meet its regulatory requirements in paying invoices quickly.
 |
| **Suitable for wider circulation?** | **Yes**  |
| **Time required for item:** | **10 minutes** |

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

|  |  |
| --- | --- |
| **Name:** | Karen Williams & Sylvia Hazard |
| **Job Title:** | Director of Finance, Procurement and Estates, Deputy Director of Finance |
| **Date:** | 21 December 2018 |

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

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

**Executive Summary – Headlines**

* The HRA 2018/19 outturn for the first 8 months of the year was £9,703k (2017/18: £8,061k) and £486k (2017/18 £456k) capital. On revenue expenditure this represented an underspend of £2.5k, 0.02% (2017/18 £51k, 0.6%) and on capital expenditure a £4k , 0.8% underspend (2017/18 £89k, 16.4%).
* Forecast outturn for the year is predicted to be £15,418k, a breakeven position for the HRA.
* Capital expenditure is in line with expectations and confirmed resource allocation by DHSC. Capital and revenue classification is being revised to reflect new approach to systems development. Proposed treatment has been shared with Mazars and is now being applied to expenditure profile to better understand implications and reporting requirements.

**Revenue financial performance for the 8 mths-ended 30 November 2018**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **8 Months ended 30 November 2018 (£'000)** |   |
|  |  |  |  |  |  |
| **Income** | **2018/19 Budget £'000** | **Budget** | **Actual** | **Variance** | **Variance%** |
| Grant in Aid confirmed (inc. RS Prog) | 14,232 | 9,138 | 9,135 | -3 | 0.0% |
| HRA income | 186 | 140 | 140 | 0 | 0.0% |
| Non cash revenue resource limit | 1,000 | 427 | 427 | 0 | 0.0% |
|  **Total Income** | **15,418** | **9,705** | **9,702** | **-3** | **0.0%** |
| **Expenditure** | **Latest Budget** | **Budget** | **Actual** | **Variance** | **Variance** |
| Approvals - Operational | 5,199 | 3,436 | 3,433 | -3 | -0.1% |
| Approvals - Programme and Guidance | 795 | 527 | 516 | -10 | -2.0% |
| Approvals - Member Support | 552 | 370 | 379 | 9 | 2.4% |
| Research systems | 926 | 609 | 611 | 1 | 0.2% |
| Confidentiality Advisory Service | 211 | 131 | 126 | -5 | -4.1% |
| Total Services Expenditure | 7,684 | 5,074 | 5,065 | -8 | -0.2% |
| Chief Exec and Board | 347 | 252 | 252 | -1 | -0.3% |
| Policy | 461 | 292 | 288 | -4 | -1.3% |
| Governance ( inc. Quality) | 331 | 228 | 227 | -1 | -0.3% |
| Training | 453 | 315 | 315 | -1 | -0.1% |
| Corporate Services ( inc IT Services) | 1,263 | 827 | 828 | 0 | 0.1% |
| Transformation | 2,257 | 1,288 | 1,291 | 3 | 0.3% |
| Premises | 846 | 578 | 587 | 8 | 1.5% |
| Finance, Procurement & Estates  | 715 | 425 | 424 | -1 | -0.2% |
| Reserves | 60 | 0 | 0 | 0 | 0.0% |
| Depreciation | 1,000 | 427 | 427 | 0 | 0.0% |
|  **Total Expenditure** | **15,418** | **9,705** | **9,703** | **-3** | **0.0%** |
| **Surplus /Deficit** | **-0** | **0** | **0** | **0** |  |

**Highlight report:**

**Overall**

As previously reported, there are **no significant issues** on business as usual activities. Close control of costs and commercial rigour ensure management within budget envelope together with strong delivery against KPIs and strategic objectives despite significant budget pressure. Long-term impact of tight fiscal environment remains a concern with scarce opportunity to invest in developments to meet strategic and operational requirements from existing grant in aid allocaiton.

**Transformation costs** include research systems replacement programme £2,252k, future services programme (to replace our ICT infrastructure and support contract and invest in Windows 10) £192k and service improvement programme activity £63k. To date expenditure is being managed within budget with enhanced governance arrangements in place to ensure effective programme management. Budget pressure relating to system complexity and transition costs is a concern and subject to a separate business case.

**Savings achieved***–* £397k recurrent savings have been achieved through activities initiated in 2017/18. Further savings of £300k have been ring-fenced through 2018/19 activities. These adjustments are now being factored into outline financial plan for 2019/20 which will be discussed at LT in January.

