

Agenda item:	7
Attachment:	B

HRA Board cover sheet

20 July 2022

Title of paper:	Finance report – 2 months to 31 May 2022
Submitted by:	Katie Marriner
Summary of paper:	To enable an informed understanding of our financial performance for the 2 months to 31 May 2022 of 2022/23 financial year 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"> • Revenue funding allocation is £21,337k (2021/22: £24,483k) • At month two, year to date performance is tracking budget closely. An unadjusted underspend of £146k or 4% of year to date budget is due largely to a pending depreciation adjustment for April & May that will be reflected later in the year. • Capital funding allocation is £2,608k (2021/22: £2,765k) associated predominantly with the research systems transformation business case. Due to the strategic refresh, very little capital expenditure activity has been incurred to date (£13k) • At this early stage in the financial year, the forecast closing position is as per budget, this will shift as budget holder forecast meetings commence in June. • Some key budget adjustments are pending, which will be made throughout June ahead of the next finance report. • Total vacancy factor reflected at 31 May 2022 is £90k (2/12th of full year target level) • Total unallocated reserve at 31 May 2022 is £300k. budget pressures currently exceed this by £160k.
Dissemination:	HRA website
Time required:	10 mins

HRA Finance Report

2 months to 31 May 2022

Executive summary

The HRA annual budget for 2022/23 has been approved and set at £21,337k (2020/21: £24,483k). At this early stage in the financial year the forecast position is in line with budget.

The report identifies staff costs as an area of potential budget pressure moving forward, as capacity levels are higher than anticipated and pay award is yet to be determined. Detailed budget holder forecasting in June, and action of the pending budget adjustments will inform work required in this area. It is likely, given past trends and the tough recruitment market that any current overspending can be managed by in year turnover.

Some key budget adjustments in the financial reporting system are pending, which have an impact on the presentation and content of this report. These adjustments will be made ahead of the next finance report.

- 1) Recent directorate structural changes are not yet reflected. This merges the Corporate Services directorate with the Finance, Governance & Commercial directorate and renames it as Resources directorate.
- 2) The Research Systems Programme budget was adjusted following the strategic refresh and approved at HRA Board in May 2022. The budget figures have not been updated to reflect this recent change and associated underspend for RSP is not correct.

Revenue:

The table below provides an overview of the initial revenue budget for 2022-23 and the forecast revenue for the organisation for the year.

	22-23 Revenue Budget £000	22-23 Revenue Forecast £000
DHSC grant in aid	18,963	18,963
NHSX AI Lab funding	701	321
DHSC depreciation funding	1,700	1,700
Devolved nations	370	396
Total	21,707	21,380

NHSX funding for the SDDR programme was confirmed on 31 May 2022 as £321k, a reduction of £380k on the initial budgeted revenue amount. This is due to a reduction in technology development planned for the programme by delivering outcomes differently.

Devolved nations income had been set at 2021/22 level prior to agreement with the devolvement administrations. The four nations policy group agreed revised figures based on our budgeted expenditure on 14 June 2022.

Expenditure:

The table below provides an overview of actual expenditure to date against year to date expenditure budgets and forecast expenditure for the full year compared to annual budgets.

