

Agenda item:	13
Attachment:	B

HRA BOARD COVER SHEET

Date of Meeting:	<p>Leadership team: 4th Spetember 2019</p> <p>Board meeting: 18th September 2019</p>
Title of Paper:	Finance report - for the 4 months ended 31 July 2019
Purpose of Paper:	<p>To enable an informed understanding of our financial performance for the 4 months to 31 July 2019.</p> <p>To improve decision making by increasing financial literacy particularly in relation to our 2019/20 financial plan and future financial strategy.</p>
Reason for Submission:	<p>The Board, Accounting Officer and Leadership Team have a key governance role in the financial stewardship of the HRA.</p> <p>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.</p>
Lead Reviewer:	Steve Tebbutt
Details:	<p>Main points to note:</p> <ul style="list-style-type: none"> • No significant variances at this stage of the year on BAU activities although operational pressures arising from EU Exit and transition to integrated process suggesting potential for unfunded budget pressure • Our confirmed GIA funding allocation for 2019/20 is £16,457k, this includes: <ul style="list-style-type: none"> ○ £4,500k funding for research systems transformation (being released on a quarterly

	<p>basis; capital / revenue allocation to be determined),</p> <ul style="list-style-type: none"> • BAU capital and depreciation resource limits have yet to be formally agreed although informal agreement has been received from DHSC including £100k transfer from capital to revenue. • 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:	28 th August 2019

Finance Report - Financial Year 2019/20
Health Research Authority as at 31 July 2019

Executive Summary – Headlines

- The HRA **2019/20 outturn** for the first 4 months of the year was £4,739k (2018/19: £4,275k) and £575k (2018/19 £214k) capital. On revenue expenditure this represented a marginal underspend of £62k, -1.3% (2018/19 -£103k, -2.4%) and on capital expenditure a £0k, 0.0% underspend (2018/19 -£1k, 0.5%).
- Despite financial performance within plans and spending review allocation there is evidence that **capacity to respond to strategic priorities (including EU Exit) is under significant pressure**. SLT has agreed limited additional resources from contingency reserves to bolster operational capacity in the short to medium term to mitigate this risk.
- **Capital, revenue expenditure distribution** for 2019/20 will be determined once the detailed planning for our research IT systems is complete. Our business as usual capital allocation has been informally confirmed by DHSC including £100k transfer from capital to revenue. Capital/revenue split of the research IT system transformation will be determined as part of the detailed programme planning.
- **Phase 2 research IT systems transformation** planning continues with the expectation that a refreshed programme business case including detailed roadmap, delivery strategy, commercial strategy and revised financials will be delivered by the end of September. Costs incurred to date relate to phase 1 (working collaboratively with MHRA to deliver the combined ways of working (CWOW) programme of work) and detailed planning for phase 2.

Revenue financial performance for the 4 mths-ended 31 July 2019

Overall revenue financial performance is in balance at the end of 4 months-ended 31 July 2019

Funding

Income	2019/20 Latest Budget £'000	4 Months ended 31 July 2019 (£'000)			
		Budget	Actual	Variance	Variance%
Grant in Aid confirmed inc AfC increase	11,957	3,735	3,676	-59	-1.6%
Research systems Prog (revenue)	4,500	818	816	-2	-0.2%
HRA income	300	0	-1	-1	0.0%
Non cash revenue resource limit	1,000	248	248	0	0.0%
Total Income	17,757	4,801	4,739	-62	-1.3%

Grant in aid and Research systems transformation programme funding has been confirmed by DHSC. HRA Income, which predominantly related to 4 Nations cost sharing arrangements has yet to be confirmed although discussions have taken place with Northern Ireland, Scotland and Wales colleagues. Non-cash revenue resource limited relates to non-cash depreciation / amortisation has been informally confirmed by DHSC.

Expenditure

Expenditure	Latest Budget	Budget	Actual	Variance	Variance
Approvals - Operational	4,443	1,473	1,470	-3	-0.2%
Approvals - Programme and Guidance	802	270	252	-18	-6.6%
Approvals - Member Support	1,034	347	322	-25	-7.2%
Confidentiality Advisory Service	245	87	85	-2	-2.2%
Total Services Expenditure	6,525	2,176	2,129	-47	-2.2%
Chief Exec and Board	275	87	86	-1	-1.0%
Policy	602	140	136	-4	-2.8%
Governance (inc. Quality)	308	106	100	-6	-5.7%
Training	451	169	168	-1	-0.8%
Corporate Services	908	299	304	5	1.6%
Transformation	2,181	823	821	-2	-0.3%
Premises	851	335	334	-1	-0.1%
IT Services	618	196	197	1	0.7%
Finance, Procurement & Estates	709	222	226	4	1.8%
Reserves	3,329	0	-10	-10	0.0%
Depreciation	1,000	248	248	0	0.0%
Total Expenditure	17,757	4,801	4,739	-62	-1.3%
Surplus /Deficit	0	0	-0	0	

