****

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

**HRA BOARD COVER SHEET**

|  |  |
| --- | --- |
| **Date of Meeting:** | Leadership team: 13th March 2019HRA Board: 20th March 2019 |

|  |  |
| --- | --- |
| **Title of Paper:** | Finance report - for the 10 months ended 31 January 2019 |
| **Purpose of Paper:** | To enable an informed understanding of our financial performance for the 10 months to 31 January 2019. 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:** |  |
| **Details:** | Main points to note:* **No significant variances** on business as usual front line services and KPIs being met
* **P10 reforecast** predicts a balanced financial position. Underspends on operational activities have been invested in reserves to meet strategic requirements and will cover existing £19k reserves budget pressure.
* **£500k** transition funding not anticipated to be fully utilized. £25k underspend forecast. This will be firmed up once current organizational change process is finalised.
* **Year to date financial performance** reports a small **underspend** position of **£38k (0.3%)** (2017/18: £61k (0.6%) on revenue expenditure and **£14k (0.8%)** (2017/18 £110k (16%) underspend on capital expenditure
* High level financial planning for **2019/20** is complete and will be presented to the Board in March. Key assumptions and consideration of strategic requirements has been considered by SLT. Outline financial plan was discussed at LT in February.
* 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:** | 22 February 2019 |

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

**Health Research Authority as at 31 January 2019**

**Executive Summary – Headlines**

* The HRA 2018/19 outturn for the first 10 months of the year was **£11,588k** (2017/18: £10,367k) and **£1,543k** (2017/18 £575k) capital. On revenue expenditure this represented an underspend of **£38k, 0.3%** (2017/18 £61k, 0.6%) and on capital expenditure a **£14k , 0.8%** underspend (2017/18 £110k, 16%). Increased expenditure compared to 2017/18 relates to investment in the research systems transformation programme.
* **Forecast outturn** for the year is predicted to be **£14,903k**, £25k underspend relating to transition funding. All other activities are forecasting a breakeven position for the HRA.
* **Capital expenditure** is in line with expectations and confirmed resource allocation by DHSC. Capital and revenue classification has been revised to reflect new approach to systems development. A revenue to capital transfer has been undertaken in December to reflect this application.

**Revenue financial performance for the 10 mths-ended 31January 2019**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **10 Months ended 31 January 2019 (£'000)** |   |
|  | **2018/19** |  |  |  |  |
| **Income** | **Latest Budget £'000** | **Budget** | **Actual** | **Variance** | **Variance%** |
| Grant in Aid confirmed inc AfC increase | 12,483 | 10,111 | 10,073 | -38 | -0.4% |
| Research systems Prog (revenue) | 759 | 653 | 653 | 0 | 0.0% |
| Transition Funding | 500 | 0 | 0 | 0 | 0.0% |
| HRA income | 186 | 140 | 140 | 0 | 0.0% |
| Non cash revenue resource limit | 1,000 | 721 | 721 | 0 | 0.0% |
|  **Total Income** | **14,928** | **11,625** | **11,587** | **-38** | **-0.3%** |
| **Expenditure** | **Latest Budget** | **Budget** | **Actual** | **Variance** | **Variance** |
| Approvals - Operational | 5,199 | 4,306 | 4,280 | -27 | -0.6% |
| Approvals - Programme and Guidance | 780 | 647 | 646 | -1 | -0.2% |
| Approvals - Member Support | 552 | 457 | 456 | -2 | -0.4% |
| Research systems | 1,179 | 957 | 958 | 1 | 0.1% |
| Confidentiality Advisory Service | 211 | 169 | 164 | -5 | -3.0% |
| Total Services Expenditure | 7,922 | 6,537 | 6,504 | -34 | -0.5% |
| Chief Exec and Board | 347 | 303 | 296 | -8 | -2.5% |
| Policy | 456 | 371 | 364 | -7 | -2.0% |
| Governance ( inc. Quality) | 331 | 279 | 281 | 2 | 0.9% |
| Training | 482 | 377 | 372 | -5 | -1.4% |
| Corporate Services ( inc IT Services) | 1,263 | 1,038 | 1,051 | 13 | 1.2% |
| Transformation | 1,014 | 705 | 711 | 6 | 0.9% |
| Premises | 846 | 758 | 758 | 1 | 0.1% |
| Finance, Procurement & Estates  | 715 | 536 | 530 | -7 | -1.2% |
| Reserves | 551 | 0 | 0 | 0 | 0.0% |
| Depreciation | 1,000 | 721 | 721 | 0 | 0.0% |
|  **Total Expenditure** | **14,903** | **11,625** | **11,588** | **-38** | **-0.3%** |
| **Surplus /Deficit** | **-25** | **-0** | **-0** | **-0** |  |

