

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

## HRA Board cover sheet

### 10 November 2022

<b>Title of paper:</b>	Finance report – 6 months to 30 September 2022
<b>Submitted by:</b>	Karen Williams
<b>Summary of paper:</b>	To enable an informed understanding of our financial performance for the 6 months to 30 September 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>• As previously reported, £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 six, year to date performance is tracking significantly over budget due to the amortisation calculation for our research systems. This relates to a change in accounting estimate agreed with the auditors due to a revised shorter economic life of the development to date. Funding cover will be confirmed by DHSC as part of the 2022/23 Qtr2 consolidation exercise.</li> <li>• Forecast position is breakeven for the year based on detailed budget holder review. Inflationary budget pressures, particularly in relation to staff pay present a significant risk to achieving this out-turn (£225k unfunded by DHSC). Reserves have been set aside to cover this budget pressure and Executive Committee are closely monitoring this on a monthly basis.</li> <li>• All strategic reserves have been allocated. Tight control of accruals and reserves commitments is being maintained to offset inflationary pressures (see above).</li> </ul>
<b>Dissemination:</b>	<i>HRA Board papers available on HRA website</i>
<b>Time required:</b>	15 mins

# HRA Finance Report

## 6 months to 30 September 2022

### Executive summary

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

The overall forecast position is in line with budget although inflationary pressures driven by unfunded agenda for change increases are a concern. Forecast individual variances at directorate level, reflecting service lead expectations, balance to provide a breakeven forecast.

Our financial reporting focuses on forecast closing positions for the year and less on in-month expenditure. The aim of this is to produce more valuable insight throughout the year to inform strategic and operational decisions. This process encourages budget holders to consider the full year's activities and so reduce the chance of unexpected movements at year end. This helps inform strategic investment decisions in year, to maximise benefits for patients and the public.

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 tough vacancy factor targets. Pay forecasting was refined with service leads during July & August. Pay arrears relating to the agreed pay award were made in Sep22 for all staff on agenda for change terms. Full costs of this pay award are reflected in our forecast position. The tension between organisational capacity to deliver our statutory functions and change portfolio 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	3,234
<b>Central government funding</b>	<b>21,364</b>	<b>22,518</b>
Devolved nations	370	396
Other cost sharing	0	65
<b>Total</b>	<b>21,707</b>	<b>22,979</b>

\* DHSC depreciation funding has not yet been confirmed for 2022/23. Our requirement has increased following a change in accounting estimate for the useful life of our research systems related to our strategic refresh. This reflects the revised approach to future development.

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. 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. Other cost sharing relates to estates and people costs.

## Government funded 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.

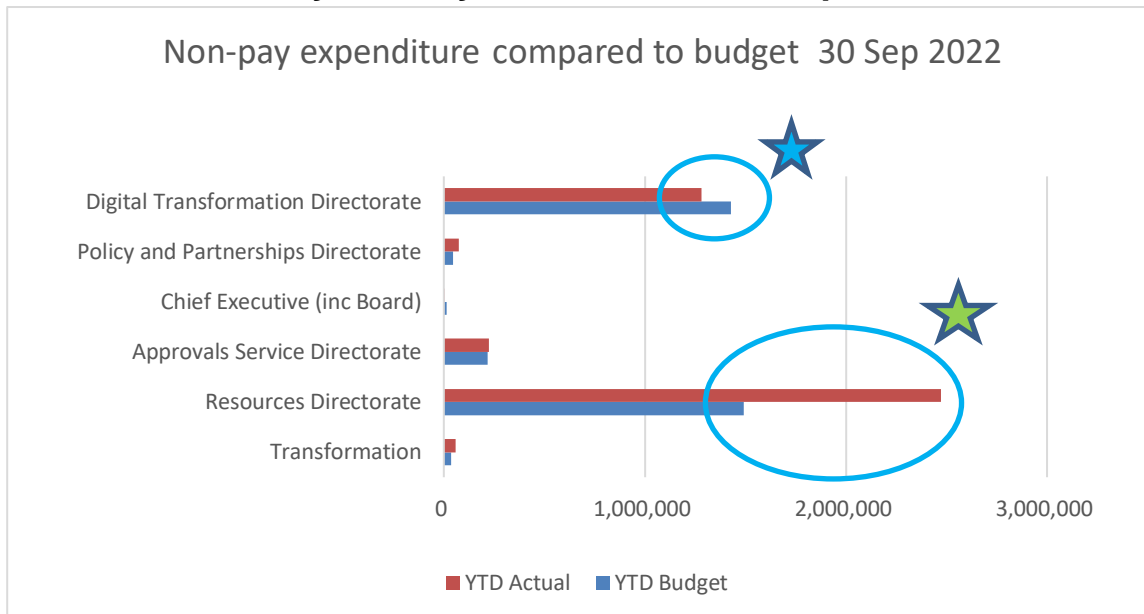
Forecasts are revised each month in line with service lead expectations of activity. Since the last report, the forecast position has reduced to an overspend of 232k or 1% (last reported forecast was as 3% overspend). Unallocated reserves have been set aside to accommodate this forecast overspend which is due to the unfunded element of the agenda for change pay award. This reduces our ability to respond to immediate and planned strategic work.