Highlight report:

Overall

There are **no significant financial variances** on business as usual activities but growing unfunded pressure arising from strategic need (eg: EU Exit preparedness). Budgets are being carefully managed to meet tight fiscal framework with very limited opportunities to invest in initiatives other than Research Systems Transformation Programme.

Key variances:

Approvals – Member Support: £25k, -7.2%. Underspend primarily due to non-pay travel costs, meeting costs, postage and stationery. The underspend in this area has slightly reduced from previous month.

Approvals – Programme and Guidance: £18k, -6.6%. Underspend primarily within pay costs – some of which will be supporting the directorate staff vacancy factor and within travel. These underspends are not anticipated to be permanent and are expected to return to breakeven when approved cover arrangements are implemented.

Reserves : £10k, Underspend within reserves relates mostly to prior year adjustments.

2019/20: financial risks:

1. **Complexity of research systems, interoperability and EU Exit** present development risk and consequently financial uncertainty risk to the HRA. Development costs and timescales for delivery are increasing due to variety of factors including better understanding of interoperability and EU Exit uncertainty. DHSC (sponsor and finance teams) are aware of financial pressures. Business case refresh is being performed as a matter of urgency to firm up requirements and provide case for additional investment and longer timescales for delivery.

2. **Annual funding for transformation programme impacts on ability to secure procurement strategy and approach.** Procurement strategy and approach is dependent on confirmed funding. Without multi-year funding, procurement approach is fragmented, less attractive to the market and potentially challenging to successfully deliver commercial value and planned system benefit. Assurance review highlighted annual funding as a major risk to the programme. DHSC is aware of this and is actively supporting the HRA to resolve this issue. Refreshed programme business case will provide evidence for multi-year funding.
3. **Increasing pressure to deliver on transparency remit** and in other areas places additional demands on already limited resources. Transparency strategy (currently being consulted on) may mean further requirements placed on HRA. Discussions have already started with DHSC to help agree a sustainable future approach and requirements have been fed into the 2020/21 spending review.
4. **Estates strategy:** HRA is committed to government priorities (places for growth, government hub programme, smart working). Set up costs for London move are currently subject to a DHSC business case. If this business case is not successful there is a risk that costs of new London location (Skipton House end of lease – 2021) will not be affordable. In addition, further future moves (Bristol and Nottingham) will require an element of up-front investment which would need to be considered against other investment priorities.

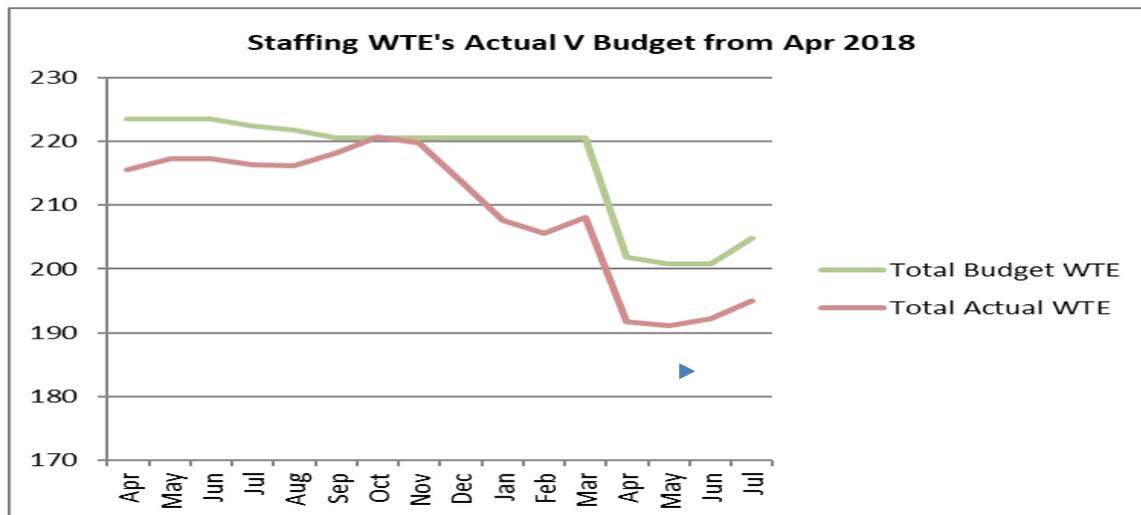
Staff costs (4 mths ended 31 July 2019)