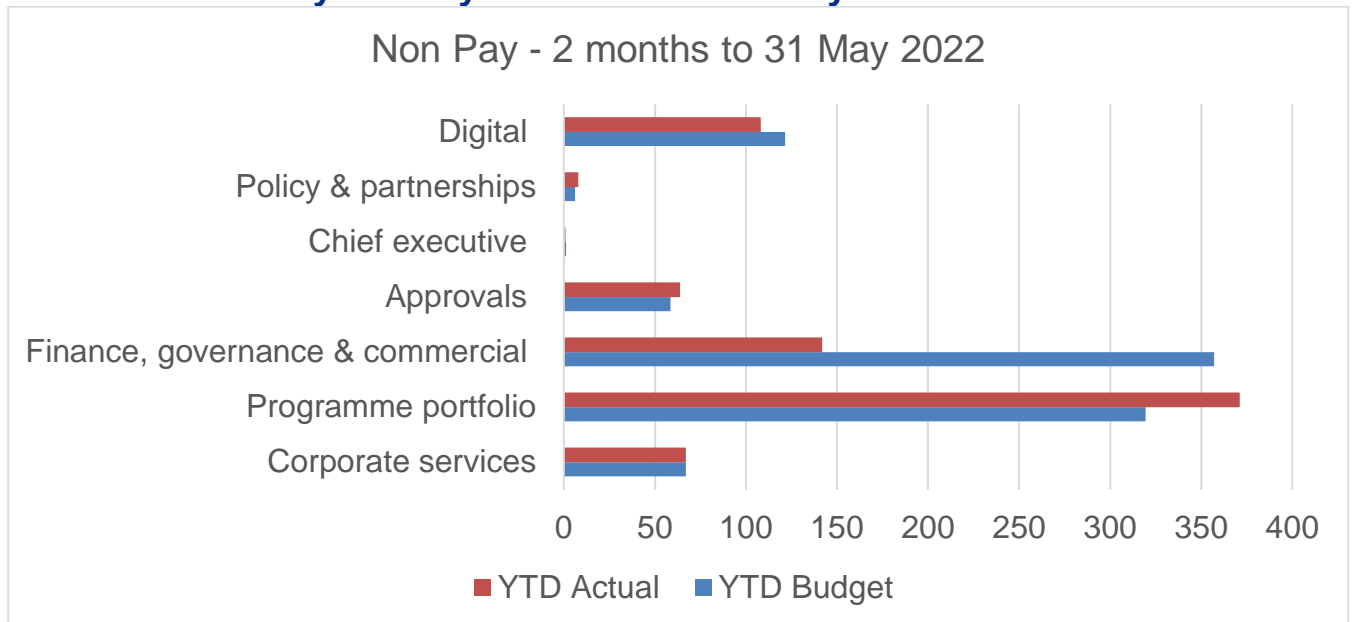
Budget holder meetings commence in June, where forecasts will be revised in line with service lead expectations on activity. As a result, a more realistic forecast position will be included in future reports.

The year to date actual for Finance, Governance and Commercial appears with a large variance due to a depreciation charge pending at month end of £283k, which is offset in part by the allocated vacancy factor (£90k). Variance within the directorate excluding these elements is an £80k overspend, this has arisen in estates due to profiling of the budget, and is not expected to carry through to year end.

Area	YTD Budget	YTD Actual	YTD Var	Var %	Annual Budget	FOT	FOT Var	Var %
Corporate Services	230	253	23	10%	1,336	1,336	0	0%
Programme Portfolio	959	958	(1)	0%	5,906	5,789	(117*)	-2%
Finance, Governance & Commercial	544	433	(112)	-21%	4,105	4,105	0	0%
Approvals Service	1,219	1,176	(43)	-4%	7,483	7,483	0	0%
Chief Executive	45	43	(1)	-3%	287	287	0	0%
Policy & Partnerships	224	227	3	1%	1,652	1,652	0	0%
Digital	145	130	(15)	-10%	568	568	0	0%
Total	3,365	3,219	(146)	-4%	21,337	21,220	(117)	-1%

**NB. Forecast £117k underspend showing on Programme Portfolio is due to historic budget figures held within our accounting system Oracle (pre-strategic refresh budget). This will be corrected in future reports.*

