

<b>Agenda item:</b>	7
<b>Attachment:</b>	B

## Board Cover Sheet

### 21 September 2022

<b>Title of paper:</b>	Finance report – 4 months to 31 July 2022
<b>Submitted by:</b>	Katie Marriner
<b>Summary of paper:</b>	To enable an informed understanding of our financial performance for the 4 months to 31 July 2022 of 2022/23 financial year in line with the HRA's standing financial instructions and scheme of delegation.
<b>Reason for submission:</b>	For approval
<b>Further information:</b>	<p>Main points to note:</p> <ul style="list-style-type: none"> <li>• £1,380k funding returned to DHSC - £1m capital expenditure due to rephasing digital transformation and £380k revenue from AI funding. This represents 7% of total government funding.</li> <li>• At month four, year to date performance is tracking budget closely. An underspend of £314k or &lt;5% of year to date budget is reported. This is due to phasing and is not expected to carry through to the end of the financial year due to impact of pay award and inflationary pressures.</li> <li>• Capital funding allocation is reduced by £1,000k to £1,540k (2021/22: £2,765k) related to research systems transformation strategic refresh, deferring expenditure to future years. Very little capital expenditure activity has been incurred to date (£17k).</li> <li>• Budget holder and service led expectations have been built into forecasts. Following the June report, pay forecasting has been of increased focus.</li> <li>• All strategic reserves have been allocated at 31 July 2022. Currently, committed approved expenditure exceeds the unallocated reserve by 30k. We are confident this will be managed through vacancy control and planned economies.</li> </ul>
<b>Dissemination:</b>	Published on HRA website
<b>Time required:</b>	5 mins

# HRA Finance Report

## 4 months to 31 July 2022

### Executive summary

The HRA annual budget for 2022/23 has been approved and set at £20,843k (2021/22: £24,483k).

At this stage the overall forecast position is in line with budget with forecast individual variances on a directorate level, now that service lead expectations have been built into forecasts. We continue to shift the focus of financial reporting during this year to consider forecast closing positions for the year from the outset and focus less on in-month expenditure. The aim of this is to produce more valuable insight throughout the year to inform strategic and operational decisions, and to encourage budget holder engagement in forecasting to reduce the chance of unexpected movement at year end and potential loss of benefits that could have been achieved.

The report identifies year to date expenditure on staffing as an area of potential concern, as adequate underspend on pay to accommodate a backdated pay award (budgeted at 2%, with initial analysis showing actual award increase as 4.2%) and meet vacancy factor levels as budgeted has not yet been identified. Service leads have worked well with finance to refine pay forecasting during July, and the full cost of the pay award will be included in forecasts presented in the next finance report. This reflects our strategic focus to increase capacity within operational and strategic team to support service demand and our change portfolio. This tension between capacity and meeting vacancy factor / pay award will continue to be monitored closely by Executive Committee.

### 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.

	<b>22-23 Revenue Budget £000</b>	<b>22-23 Revenue Forecast £000</b>
DHSC grant in aid	18,963	18,963
NHSX AI Lab funding	701	321
DHSC depreciation funding	1,700	1,700
<b>Central government funding</b>	<b>21,364</b>	<b>20,984</b>
Devolved nations	370	396
<b>Total</b>	<b>21,707</b>	<b>21,380</b>

NHSX funding for the SDDR programme was confirmed on 31 May 2022 as £321k, a reduction of £380k, 54% on the initial budgeted revenue amount. This has meant a reduction in planned activity in this area due to budget pressures arising at NHSX.

An increase in Devolved nations income £26k, 7% was agreed at the four nations policy group on 14 June 2022 and is a result of increases to service delivery costs.

## 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.

Forecasts are revised each month in line with service lead expectations of activity.

