

Agenda item:	
Attachment:	

HRA Board cover sheet

18 January 2023

Title of paper:	Finance report – 8 months to 30 November 2022
Submitted by:	Matt Balding, Deputy Director Finance and Estates
Summary of paper:	To enable an informed understanding of our financial performance for the 8 months to 30 November 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"> • 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. • At month eight, year to date performance is again tracking significantly over budget due to the amortisation calculation for our research systems. As previously reporting 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 has been requested as part of the consolidation exercise and has yet be confirmed by DHSC. • Forecast position is £775k over plan also due to the amortisation calculation for our research systems. Excluding depreciation and amortisation, HRA's forecast revenue spend is £565k under plan due to pausing the research systems programme while we put in place the recommendations from the strategic review of phase 1 of the programme. • Inflationary budget pressures, particularly in relation to staff pay remain a risk to achieving a breakeven position on our core activities (£225k unfunded by DHSC). • All strategic reserves have been allocated. Tight control of accruals and reserves commitments is being maintained to offset inflationary pressures (see above).
Dissemination:	<i>HRA Board papers are available on HRA website</i>
Time required:	15 mins

HRA Finance Report

8 months to 30 November 2022

Executive summary

The HRA annual budget for 2022/23 has been approved and set at £21,707k (2021/22: £24,406k). This will give a cash breakeven position based on our confirmed revenue for the year and best estimate for cost sharing arrangements.

The overall forecast position is in line with budget. Inflationary pressures driven by unfunded agenda for change increases remain a concern. Forecast individual variances at directorate level, reflecting service lead expectations, together with anticipated cost efficiencies balance to provide a breakeven forecast with approximately 70% certainty.

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 actual award increase at 4.2%) and meet tough vacancy factor targets. 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. Some contingency (£250k) has been set aside to manage this and with careful monitoring of expenditure and recruitment we aim to bring financial outturn in line with agreed funding.

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	18,936	18,936
IFRS16 funding adjustments	0	(208)
NHSX AI Lab funding	701	468
Total cash funding from DHSC	19,637	19,196
DHSC depreciation funding*	1,700	3,259
Central government funding	21,337	22,455
Devolved nations	370	396
Other cost sharing	0	248
Total	21,707	23,099

* 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 £324k, a reduction of £380k, 54% on the initial budgeted revenue amount. This has subsequently been increased by £148k to include MAAS (multi agency advice service) funding. 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 costs and secondments.

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.

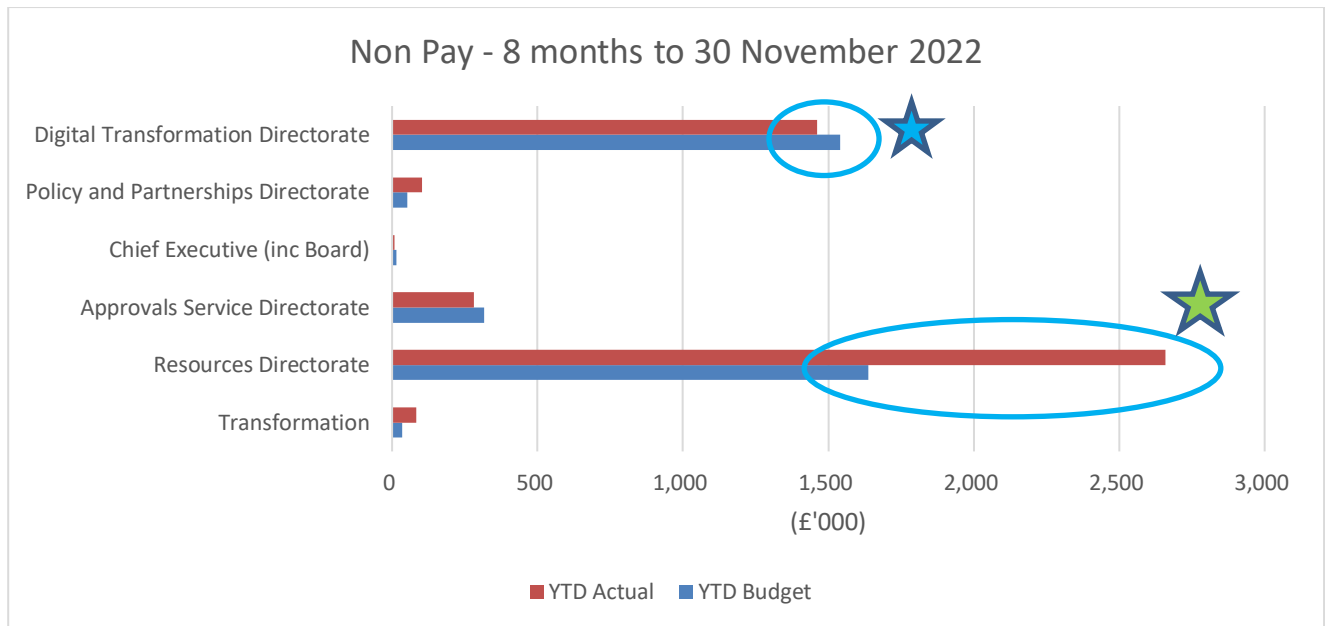
Forecasts are revised each month in line with service lead expectations of activity. Since the last report, the forecast position has moved to an overspend of £774k or 4%. This overspend is driven by an increase in forecast depreciation due to non-cash amortisation costs related to an agreed change in accounting estimate for our research systems development valued at £1,339k. Excluding depreciation and amortisation, HRA's forecast revenue spend is £565k lower than plan due to the agreed pause to our research systems programme while we put in place the recommendations following the strategic review of the first phase of the programme.