Area	YTD Budget 22-23	YTD Actual 22-23	YTD Variance 22-23	Variance % 22-23	Annual Budget 22-23	FOT 22-23	FOT Variance 22-23	Variance % 22-23
<b>Transformation</b>	679	640	(39)	-6%	1,104	1,135	32	3%
<b>Resources Directorate</b>	2,214	3,157	943	43%	6,778	7,314	536	8%
<b>Approvals Directorate</b>	3,766	3,609	(157)	-4%	7,697	7,600	(97)	-1%
<b>Chief Executive (inc Board)</b>	143	131	(12)	-9%	287	285	(2)	-1%
<b>Policy and Partnerships Directorate</b>	683	695	12	2%	1,635	1,668	33	2%
<b>Digital Transformation Directorate</b>	2,579	2,708	129	5%	4,876	4,608	(268)	-6%
<b>Total</b>	<b>10,066</b>	<b>10,942</b>	<b>876</b>	<b>9%</b>	<b>22,377</b>	<b>22,609</b>	<b>232</b>	<b>1%</b>

The year to date position shows is an overspend of £876k (9%), due mainly to non-cash adjustments to amortisation (research systems development). Non-cash revenue is expected to be agreed as part of the Qtr2 consolidation process with DHSC. Once this adjusted amount has been confirmed, the budget will be rephased to reflect the confirmed funding position.

Digital directorate presents as a forecast £268k underspend in this report. This is linked to deferral of costs following the strategic review. Capital costs have also reduced while commercial activities are in progress to seek a new delivery partner. Costs are currently expected to come in within budget although this may need to be adjusted once the outcome of the commercial activity is known.

## Of Which Non-Pay Activity: 6 months to 30 September 2022

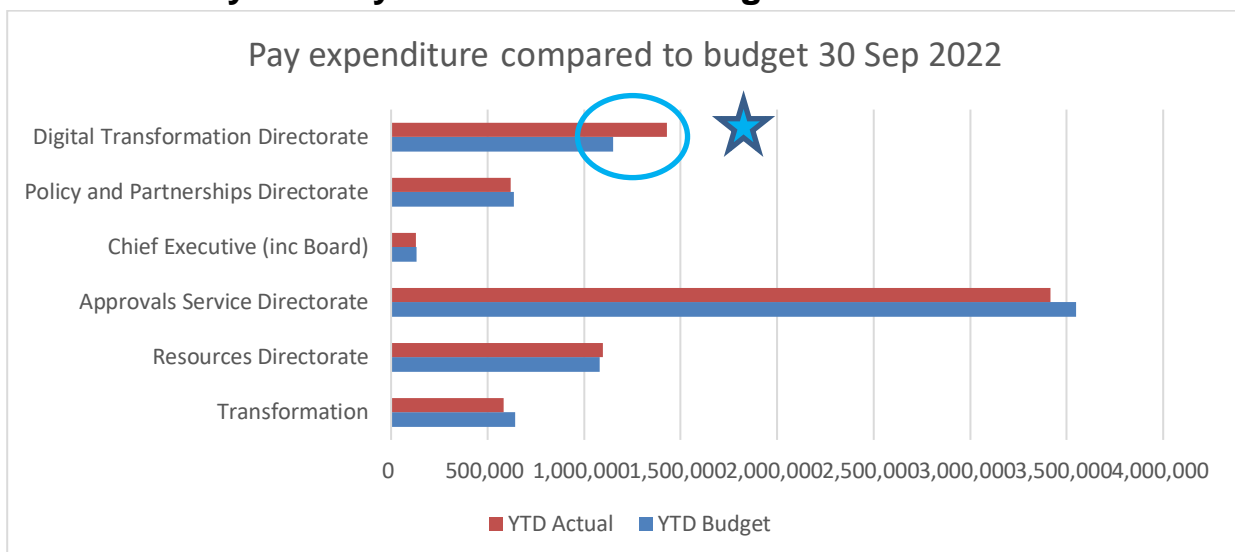


Resources directorate is significantly overspent £979k, due to non-cash amortisation costs related to an agreed change in accounting estimate for our research systems development. This is expected to be funded by DHSC and does not present a cost pressure that will adversely impact our year-end funded position.