Service	2019/20 budget YTD	2019/20 vacancy factor YTD	2019/20 budget net of vacancy factor	2019/20 actual	Variance vs budget net of vacancy factor	% Variance net of vacancy factor
	£000	£000	£000	£000	£000	£000
Approvals Directorate	0	(65)	-65	0	65	
Approvals - Member Support	149	0	149	144	(4)	-3.0%
Approvals - Operational	1,456	0	1,456	1,387	(68)	-4.7%
Approvals Programme and Guidance	252	0	252	241	(11)	-4.4%
Confidentiality advisory service	66	0	66	66	0	0.0%
Training	80	0	80	79	(1)	-1.3%
Total Services Staff Costs	2,003	(65)	1,939	1,918	(21)	-1.1%
Chief Executive and Board	82	0	82	83	1	1.1%
Corporate Services		(11)	(11)	0	11	
Corporate Services	269	0	269	263	(6)	-2.2%
Transformation	272	0	272	264	(8)	-3.0%
Finance, procurement and Governance		(6)	(6)	0	6	
Finance and Procurement	156	0	156	157	1	0.3%
IT Services	48	0	48	48	(1)	-1.3%
Governance (inc. Quality)	97	0	97	92	(5)	-5.1%
Policy	127	(2)	125	119	(6)	-4.5%
Total Staff Costs	3,055	(83)	2,972	2,944	(28)	-0.9%

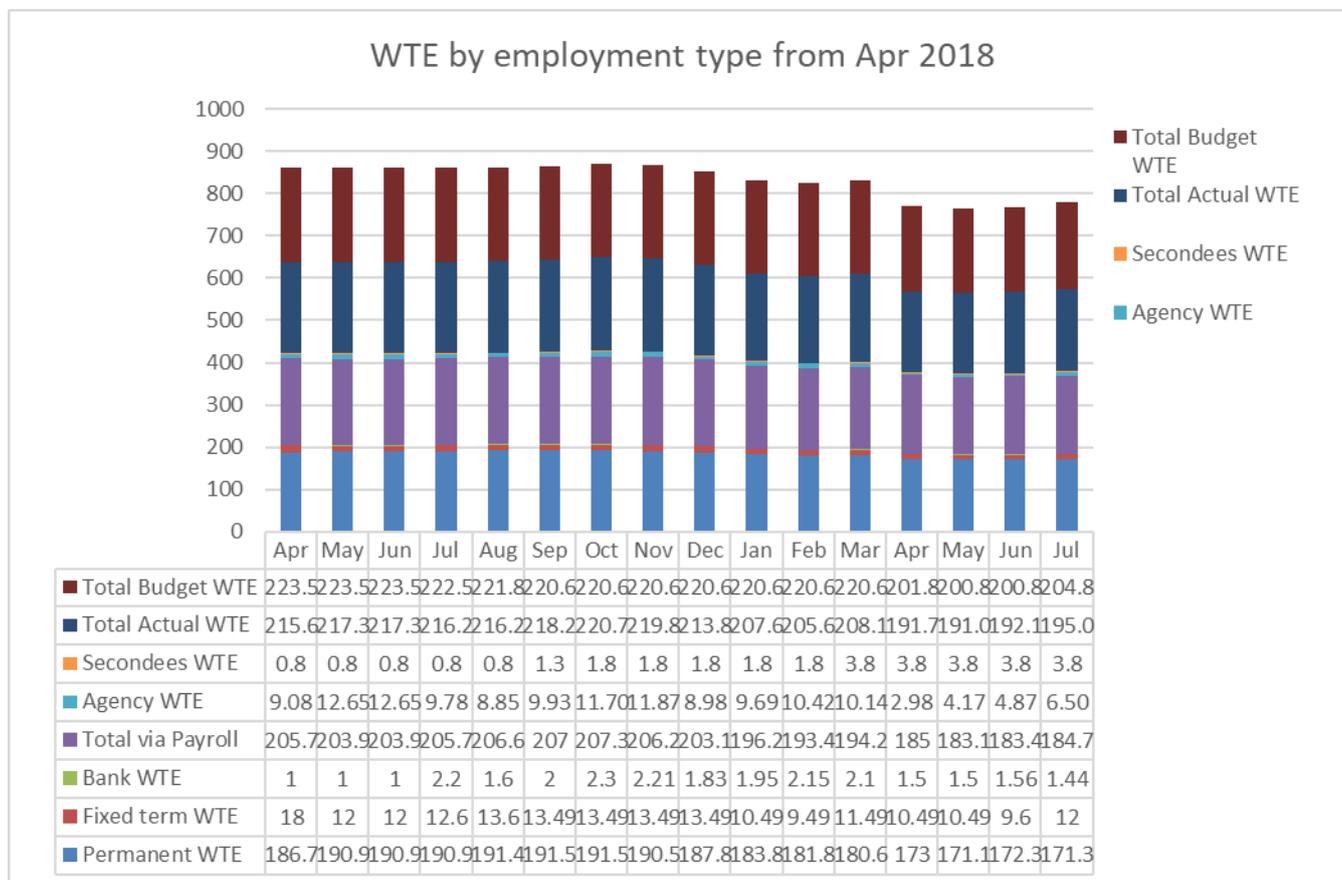
Approvals Directorate: £21k under budget - £11k relates to Programme and Guidance (as highlighted above) and will come into balance later this year. The remaining underspend relates to the vacancy within Approvals service business costs.