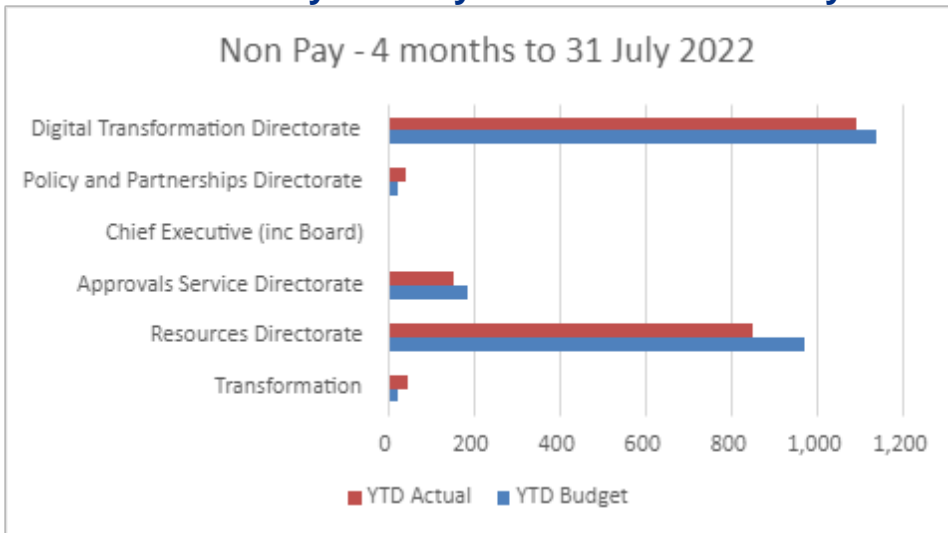
Area	YTD Budget £000	YTD Actual £000	Var £000	Var %	Annual Budget	Annual Forecast	Var	Var %
<b>Transformation</b>	446	394	(52)	-12%	1,104	1,060	(44)	-4%
<b>Resources</b>	1,326	1,184	(142)	-11%	5,369	5,287	(82)	-2%
<b>Approvals</b>	2,541	2,347	(194)	-8%	7,572	7,408	(164)	-2%
<b>Chief Executive</b>	89	87	(2)	-2%	287	287	(1)	0%
<b>Policy &amp; Partnerships</b>	448	484	36	8%	1,635	1,667	32	2%
<b>Digital</b>	1,990	2,029	39	2%	4,876	5,138	261	5%
<b>Total</b>	6,840	6,526	(314)	-5%	20,843	20,847	4	0%

While the year to date position shown is an underspend of £314k (5%), the forecast closing position for the organisation is broadly in line with budget, with a small overspend expected at this stage of £4k (<1%). The forecast now includes the expected cost of the pay award which will be applied in September 2022, backdated to April 2022.

Forecast underspends in Approvals of £164k (2%) show following detailed input from service leads and budget holders. This is as a result of expected underspends on both pay and non pay, and after absorption of the delivery of fast track services into business as usual, which had an annual cost of delivery in 2021-22 of over £400k.

Digital directorate presents as a £261k overspend in this report, this is due to licensing costs in corporate IT exceeding budgeted levels by c.£43k. In addition to this, the Research Systems Programme included within digital directorate was forecast to exceed revenue budgets by just over £200k, as the strategy refresh activity has impacted on capital development work plans for this year. This forecast assumed that all vacant posts within the HRA team supporting the programme would be filled from 1 October onwards. The finance team will continue to work with budget holders and the programme SRO to refine forecasting in this area.

## Of Which Non-Pay Activity: 4 months to 31 July 2022

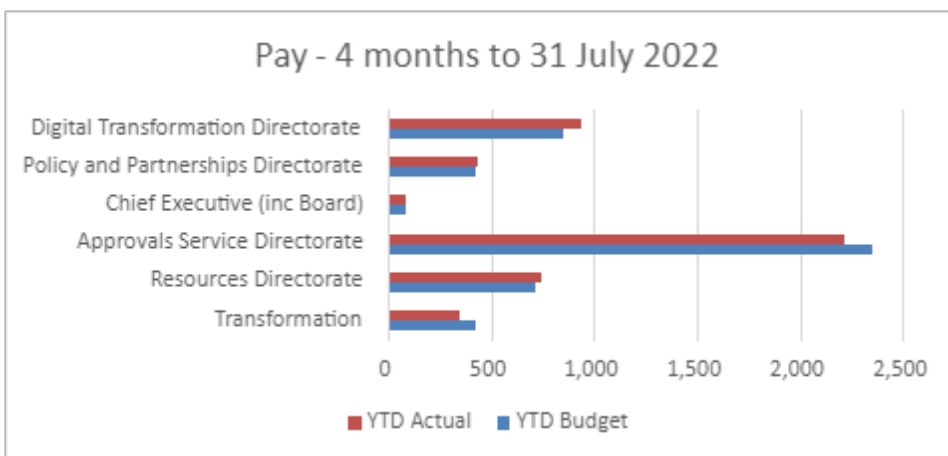


Non-pay activity presents an underspend on a year to date basis, driven largely by a year to date underspend within the Resources directorate of £123k (13%). Around £90k of the year to date underspend is because of the reflection of IFRS16 and changes to the accounting treatment of leased premises and is not expected to carry through to year end. However, this also includes an over collection of income from the devolved administrations when compared to budget (of around £36k).