Area	YTD 2022- 23 Budget	YTD 2022- 23 Actual	YTD 2022-23 Variance	Variance %	Annual Budget (Full year)	FOT	FOT Variance	Variance %
Transformation	843	804	(39)	-5%	1,129	1,098	(30)	-3%
Resources	2,682	3,728	1,046	39%	5,219	6,984	1,765	34%
Approvals Service	5,078	4,781	(297)	-6%	7,697	7,322	(375)	-5%
Chief Executive (inc Board)	189	181	(8)	-4%	287	291	3	1%
Policy and Partnerships	917	933	15	2%	1,635	1,549	(86)	-5%
Digital	3,310	3,308	(2)	0%	5,137	4,634	(503)	-10%
Total	13,019	13,734	716	5%	21,104	21,878	774	4%

The year to date position shows is an overspend of £716k (5%), due mainly to non-cash adjustments to amortisation (research systems development costs). Our forecast non-cash revenue position has been submitted to DHSC as part of the Qtr2 consolidation process. DHSC has yet to confirm this as funded although we do not anticipate that this will be an issue. Once this adjusted amount has been confirmed, the budget will be rephased to reflect the confirmed funding position.

Digital directorate presents as a forecast £503k underspend in this report. This is linked to the programme pause and deferral of costs following the strategic review. Capital costs have also reduced while commercial activities have been extended to seek a new delivery partner.

