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| **Agenda item:** | **12** |
| **Attachment:** | **E** |

**HRA BOARD COVER SHEET**

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| **Date of Meeting:** | 25th January 2017 – report to Board |

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| --- | --- |
| **Title of Paper:** | Financial report - November 2016 |
| **Purpose of Paper:** | To seek approval of our financial performance as at the 30 November 2016 and provide an update on our forecast financial performance for 2017/18 including steps taken to address HGIAS financial management improvement recommendations.  |
| **Reason for Submission:** | To update the Board on:* the financial performance of the HRA as at 30/11/2016
* our forecast financial performance for 2016/17
* improvements to the financial management environment implemented following the HGIAS report
 |
| **Lead Reviewer:** | Tom Smith, Director of Guidance and Learning - 4th January 2017. |
| **Details:** | Main points to note:* Current financial performance matches closely our anticipated position at this time, with a small overspend position £24k (less than 1%) reported on revenue expenditure at 30/11/2016 and small underspend position £26k (1%) reported on capital expenditure
* Our forecast revenue expenditure position has moved from breakeven to a potential underspend in the region of £100k to £200k (0.7% - 1.4%)
* A number of projects, planned for the latter half of the year, have been delayed and / or superseded by the service improvement programme impacting on our capacity to deliver.
* The position, highlighted through improved financial management processes (forecast meetings with budget managers, budget manager training and close scrutiny of the reserves position by SEMT) is now being reviewed in depth.
* Work is also underway to identify projects that help us deliver our strategic goals and can be implemented quickly to address this potential underspend given known pressure on resources for 2017/18.
* Our forecast capital expenditure position remains an underspend of £141k due predominantly to our successful renegotiation of the contract price with our systems developers.
* The HRA continued to meet its regulatory requirements in paying invoices exceeding statutory requirements.
 |
| **Suitable for wider circulation?** | **Yes, following Board** |
| **Time required for item:** | **10 minutes** |

|  |  |  |
| --- | --- | --- |
| **Recommendation / Proposed Actions:** | **To Approve** | **Yes** |
| **To Note** |  |
| **For discussion** |  |
| **Comments** |  |

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| --- | --- |
| **Name:** | Sylvia Hazard and Karen Williams |
| **Job Title:** | Acting Director of Finance and Procurement |
| **Date:** | 18 December 2016 (amended 13 January 2017) |

**Finance Report - Financial Year 2016/17**

**Health Research Authority as at 30 November 2016**

**Executive Summary – Headlines**

* The HRA revenue expenditure budget for 2016/17 is agreed at £13,080k and capital expenditure budget at £910k.
* Current financial performance (to 30/11/2016) matches closely our anticipated position at this time, with a small overspend position £24k (less than 1%) reported on revenue expenditure and small underspend position £26k (1%) reported on capital expenditure
* Our forecast revenue expenditure position has moved from breakeven to a potential underspend in the region of £100k to £200k (0.7% - 1.4%)
* More work is being performed on this forecast variance to better quantify the scale of the shortfall and what actions can be put in place to address it. We also know that our strategic and service improvement ambition for 2017/18 far exceeds our anticipated budget allocation / envelope. We are working to identify which projects could be accelerated into 2017/18 to help address the known pressure on resources for 2017/18.
* Our forecast capital expenditure position remains an underspend of £140k due predominantly to our successful renegotiation of the contract price with our systems developers
* The HRA continued to meet its regulatory requirements in paying invoices