**Highlight report:**

**Overall**

As previously reported, there are **no significant financial variances** on business as usual activities although budget pressure remains. Finanical management has benefited from tight control of costs and budgets, with budget managers supported by finance colleagues managing the resources delegated to them carefully, in line with our statutory and strategic objectives. With a significant proportion of costs recurrent and committed, organisational change proesses throughout the HRA in 2017 – 2019 have helped reduce fixed costs to meet spending review requirements. Over £700k (6%) economies have been achieved through these initiatives with an overall reduction in FTE of 20 (approx. 10%).

Despite these steps, long-term impact of tight fiscal environment remains a concern with no ‘head-room’ in Grant In Aid funding to invest. Further streamlining and automating of processes are key if we are to achieve our target operating model along with continued cost reduction and developing new sources of revenue to achieve a sustainable model for the future.

**Transformation costs** include research systems replacement programme £2,002k (£759k revenue; £1,243k capital), future services programme (FSP) (to replace our ICT infrastructure support contract and invest in Windows 10) £192k and service improvement programme activity £63k. Expenditure continues to be managed within budget. As previously reported budget pressure in research system replacement programme remans and is being managed through programme governance structure with oversight from HRA Board. Phase 2 of this programme is subject to a separate business case. FSP and Windows 10 costs are predicted to be lower than planned this year (approx. £50k) due to delay in getting the FSP programme up and running. Funding for this programme for next year are anticpated to be higher than previously estimated due to this year’s delay. HRA is represented on the FSP Board to ensure adequate due diligence is in place.

**Savings achieved***–* £397k recurrent savings have been achieved through activities initiated in 2017/18. Further savings of £330k have been ring-fenced through 2018/19 activities relating to organisational change. HRA are also reviewing our existing contractual arrangements to gain efficiencies and economes from commercial arrangements where contract terms permit.

**Key variances:**

**Approvals – Operational:** £27k, 0.6%. Current underspend relates to non-pay travel costs. This underspend is expected to reduce due to increased team meetings/new process days in prepration for delivering the new integrated structure from 1 April 2019.

**Corporate Services (inc IT Services):** £13k, 1.2%. Overspend is due increased Open Service IT costs resulting from a correction to the re-charge mechanism in year.

**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 £700k (approx. 6%) economies** to meet spending review requirements in 2019/20. Despite these savings, cost increases arising from external environment (Agenda for Change 2018 terms and conditions; NHS Pensions Employers Contribution proposed increase and FSP) place further challenge on limited funds. These challenges will be discussed with DHSC finance to agree funding approach but remain a concern.
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.
4. **Estates strategy:** HRA is committed to working with government intiatives and with the health family to secure value to the exchequer and enable our estates strategy. Set up costs associated with the London strategy agenda are currently subject to a DHSC business case. If this business case is not successful there is a risk that the associated costs of securing a new London location (Skipton House end of lease – 2021) will not be affordable.

**Staff costs (10 mths-ended 31 January 2019)**



**Approvals:** Currently costs are tracking roughly in line with budget at -£2k (0.04%) as we ensure sufficient capacity is in place to meet service levels and deliver on organisational change to achieve an integrated team. Organisational change process has delivered agreed economies in line with our target operating model and will provide be implemented 1 April 2019.

**Corporate Services**: £7k, (0.46%) under budget. Underspend due to unfilled and redirected posts in the structure (particularly in central programme management office, pmo). These changes, through natural turnover and internal secondment opportunities, are in line with our target operating model.

****

Agency staff in Oct/Nov utilised to provide sufficient capacity to delivery operational services pushing establishment numbers slightly over plan. This additional resourcing was funded from in year underspends. Reduction in December reflects some natural turnover with staff leaving to take up opportunities in the health research sector combined with lower agency numbers over the seasonal period.