Of Which Non-Pay Activity: 8 months to 30 November 2022

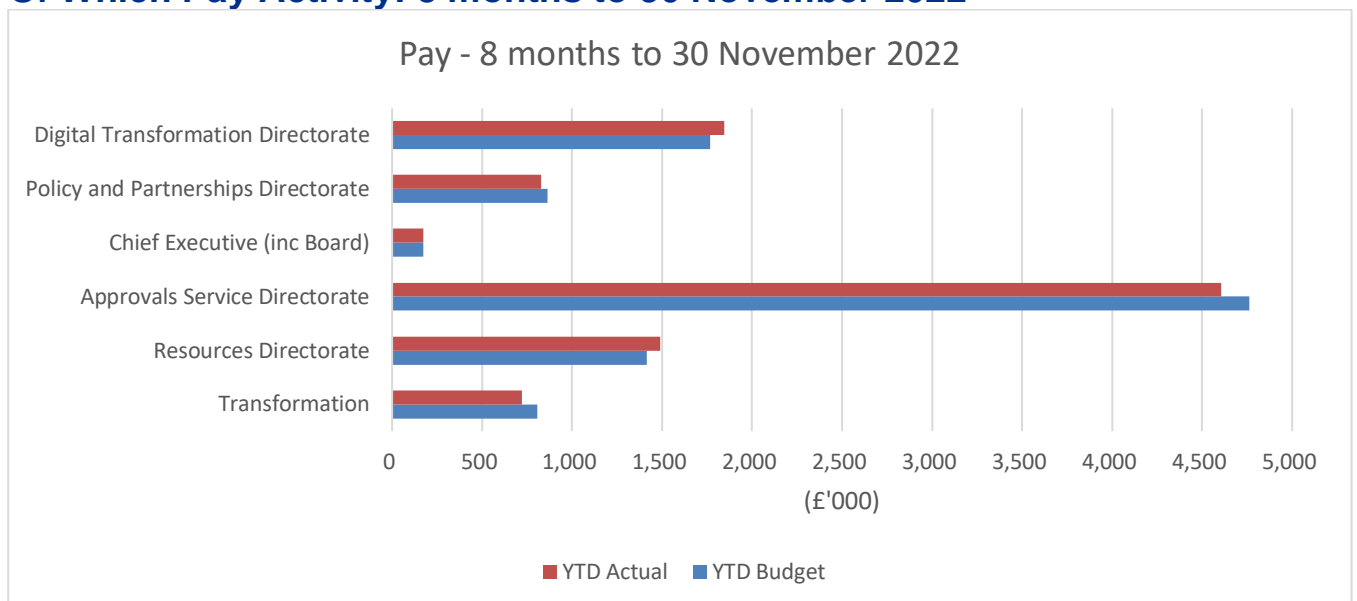


Resources directorate is significantly overspent £1,022k, due to non-cash amortisation costs related to an agreed change in accounting estimate for our research systems development. This is expected to be funded by DHSC and does not present a cost pressure that will adversely impact our year-end funded position.



Digital transformation directorate is underspent by £81k on non-pay expenditure. This is due to the ongoing pause on research systems programme work. This forecast will be revised once the new delivery partner is confirmed (anticipated February 23).

Of Which Pay Activity: 8 months to 30 November 2022



There are no significant variances on pay at this stage of the year. Pay budgets were set with 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 £250k 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.

Resources directorate carries the vacancy factor provision for the organisation – without this provision resources directorate is also underspent on pay in line with other directorates.

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 22-23 Budget	YTD 22-23 Actual	YTD 22-23 Variance	Variance %	Annual Budget	Forecast Outturn	Forecast Variance	Variance %
Research Systems Programme *	3,047	3,041	(6)	0%	6,093	4,385	(1,708)	-28%
Corporate Information Management	69	64	(4)	-6%	98	102	4	5%
Think Ethics	130	128	(2)	-2%	149	148	(0)	0%
SDDR	362	362	0	0%	468	428	(39)	-8%
Research Resilience and Growth	350	314	(36)	-10%	512	522	9	2%
CT Legislation	59	11	(48)	-81%	125	94	(31)	-25%
Total programmes	4,018	3,921	(97)	-2%	7,444	5,679	(1,765)	-24%

* Forecast underspend on Research Systems Programme includes £1m deferral of capital expenditure confirmed with DHSC.

Capital expenditure

Capital expenditure includes core infrastructure capital expenditure (estates and digital infrastructure), as well as the capital element of the research systems transformation programme (included in the analysis above). Our capital allocation for 2022/23 is £1,684k 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 as at 30 November 2022 is £59k. 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 £185k, some £1,499k below the 2022/23 plan of £1,684k. This forecast position reflects:

- i) the expectation that capital expenditure on the Research Systems Programme will now recommence in mid-March as the commercial process to confirm a new delivery partner won't be complete until late February; and
- ii) the refurbishment of our office at Barlow House is no longer going ahead as the HRA will instead be moving its Manchester office in June 2023.

Better payments performance

The HRA have a duty to pay 95% of invoices in 30 days. For the 8 months to 30 November the HRA achieved the target by value, but not by number. This is, in part, due to unplanned vacancies within the finance team. The cumulative position has improved on previous month's reporting.

	Number	Value (£)
Benchmark	95%	95%
8 months to 30 November 2022	94%	98%

Cash performance

The HRA have an annual cash allocation in 2022/23 of £20,719k. The cash balance at the end of November 2022 was £1,357k which is 7% 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 £459k, which was committed in full (slightly over allocated by 29k). Adjustment to year-end accrual has released £164k to reserves in year. Other adjustments have arisen as costs have been firmed up.

	Allocated (£'000)	Revised (£'000)
Opening Balance	459	459
Fast track winddown	98	92
HRA Atlas costs	10	10
CIM Business Case	0	10
Manchester office refit	200	100
Commercial Resource	0	20
Website Return Balance	0	(17)
Think Ethics Programme Manager	0	25
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)
Closing Balance	(29)	234

*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 8 months ended 30 November 2022.

Matt Balding
Deputy Director Finance and Estates