Digital transformation directorate is underspent by £149k on non-pay expenditure. This is not currently expected to carry through to year end and is due to the ongoing pause on research systems programme work. This forecast will be revised once the new delivery partner is confirmed.

## Of Which Pay Activity: 5 months to 31 August 2022



Digital transformation directorate is underspent by £278k on pay expenditure. Again, this is not currently expected to carry through to year end and is due to the ongoing pause on research systems programme work. Activity will pick up when the delivery partner has been on-boarded and the programme restarted.

Pay budgets include allocations for a pay award of 2% for staff on agenda for change contracts. The actual award (arrears paid in Sep22) was greater than this – giving an estimated additional unfunded budget pressure £225k. Reserves have been set aside to manage this unfunded budget pressure. The Department of Health and Social Care have requested information from the organisation on budget pressures as well as requests to offer efficiencies given public sector spending pressures. Our aim will be to cover the pay award from our funding allocation through careful management of reserves and our vacancy control. This budget pressure is being closely monitored by the Executive Committee.

## Programme activity (revenue and capital combined)

The table below provides an overview of actual expenditure (revenue and capital) 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 22-23	YTD Actual 22-23	YTD Variance 22-23	Var % 22-23	Annual Budget 22-23	Forecast Outturn 22-23	Forecast Variance 22-23	Var % 22-23
Research Systems Programme*	2,575	2,450	(125)	-5%	5,832	4,702	1,130	19%
Corporate Information Management	65	0	(65)	-100%	98	78	(20)	-20%
Think Ethics Programme	96	104	8	8%	124	146	22	18%
SDDR	324	302	(22)	-7%	468	468	0	0%
Research Resilience and Growth	259	235	(24)	-9%	512	521	9	2%
<i>Total programmes</i>	<i>41</i>	<i>39</i>	<i>(2)</i>	<i>-5%</i>	<i>7,033</i>	<i>5,915</i>	<i>(1,118)</i>	<i>-16%</i>

\* Forecast underspend on research systems programme includes £1m deferral of capital expenditure confirmed with DHSC.

## 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 (included in the analysis above). 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 (RSP) in future years.

Total capital expenditure incurred at the 30 September 2022 is £29k. The low level of activity compared to budget is related to the Research Systems Programme strategic refresh and slight delay in the planned update of our Manchester office. Our forecast position on capital is currently in line with budget, at £1,308k. This forecast position will be revised once the outcome of the commercial process to confirm a delivery partner for our research systems programme is complete.

## Better payments performance

The HRA have a duty to pay 95% of invoices in 30 days. For the 6 months to 30 September the HRA achieved the target by value, but not by number. This is due to unplanned vacancies within the finance team. The cumulative position has improved on the previous month's reporting and plans are in place to achieve compliance by November.

	Number	Value (£)
Benchmark	95%	95%
6 months to 30 September 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 September 2022 was £1,919k which is 9% 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 is £458k, which was committed in full (slightly over allocated by 30k). Adjustment to year-end accrual has released £164k to reserves in year. Other adjustments have arisen as costs have been firmed up. Reserves balance now equates to the forecast overspend to give a balanced position overall.

	Allocated £000	Revised £000
<i>Opening Balance</i>	458	458
Fast track winddown	98	92
HRA Atlas costs	10	10
Manchester office refit	200	100
Commercial Resource	0	20
Committed – Corporate Services Restructure BC	30	0
Committed – Clinical Trials Regulation BC	125	125
Committed – Community PM role 0.4 FTE	25	25
Accruals release	0	(164)
<b><i>Closing Balance</i></b>	<b>-30</b>	<b>250</b>

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

## Recommendations

The HRA Board are asked to review and approve the finance report for the 6 months ended 30 September 2022.

**Karen Williams**  
**Deputy Chief Executive and Director of Finance**