Of Which Non-Pay Activity: 2 months to 31 May 2022

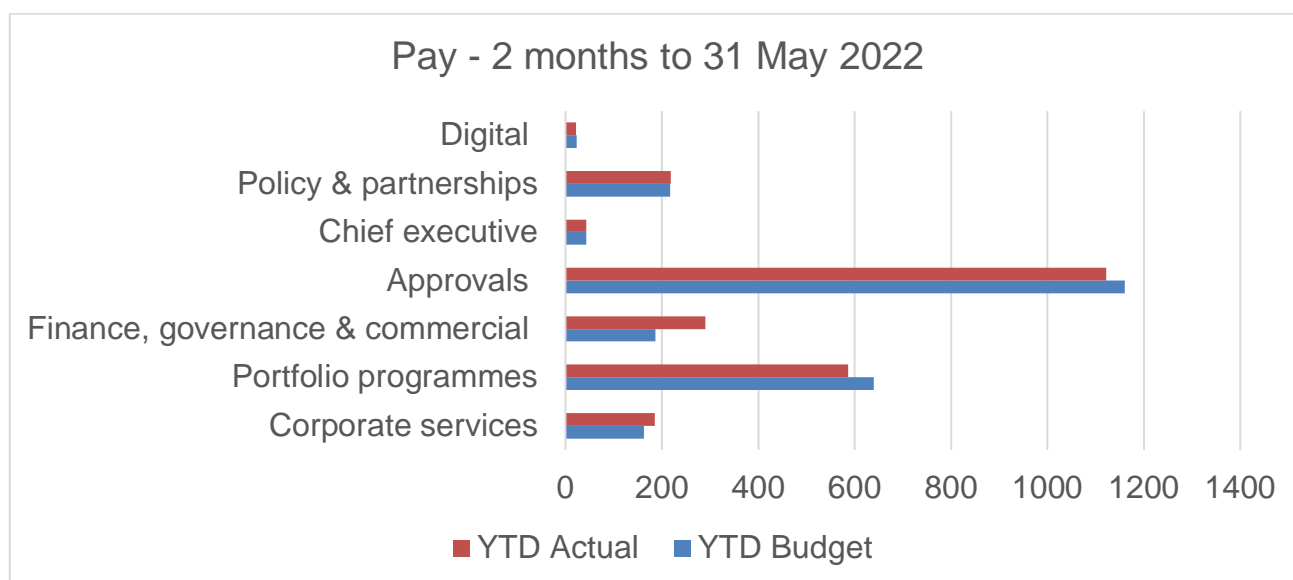


To date, total non pay budgets show an underspend of 18% (£170k). However, this is largely due to a year to date underspend showing against Finance, Governance and Commercial directorate arising from pending depreciation charges and is not expected to carry through to year end. A £50k year to date overspend shows against transformation as a result of RSP, as the budget activity it being measured against in these tables requires adjustment. When compared to the revised budget for research systems programme, the year to date position presents an overspend due to phasing which we hope to adjust ahead of June reporting.

All other directorates have incurred non pay expenditure as expected to date. Forecast expenditure for the full year on non-pay remains as budgeted. This will be reviewed with budget holders from June onwards to ensure accurate forecast pay expenditure is visible

Of Which Pay Activity: 2 months to 31 May 2022

Following considerable underspend on staffing in the 2021/22 financial year, we increased our vacancy factor rate within tolerable risk to 5% of establishment costs this financial year. This vacancy factor rate was determined with reference to turnover data, workforce pressures and the external recruitment environment. This equates to roughly £90k for April-May 2022 and is reflected in the figures shown, currently allocated in full against the 'Finance, Governance & Commercial' directorate total in the graph.



To date, total pay budgets show an overspend of 1% (£34k). This is inclusive of £90k (2/12ths) vacancy factor allocation, and costs associated with payments in lieu of notice arising from the corporate services restructure. These are offset in part by staffing underspends in the Approvals and Digital Transformation (RSP) directorates.

It should be noted that the pay award of at least 2% is expected to be made to agenda for change contracts this financial year, which if back dated results in estimated additional costs relating to April – May 2022 of up to £53k. Financial cover for a 2% pay award has been agreed with DHSC and further cover will be applied for if the award is greater than this budgeted amount.

Pay budgets were set inclusive of the estimated 2% pay award, and so an underspend of this level should show in year to date actuals if establishment costs were in line with budget. This suggests that on a year to date basis, the organisations pay expenditure activity is on a worst-case basis, £87k more than target levels at 31 May 2022. This area will be reviewed in more detail throughout June, once required budget adjustments have been reflected to obtain a more accurate understanding of year to date activity and inform work to address this.

Forecast expenditure for the full year on pay remains as budgeted, this will be reviewed with budget holders from June onwards to ensure accurate forecast pay expenditure is visible, and to provide an accurate understanding of how the organisations expenditure on pay compares to the budgeted establishment.

Programme activity

The table over the page provides an overview of actual expenditure on programme activity against the year to date budget, as well as the current annual forecast for each programme against the budget for the year.