**Key variances:**

**Approvals – Programme and Guidance:** £10k, 2.0%. Current underspend relates to pay costs. Underspends will be reallocated to fund vital learning and development as part of the organisational change process delivering the new integrated structure.

**Approvals – Member Support:** £9k, 2.4%. Overspend is due to increasing pressure of meeting room costs and catering (£7k) and increased travel costs for members. These cost pressures are expected to be managed within the overall Directorate budget for 2018/19.

**Premises:** £8k, 1.5%. Overspend is due confirmed rent and rate allocation for Skipton House. Commitments are being reviewed to determine whether this cost pressure can be absorbed within original allocation or whether a budget virement from reserves is required. .

**2018/19: financial risks:**

1. **Complexity of research systems, interoperability and Brexit** present financial risk to the HRA. Costs associated with the current architecture may increase due to significant delivery risk, creation of technical debt and additional costs of parallel running. DHSC are aware of this risk and are working with the HRA to secure a funded solution.
2. **Organisational and technological system changes have identified £600k (approx. 5%) economies** to meet spending review requirements in 2019/20. Despite these savings, continued pressure on reserves and uncertain funding for research systems development gives limited capacity to invest in strategic or operational development outside of the current programme of activity. As a result, there is a risk that the HRA will not be able to meet the future needs of the sector.
3. **Increasing pressure to deliver on transparency** **remit** could place additional demands on already limited resources. Requirements are being reviewed with initial response to select committee report by the end of the calendar year.

**Staff costs (8 mths-ended 30 November 2018)**



**Approvals:** Tight controls remain in place over the tactical use of agency staff to ensure operational KPIs and financial targets are achieved. Currently costs are tracking slight ahead of budget as we ensure sufficient capacity is in place to meet service levels and deliver on organisational change to achieve an integrated team. Known vacancies are likely to bring this overspend back in line with budget by the end of the year.

**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** – plans to share space with HS2 in our Manchester office are progressing with draft legal documents being reviewed by each party. This will provide approximately £20k cost sharing for 2019/20. Skipton House costs are forecast to be £10k greater than budget due to a small revision in shared space allocation.

**Reserves**

Our **GIA funded reserves** programme have been revised to **£415k 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).

£303k reserves have been funded to date and £60k funding remains unallocated in reserves pot, giving an unfunded budget pressure of £42k. Based on current spending, savings achieved to date and tight control of expenditure this funding gap is challenging but achievable.

|  |  |
| --- | --- |
| **Programme** | **£000** |
| Future services programme including Windows 10 and Office 365 upgrade | 232 |
| Service improvement programme (including 2nd phase of ESR roll out) | 70 |
| PIER additional capacity | 23 |
| E-review equipment | 12 |
| Website development | 8 |
| EU clinical trials and CWOW | 5 |
| Chief Executive recruitment  | 40 |
| Organisational change – learning and development | 15 |
| **Totals** | **405** |
| **Released to ledger** | **(303)** |
| **Reserves funding required**  | **102** |
| **Unallocated reserves pot** | **(60)** |
| **Unfunded budget pressure** | **42** |

**Capital expenditure**

Capital expenditure is tracking expectations with a small variance at the 30 November in relation to capitalised salaries, this is due to a vacancy in the Research Systems team treated as partly capital. Confirmation of our capital GIA allocation has been received from DHSC finance for 2018/19 and is in line with anticipated budget.

Investment in existing IRAS and HARP developments are in line with the budget, reflecting activity supporting the 28th June IRAS release and required development in HARP (operational and technical). 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 and will form part of the month 9 consolidation return to DHSC.

There has been provision made within the programme for the capital element of Future Services Programme, and also our annual rolling replacement programme for laptop. An additional 70 laptops have been procured to ensure our IT estate is able to receive a Windows 10 build, these costs are reported within the November figures. To meet the Windows 10 requirement we have also sourced up to 40 second hand laptops from DHSC (£112.50/unit; £4,500). These costs are not currently reported within the capital figures.



**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.

|  |  |  |
| --- | --- | --- |
|   | **Number** | **Value (£)** |
| **Benchmark** | **95%** | **95%** |
| **2018/19** | **99%** | **100%** |
| **2017/18** | **98%** | **98%** |
| **2016/17**  | **98%** | **98%** |

**Recommendations**

Leadership team is asked to review and approve the finance report for the 8 months to 30 November 2018.

**Sylvia Hazard and Karen Williams**

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

**21 December 2018**