

Agenda item:	7
Attachment:	A

HRA Board cover sheet

19 May 2021

Title of paper:	Finance report – 12 months to 31 March 2021
Submitted by:	Karen Williams
Summary of paper:	To enable an informed understanding of our financial performance for the 12 months to 31 March 2021 in line with the HRA's standing financial instructions and scheme of delegation.
Reason for submission:	For approval
Further information:	<p>Main points to note:</p> <ul style="list-style-type: none"> • 12 months' financial performance to end 31 March 2021 is well within forecast and within 10% of funding allocated. • £0.45M reversal of 2017/18 provision following HMRC decision on VAT treatment of technology expenditure • £1.8M underspend on 2020/21 expenditure (10%), £1.3M on core activities, £0.4M on digital transformation and £0.1M on AI Lab funding. • Outcome of CSR2020 has been confirmed including funding for continuation of fast-track ethics service, enabling UK registry (through data feed from IRAS) and supporting recovery, resilience and growth and find, recruit and follow up programmes. • Annual report and accounts are on track to being approved before summer recess. • New spend controls have been announced for 2021/22 – this may have an impact on HRA operational delivery due to increased timeline to achieve approval ahead of procurement and recruitment activity
Dissemination:	HRA Board papers are published on the internet
Time required:	10 mins

HRA finance report

12 months to 31 March 2021

Executive summary

Revenue expenditure	Actual £000	Budget £000	Variance £000	Variance %
Expenditure	15,705	17,528	(1,823)	(10%)
Depreciation	1,217	1,200	17	1%
Prior year adjustment	(443)	0	(443)	-
Net expenditure	16,479	18,728	(2,249)	(12%)

Revenue expenditure for the year to 31 March 2021 was £16,479K (2019/20: £15,370K), an increase of 7%, although 12% £2.2M lower than confirmed funding. £1.3M underspend is on core activities, £0.5M on programme activities and £0.4M on prior year adjustment relating to HMRC decision.

An underspend on activities was forecast although not as great as the outcome position. The further lockdown announced in January 2021 and delays in recruiting to roles to support core and programme activities have contributed to this increase in variance.

Capital expenditure	Actual £000	Budget £000	Variance £000	Variance %
Digital systems	1,812	1,871	(59)	(3%)
Infrastructure	210	204	6	3%
Total	2,022	2,075	(53)	(3%)

Capital expenditure for the year to 31 March 2021 was £2,022K (2019/20: £2,180k), a decrease of 3% and a similar underspend on confirmed funding.

Government funding and revenue	Actual £000	Budget £000	Variance £000	Variance %
DHSC grant in aid	12,773	14,493	(1,702)	(12%)
DHSC research systems	2,165	2,569	(404)	(16%)
NHS X AI lab	43	185	(142)	(77%)
Devolved nations	281	281	0	0
DHSC depreciation	1,217	1,200	17	1%
Total	16,479	18,728	(2,249)	(12%)

Revenue is below budget reflecting the underspend on activities in year. Some of this expenditure is delay in activity (research systems and AI lab) and some is permanent due to the lockdown (travel and meeting costs) and delays in recruiting to permanent staff to meet operational and development activity.

Expenditure:

	Budget £'000	Actual £'000	Variance £'000	Variance %
Approvals - Operational	4,738	4,515	-223	-4.7%
Approvals - Co-ordination & Guidance	721	698	-23	-3.1%
Approvals - Member Support	771	743	-28	-3.6%
Confidentiality Advisory Service	244	244	0	0%
Total Services Expenditure	6,473	6,200	-274	-4.2%
Programme activity	4,224	3,437	-787	-22.9%
Chief Exec and Board	274	273	-1	-0.3%
Policy and Partnerships	937	935	-2	-0.2%
Governance and Quality	322	314	-8	-2.4%
Training	342	342	0	0%
Corporate Services	760	760	0	0%
Premises	1,006	1,002	-4	-0.4%
IT Services	760	762	2	0.3%
Finance, Procurement & Contracts	814	808	-6	-0.7%
HMRC prior year adjustment	0	-443	-443	-
Reserves	1,614	870	-744	-46.1%
Depreciation	1,200	1,217	0	0.0%
Total Expenditure	18,728	16,479	-2,249	-12.2%

Expenditure has been forecast to be underspent in year by £1.0M. Actual out-turn is greater than this forecast by £1.2M, 12.2% on planned activity.