**Financial performance to 30 November 2016 and forecast for 2016/17**

**Revenue expenditure**

|  |  |  |
| --- | --- | --- |
| **Department** | **Year to date (£'000)** | **Full year (£'000)** |
| **Income** | **Budget** | **Actual** | **Variance** | **2015/16 actual** |  **Initial budget** | **Latest Budget** | **Forecast** |
| HRA income | 88 | 88 | 0 | 198 | 200 | 176 | 176 |
| Grant in Aid confirmed | 7,862 | 7,886 | 24 | 12,509 | 12,630 | 12,630 | 12,630 |
| Non cash revenue resource limit | 186 | 186 | 0 | 253 | 450 | 450 | 450 |
|  **Total Income** | **8,136** | **8,160** | **24** | **12,960** | **13,280** | **13,256** | **13,256** |
|  |  |  |  |  |  |  |  |
| **Expenditure** | **Budget** | **Actual** | **Variance** | **2015/16 actual** | **Initial budget** | **Latest Budget** | **Forecast** |
| Operations | 2,676 | 2,693 | 17 | 4,573 | 4,021 | 4,021 | 4,063 |
| Chief Executive inc. Corp Sec | 1,161 | 1,178 | 17 | 1,821 | 1,986 | 1,977 | 1,997 |
| Corporate Services | 1,817 | 1,829 | 12 | 1,828 | 1,812 | 2,808 | 2,748 |
| Finance, Procurement and Estates | 450 | 439 | -11 | 1,256 | 1,315 | 1,253 | 1,101 |
| Research Systems, Standards and HRA Approval Programme | 2,032 | 2,021 | -11 | 3,482 | 4,146 | 3,197 | 3,197 |
|  **Total Expenditure** | **8,136** | **8,160** | **24** | **12,960** | **13,280** | **13,256** | **13,106** |
|  |  |  |  |  |  |  |  |
| **Surplus /Deficit** | **0** | **0** | **0** | **0** | **0** | **0** | **-150** |

Revenue expenditure to the end of November was £8.16m within 1% of the budgeted outturn.

Improvements to financial management have been implemented (monthly forecasting, budget manager training, reserves scrutiny by SEMT)

These interventions have challenged our initial forecasts on reserves projects and have indicated that there is a potential underspend on project activity £100k - £200k. At this stage more work is needed to quantify the scale of the underspend and what actions we can take to ensure that strategic and operationally important projects are delivered where other projects are being delayed / superceded by new projects (for example, potential upfront investment needed to implement the service improvement programme).

There is also concern that our emerging plans for 2017/18 will require a significantly greater level of budget allocation than will be available. Work is therefore underway to strategically prioritise our future plans and also consider whether there is a case to request this potential underspend for 2016/17 is ring-fenced for 2017/18 to deliver the service improvement programme and other strategic projects. This is the first time we have considered such a request which would need DH approval and is far from guaranteed given DH budget constraints this year.

**Significant variances to note:**

**Underspend on pay costs of £60k, 1.2% of budgeted costs** **as at 30 November 2016**

Capacity issues have been addressed through the recruitment of 5 additional assessors to HRA approval. Additional temporary staff have also been agreed to address capacity issues in operations £44k (2.3%) underspend with permanent recruitment to these posts being considered as part of the service improvement programme.

**Overspend on non-pay costs of £84k, 3.6% of budgeted costs as at 30 November 2016, predicted to turn to a £100k-£200k potential underspend by 31 March 2017.**

Detailed work to quantify the potential underspend and create an action plan to address this is in progress and the Board will be updated at their meeting in January.

**Capital expenditure**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Plan initiative** | **2016/17 plan** | **2016/17 budget to date** | **2016/17 actual** | **2016/17 variance**  | **2016/17Year end Forecast** |
| **£ '000** | **£ '000** | **£ '000** | **£ '000** | **£ '000** |
| HARP Developments | 215 | 143 | 140 | -3 | 212 |
| IRAS Developments | 362 | 241 | 254 | 13 | 376 |
| IS Team – capitalised salaries | 155 | 126 | 90 | -36 | 126 |
| Capital reserve | 178 |  0 | 0 | 0 | 55 |
| **TOTAL AGREED FOLLOWING SPENDING REVIEW** | **910** | **510** | **484** | **-26** | **769** |

The forecast outturn full year outturn for capital continues to indicate a surplus of £141k, due to the successful renegotiation of the contract for the development of the HARP and IRAS system generating unplanned savings. The forecast also includes spend against the capital reserve which relates to the purchase of laptops £80k, which have been reclassified from revenue expenditure this year on advice from our auditors. This has contributed to the potential underspend in revenue expenditure discussed above.

DH have been informed of a potential surplus on the capital budget, but the HRA have not agreed for this to be returned for use in the wider system until the final position is known regarding planned investment linked to the EU portal, which may impact on the final year end position.