**Non-staff costs**

**No significant variances** to report at this stage of the year.

**Estates related costs** – lease re-gear and sub-lease wiith HS2 in our Manchester office is nearing completion. Leases are expected to be signed in Qtr4 2018/19. This will provide approximately £20k cost sharing for 2019/20 together with accommodation certainty to 2023. 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 **£424k 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).

**£354k** reserves have been funded to date and **£51k** funding remains unallocated in reserves pot, giving an unfunded budget pressure of **£19k**. Based on current spending, savings achieved to date and tight control of expenditure this funding gap is challenging but achievable.



**Capital expenditure**

Capital expenditure is tracking expectations with a small variance at the 31 January in relation to capitalised salaries, this is due to a vacancy in the Research Systems team treated as partly capital.

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). The accounting treatment of the costs of developing new IRAS has been established and reflected in the accounts for December.

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. To meet the Windows 10 requirement we have also sourced up to 40 second hand laptops from DHSC (£112.50/unit; £4,500).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Plan initiative** |  | **2018/19 plan full year** | **2018/19 budget ytd** | **2018/19 actual ytd** | **2018/19 variance ytd** |
|  | **£000** | **£000** | **£000** | **£000** |
| HARP Developments |  | 215 | 180 | 180 | 0 |
| IRAS Developments |  | 1,312 | 1,223 | 1,223 | 0 |
| **BGO Contract** |  | **1,527** | **1,403** | **1,403** | **0** |
| IS Team – capitalised salaries |  | 106 | 88 | 74 | -14 |
| **BGO Contract and Capitalised salaries position as at 30 June 2018** |  | **1,633** | **1,492** | **1,477** | **-14** |
| Future Services Programme |  | 27 | 0 | 0 | 0 |
| ICT infrastructure  |  | 100 | 66 | 66 | 0 |
| CRM |  | 30 | 0 | 0 | 0 |
| **Total Capital** |  | **1,790** | **1,558** | **1,543** | **-14** |

**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 10 months to 31 January 2019.

**Sylvia Hazard and Karen Williams**

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

**22nd February 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Health Research Authority** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **2018-19** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Annual Cash Flow Profile** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **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** | **1,471** | **1,663** | **1,555** | **1,135** | **1,148** |  | **957** |
|  |   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Receipts** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Debtors | 33 | 17 | 44 | 62 | 60 | 98 | 111 | 14 | 70 | 0 | 0 | 119 |  | 626 |
|  | Revenue cash limit | 1,000 | 1,000 | 2,000 | 900 | 1,300 | 900 | 900 | 1,200 | 1,000 | 1,050 | 1,100 | 1,392 |  | 13,742 |
|  | Capital cash limit |  |  |  |  | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 1,090 |  | 1,790 |
|  | Additional Cash allocation |  |  |  | 500 |  |  |  |  |  |  |  |  |  | 500 |
|  | **Total Receipts** | **1,033** | **1,017** | **2,044** | **1,462** | **1,460** | **1,098** | **1,111** | **1,314** | **1,170** | **1,150** | **1,200** | **2,601** |  | **16,658** |
|  |   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Payments** |  |  |  |  |  |  |  |  |  |  |  |  |  | 0 |
|  | Staff - payroll | 443 | 793 | 820 | 747 | 779 | 810 | 767 | 779 | 781 | 735 | 728 | 1,318 |  | 9,498 |
|  |   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Revenue payments through SBS | 558 | 278 | 534 | 218 | 240 | 819 | 523 | 294 | 199 | 347 | 276 | 400 |  | 4,687 |
|  | Capital payments | 60 | 30 | 77 | 54 | 13 | 96 | 54 | 49 | 298 | 487 | 184 | 183 |  | 1,582 |
|  | Bank Transfers |  |  |  |  |  |  |  |  |  |  |  |  |  | 0 |
|  |   |  |  |  |  |  |  |  |  |  |  |  |  |  | 0 |
|  |   |   |   |   |   |   |   |   |   |   |   |   |   |  | 0 |
|  | **Total Payments** | **1,060** | **1,100** | **1,430** | **1,019** | **1,031** | **1,724** | **1,344** | **1,122** | **1,278** | **1,569** | **1,188** | **1,901** |  | **15,768** |
|  |   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Closing Balance** | **929** | **846** | **1,459** | **1,901** | **2,330** | **1,703** | **1,471** | **1,663** | **1,555** | **1,135** | **1,148** | **1,848** |  | **1,848** |