Reconciliation 2020/21 underspend	£000
HMRC VAT decision	443
Research systems transformation	404
AI Lab: Streamlining data driven research	142
Remote working - lower costs (travel, meeting costs)	800
Increased establishment - pipeline to implement	760
Investment in research review (funded by lower costs)	(300)
Total underspend on allocated funds	2,249

2020/21: financial risks:

1. Our response to COVID-19 provided the sector with an attractive fast-track approval service combined with increased virtual decision making. This has been well received and funding has now been confirmed to continue providing this service in 2021/22. The risk of delivering this additional service within our existing grant in aid allocation is no longer a concern and this risk will be removed from the risk register.
2. The scale of the research systems transformation presents development and financial risk. Capacity building in the programme continues to ensure strong programme management, strategic leadership (CDTO) and organisational capacity is in place complemented with expert commercial and financial governance and commercial

representation from DHSC. This risk has been mitigated following approval of the FBC at DHSC Investment Committee. The risk now lies with the speed at which on-boarding of necessary resources to deliver this programme can be achieved. DOS 5 procurement is being progressed to provide sufficient capabilities to support digital transformation activities.

3. Procurement governance and due diligence has increased scrutiny from government and the public. There is a risk of challenge in our procurement activity. Weekly reporting is being provided to DHSC of our procurement and contracting activities. DHSC commercial expertise has been seconded to the HRA to ensure compliance. Further capabilities are also being recruited to build expertise and resilience in this technical area. Internal audit provided assurance that internal controls in this area were operating effectively (substantial report).
4. Revised spend controls have been proposed by Cabinet Office, HM Treasury and DHSC for 2021/22. These may have the impact of delaying procurement and recruitment activity. We are working with DHSC finance and communications colleagues to understand what this means for the HRA and to help ensure that this risk is mitigated.

Programme activity

	Budget £000	Actual £000	Var £000	Var %
Research systems	2,769	2,306	(463)	(17%)
Research ethics review and fast-track	618	513	(105)	(17%)
Future Services	120	109	(11)	(10%)
Streamlining data driven research	185	43	(142)	(77%)
Make it Public - transparency	140	74	(66)	(47%)
Supporting our people	89	43	(46)	(51%)
Valuing our volunteers	33	33	0	0
Estates strategy	283	318	35	12%
Total	4,224	3,437	(787)	(19%)

Key variances:

Research systems: Programme activity shifted to the right following slight delay in recruiting CDTO during initial phase of pandemic and DHSC Investment Committee moved from October to December 21.

Research ethics review and fast-track: Underspend primarily due to recoverable VAT on consultancy contract.

Streamlining data driven research: Delays due to unsuccessful procurement exercises. A refined commercial strategy is now in place to secure resourcing to enable this programme.

Capital expenditure

Capital expenditure includes core infrastructure capital expenditure (rolling laptop replacement programme and estates costs), as well as the capital element of the research systems programme.

The research systems transformation programme will create technology assets at a scale greater than previously at the HRA. Capital cost calculations are dependent on the nature of the development and are based on recommended accounting best practice.

HMRC have confirmed the appropriate VAT treatment for our development costs which has resulted in a release of a previously made VAT accrual. This adjustment related to a transaction recorded in 2017/18. A further application has been made to HMRC to seek confirmation on treatment of similar development work regardless of supplier for the years from 2018/19 onwards.

Capital expenditure	Actual £000	Budget £000	Variance £000
Digital systems	1,812	1,871	(59)
Infrastructure	210	204	6
Total	2,022	2,075	(53)

Better payments performance

The HRA fell below the duty to pay 95% of invoices in 30 days at the beginning of the financial year and has now addressed this. Revised processes have been implemented to reduce our timelines which has improved the position over the year, despite working virtually. Cumulative position is still below the target however due to impact of delays earlier in the year.

	Number	Value (£)
Benchmark	95%	95%
2020/21	91%	100%
2019/20	86%	98%