## Of Which Pay Activity: 4 months to 31 July 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. It was set to increase our capacity to deliver on our statutory functions and change programme.

Vacancy factor equates to roughly £180k for April - July 2022 and is reflected in the figures shown, currently allocated in full against the 'Resources' directorate total in the graph.



To date, total pay budgets show an underspend of £84k (2%). This is inclusive of £180k (4/12ths) vacancy factor allocation, and costs arising from the corporate services restructure. These are offset in part by staffing underspends.

The pay budgets included allocations for a pay award of 2% for staff on agenda for change contracts, which when backdated to April 2022 result in estimated additional pay costs for the April – July period of £100k. We would therefore expect actuals to date on pay to show an

underspend of around £100k. On a year to date basis, the organisation is slightly behind the position. The forecast expenditure on pay when adjusted to include the actual costs of the pay award (which exceed the budgeted 2%) is in line with pay budgets for the year, this forecast has been refined in partnership with service leads and budget holders, to ensure a realistic presentation of forecast staffing costs can be made.

## Programme activity

The table below 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	YTD Budget	YTD Actual	YTD Variance	Variance %	Annual Budget	Forecast Outturn	Forecast Variance	Variance %
Research Systems Programme	2,028	1,841	(187)	-9%	5,832	5,823	(9)	0%
Corporate Information Management	56	(14)	(70)	0%	98	98	0	0%
Research Review Programme	72	56	(16)	-22%	124	107	(16)	-13%
SDDR	202	192	(10)	-5%	468	468	0	0%
Research Resilience and Growth	173	161	(12)	-7%	512	499	(14)	-3%
<i>Total programmes</i>	<i>2,530</i>	<i>2,236</i>	<i>(294)</i>	<i>-12%</i>	<i>7,033</i>	<i>6,994</i>	<i>(39)</i>	<i>-1%</i>

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.

## Capital expenditure

Capital expenditure includes core infrastructure capital expenditure (rolling laptop replacement programme), as well as the capital element of the research systems transformation programme. Our capital allocation for 2022/23 is £1,308k following the spending review reduction in capital funding of 20% and return of c. £1m of capital funding to the Department, to be drawn down to support the Research Systems Programme in future years.

Total capital expenditure incurred at the 31 July 2022 is £17k. The low level of activity compared to budget is 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 £1,308k. At this time, we do not expect an underspend on capital, as the budget will be phased into later months of the year. 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 4 months to 31 July the HRA achieved the target by both value and number, our shared services provider NHS SBS have made progress in processing their operational backlog.

	Number	Value (£)
Benchmark	95%	95%
4 months to 31 July 2022	95%	100%

## Cash performance

The HRA have an annual cash allocation in 2022/23 of £21,544k. The cash balance at the end of July 2022 was £1,662k which is 8% 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, which has at this stage been committed in full, and has been over allocated by 30k. Fast track wind down funding approved of £98k is expected to reduce to £30k which supports the reserve allocation in remaining in line with the total opening balance.

Included in the expected column of the table are business cases received or referenced at executive meetings that are pending review & approval.

	Committed £000	Expected £000
<i>Opening Balance</i>	458	458
Committed – Fast track winddown	98	30
Committed – HRA Atlas costs	10	10
Committed – Manchester office refit	200	200
Pending – Commercial Resource	0	35
Committed – Corporate Services Restructure BC	30	30
Committed – HRA Website BC (No additional funds required following review)	0	0
Committed – Clinical Trials Regulation BC	125	125
Committed – Community PM role 0.4 FTE	25	25
<b><i>Closing Balance</i></b>	<b>-30</b>	<b>3</b>

\*No allowance has been made for case management service which remains in discovery phase

## 2022/223: financial risks:

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

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Score</b>	<b>Mitigation</b>	<b>Net risk</b>
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 Board is asked to review and approve the finance report for the 4 months ended 31 July 2022.

**Katie Marriner**  
Deputy Director of Finance