Policy : £6k, under budget. This variance is due to planned reduced WTE recruitment in relation a band 6 post. This budget is expected to be utilised in year for planned activities. Profiling of the budget will be amended to reflect. This in August.

Staff whole time equivalent (WTEs)



The number of WTE employed at the HRA remains slightly below our agreed establishment based on HRA agreed establishment (budget 2019/20) and payroll reports. The gap grew in April, at the beginning of the year, as a direct result of the new structures being implemented and a number of roles being made redundant. Recruitment actively subsequently has ensured that this gap has not increased with recruitment activity accelerated where possible to fill vacancies, populate the new structures and ensure service delivery is supported.



Non-staff costs

No significant variances to report at this stage of the year, not covered above.

Reserves

Our **GIA funded reserves** were budgeted at **£569k**. Refinements to plans have marginally reduced this requirement to **£557k**. This is in addition, to our **RS transformation programme, £4,500k** (funded by DHSC EU Exit funding and HRA own BAU resources).

Programme	£000
Research systems transformation programme	4,500
Future services programme	235
Office 365 upgrade	174
Maternity reserve	30
Manager training - disability	4
EU Exit preparedness – change / amendments	40
Vacancy factor – corporate	10
Contingency	39
Website development	25
Totals	5,057
Released to ledger	-1,728
Reserves funding required	3,329
Unallocated reserves pot	-3,329
Unfunded budget pressure	0

Capital expenditure

Capital expenditure budget reflects the original allocation from DHSC, £800k. We have requested £100k be transferred to revenue funding to reflect the changing nature of our Research Systems development with a higher proportion of expenditure revenue rather than capital and this has been informally agreed. The budget is allocated between Research IT Systems, IT infrastructure and Estates Strategy.

It is anticipated that a substantial element of the Research IT Systems transformation programme will be capital in nature, increasing the planned capital expenditure for the year. More clarity on this capital and revenue split will be determined as part of the detailed phase 2 planning work. Currently, actual capital expenditure reflects development costs incurred on the HRA's research workflow system, HARP and on developing the new IRAS system for CWOW. These amounts may be adjusted following the work performed on the detailed phase 2 planning.

Plan initiative	2019/20 plan full year £0	2019/20 budget ytd £0	2019/20 actual ytd £0	2019/20 variance ytd £0
RS Projects	600	575	575	0
IT & Estates Infrastructure	100	0	0	0
Proposed transfer to revenue	100	0	0	0
Total Capital Allocation	800	575	575	0

Better payments performance

The HRA has fallen slightly below the duty to pay 95% of invoices in 30 days. This is as a result of a number of members expenses invoices being paid slightly outside of the 30 day target, which is likely to be caused by the initial implementation of the new system for paying members and staff becoming familiar with it. As these are expenses of reasonably low value this has negatively impacted the number target greatly, without as large an impact on the value target. We are progressing work with HRA Approvals member support team to address this and ensure timelines are bought back within the benchmark.

	Number	Value (£)
Benchmark	95%	95%
2019/20	88%	98%
2018/19	99%	100%
2017/18	98%	98%

Recommendations

Leadership team and the Board are asked to review and approve the finance report for the 4 months ended 31 July 2019

Sylvia Hazard and Karen Williams

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

29 August 2019