**Cash balances**

At the end of the reporting period, the cash balance was £2.998m. The forecast cash balance at the end of March 2017 is £3.195m.

**Better payments performance**

The HRA has continued to meet the duty to pay 95% of invoices in 30 days, also maintaining the internal stretched target of paying 60% of suppliers in 10 days. The table below shows our KPIs against number of invoices and total value of invoices paid.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Number | % | Value (£) | % |
| **BPPC achieved** | 97% | 97% | 99% | 99% |
| **2015/16 Performance** | 98% | 98% | 97% | 97% |

**Travel costs**

Travel cost reduction is key to HRA achieving its savings target and demonstrating benefits realised through investment in smart working. On the basis of costs incurred to date and future plans, travel costs are predicted to meet budget for the year, achieving the planned savings.



**Recommendations**

The Board is asked to note the current financial position and forecast and are invited to discuss the potential underspend position and HRA plans to address this.

**Sylvia Hazard and Karen Williams**

**Acting Director of Finance and Procurement**

**13 January 2017**

**Health Research Authority – Non Pay Expenditure Breakdown Year to end November 2016**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Areas of Non- Pay Expenditure** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Annual** | **Next year** | **In month (£)** | **Year to date (£)** |
| **Subjective** | **budget (£)** | **plan (£)** | **Budget** | **Actual** | **Variance** | **Budget** | **Actual** | **Variance** |
| **Meeting Rooms/Catering** | 214,531  | 219,040  | 11,886  | 24,526  | 12,640  | 131,907  | 135,063  | 3,156  |
| **Office equipment/Stationery/Furniture/Consumable** | 67,769  | 101,794  | 8,521  | 1,056  | (7,465) | 35,207  | 26,598  | (8,609) |
| **Photocopying/Printing/Postage/Storage/Waste** | 159,169  | 155,410  | 12,785  | 15,452  | 2,667  | 105,483  | 113,303  | 7,820  |
| **Premises - inc premise removal costs** | 717,327  | 717,327  | 59,969  | 64,334  | 4,365  | 476,054  | 496,068  | 20,014  |
| **Training Expenses - expenses/materials , conferences, workshops** | 82,390  | 75,390  | 5,036  | 3,585  | (1,451) | 51,652  | 52,568  | 916  |
| **Other Staff costs - Recruitment/adverts/redundancy/PILON** | 27,000  | 40,000  | 0  | (3,000) | (3,000) | 23,000  | 24,759  | 1,759  |
| **Travel costs - include excess mileage/interview expenses** | 563,958  | 537,403  | 52,091  | 51,489  | (602) | 377,117  | 382,028  | 4,911  |
| **Chairs/Members/Participation - activity costs** | 290,710  | 286,410  | 20,769  | 25,897  | 5,128  | 179,625  | 176,096  | (3,529) |
| **Publications** | 2,250  | 2,250  | 20  | 0  | (20) | 2,170  | 2,346  | 176  |
| **Mobile Phones/Mobile Data** | 18,661  | 18,661  | 1,553  | 2,681  | 1,128  | 12,264  | 13,290  | 1,026  |
| **Statutory Costs - Health & Safety/Legal/Audit Fees/Dep. & Amort.** | 549,365  | 549,365  | 5,455  | 7,951  | 2,496  | 228,468  | 251,150  | 22,682  |
| **Computer Costs - Software/licences/system maintenance/purchases** | 342,672  | 346,722  | 19,155  | 10,521  | (8,634) | 215,188  | 213,589  | (1,600) |
| **Other External Contracts - SLA's - Premises, SBS,BSA, DH IT** | 909,729  | 792,403  | 64,670  | 75,363  | 10,693  | 547,806  | 584,954  | 37,148  |
| **Other - Misc/Reserves** | 539,038  |  | 0  | (2) | (2) | 0  | (1,934) | (1,934) |
| **Grand Total** | 4,484,569  | 3,797,518  | 261,910  | 279,854  | 17,943  | 2,385,941  | 2,469,879  | 83,938  |

Note: The overspend on other external contracts largely relates to the over run on the archiving project, offset by underspend within Research Information systems and IT contract. The overspend within the statutory costs relates to the Asset disposal. The overspend in premises costs relates to Skipton house costs. |   |