Programme Description	2022-23 YTD Budget	YTD Actual	YTD Variance	YTD Variance %	2022-23 Annual Budget	Forecast Outturn	Forecast Variance	Variance %
Research Systems	763	777	14	2%	7,137	7,020	(117)	-2%
Corporate Information Management	19	0	(19)	-100%	78	78	0	0%
Think Ethics	31	40	8	27%	124	124	0	0%
SDDR	78	79	1	2%	701	701	0	0%
Research Resilience & Growth	86	80	(6)	-7%	512	512	0	0%
<i>Total programmes</i>	<i>978</i>	<i>976</i>	<i>(2)</i>	<i>0%</i>	<i>8,552</i>	<i>8,435</i>	<i>(117)</i>	<i>-1%</i>

Month 2 programme activity is in line with the year to date budget, currently all programmes including the research systems programme are forecast to close the year with no variance to budget. SDDR programme funds (received from NHSX) have been reduced from 701k to £321k for this financial year, following budget holder forecasting sessions in June the forecast expenditure position for SDDR is expected to reduce in line with this reduction in funding.

N.B Budget figures for Research Systems Programme have not yet been revised following Board approval of the strategic refresh and forward plan for remainder of the programme in May 2022. This will be actioned ahead of June 2022 closing. As a result, the forecast variance shown on RSP is not correct.

Capital expenditure

Capital expenditure includes core infrastructure capital expenditure (estates and some core ICT infrastructure), as well as the capital element of the research systems transformation programme. Our capital allocation for 2022/23 is £2,608k following the spending review reduction in capital funding of 20%.

Total capital expenditure incurred at the 31 May 2022 was £13k. This related to the Research Systems Programme. This low level of capital expenditure is in line with expectations and is a result of the pause on development work following the strategic refresh for RSP. Our forecast position on capital is currently in line with budget, at £2,608. At this time, we do not expect an underspend on capital. This will be monitored and revised if required as the year progresses.

Better payments performance

The HRA have a duty to pay 95% of invoices in 30 days. For the 2 months to 31 May the HRA achieved the target by value but fell just short of the target by number. This is due to a backlog in processing at our shared services provider, NHS SBS. This backlog is being worked through and we are in regular contact with the service provider to actively improve this.

	Number	Value (£)
Benchmark	95%	95%
2 months to 31 May 2022	94%	100%

Cash performance

The HRA have an annual cash allocation in 2022/23 of £21,544k. The cash balance at the end of May 2022 was £2,175k which is 10% of the annual cash allocation.

Reserve Commitments

The table below provides an overview of the confirmed reserve commitments, as well as expected pressures arising. The total opening reserve balance for the year is £458k, the total that remains uncommitted is £300k.

Included in the expected column of the table are business cases received at earlier executive meetings that are pending approval. The reserve is sufficient to cover the pending business cases already received by executive committee with a small contingency remaining.

Further budget pressures will need to be managed through prioritisation of existing plans and tight forecasting of costs, particularly payroll.

	Committed £000	Expected £000
<i>Opening Balance</i>	458	458
Committed – Fast track winddown	98	98
Committed – HRA Atlas costs	10	10
Committed/Pending – Manchester office refit*	50	100
Pending – Commercial Resource		35
Pending – Corporate Services Restructure BC		30
Pending – HRA Website BC (deferred)		0
Pending – Clinical Trials Regulation BC		125
Pending – Community PM role – 0.4FTE		25
<i>Closing Balance</i>	300	35

2022/223: financial risks:

With the welcome confirmation of funding for 2022/23 funding uncertainty risk has been removed.

Risk	Likelihood	Impact	Score	Mitigation	Net risk
The HRA unable to deliver in year on business plan due to resourcing challenges	3	4	12	Backfill built into programme resourcing plan Strategic reset in programme. Mitigations implemented	9
Accounting for the intangible research systems asset needs to reflect strategic refresh and might result in a change in value.	2	3	6	Accounting estimate and rationale based on organisational knowledge and regular updates from programme. Approach reviewed by commercial and finance group 6 monthly.	6

Recommendations

The HRA Board are asked to review and approve the finance report for the 2 months ended 31 May 2022.

Katie Marriner
Deputy Director of Finance