

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

## HRA Board cover sheet

### 15 March 2023

<b>Title of paper:</b>	Finance report – 10 months to 31 January 2023
<b>Submitted by:</b>	Matt Balding, Deputy Director Finance and Estates
<b>Summary of paper:</b>	To enable an informed understanding of our financial performance for the 10 months to 31 January of the 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 ten, year to date performance is tracking under budget by £602k, largely due to underspends in staff costs offset by centrally held vacancy factor and lower amortisation costs related to research systems programme pause.</li> <li>• Forecast position is £1,092k under plan, due again to delays in the research systems programme following our decision to pause the programme and implement a new delivery approach (this includes revenue costs and related amortisation).</li> <li>• Tight control of vacancies and establishment costs have helped manage unfunded agenda for change salary increases of £250k.</li> <li>• All strategic reserves have been allocated. The decision to stop our Manchester office refurbishment and move to improve office utilisation across the health family is likely to require additional investment this year to fund costs of closure. Whilst this will impact on the forecast position the HRA will remain within our funded allocation.</li> </ul>
<b>Dissemination:</b>	<i>HRA Board papers are available on HRA website</i>
<b>Time required:</b>	15 mins

# HRA Finance Report

## 10 months to 31 January 2023

### 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 £1m below budget due predominantly to the research systems development pause which has in place longer than originally expected. An extended procurement exercise and associated impact on governance approvals contributes to this cost deferral as well as some extended dual running. Inflationary pressures driven by unfunded agenda for change increases are being managed within operational budgets. Forecast individual variances at directorate level, reflecting service lead expectations, together with anticipated cost efficiencies balance to provide a small underspend on forecast for non-research systems related activity.

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.

Tight vacancy and establishment control have ensured we have accommodated unfunded agenda for change pay increases from operational budgets. 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 continues 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	18,936	18,324
IFRS16 funding adjustments	0	(249)
NHSX AI Lab funding	701	397
<b>Total cash funding from DHSC</b>	<b>19,637</b>	<b>18,472</b>
DHSC depreciation funding	1,700	3,235
<b>Central government funding</b>	<b>21,337</b>	<b>21,707</b>
Devolved nations	370	396
Other cost sharing	0	81
<b>Total</b>	<b>21,707</b>	<b>22,184</b>

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.

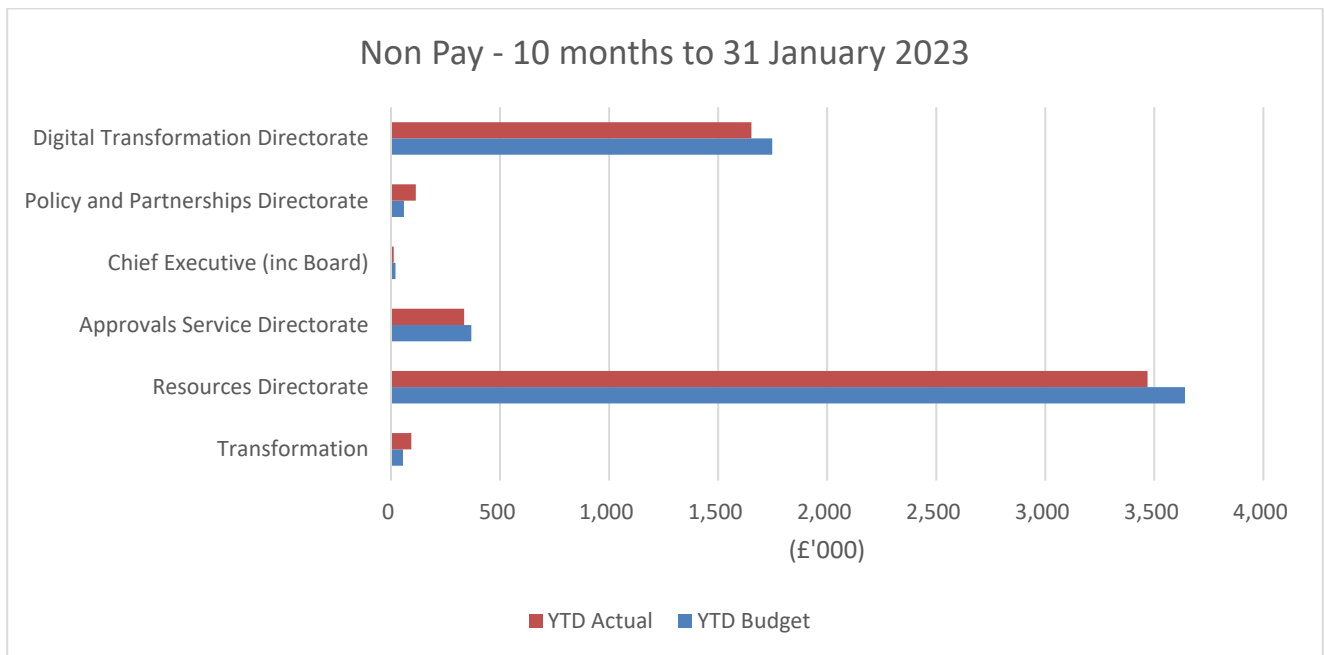
Forecasts are revised each month in line with service lead expectations of activity. Since the last report, the forecast position has moved to an underspend of £1,092k or 5%.

Area	YTD Budget	YTD Actual	YTD Variance	Variance %	Annual Budget	FOT	FOT Variance	Variance %
Transformation	990	924	(66)	-7%	1,129	1,083	(46)	-4%
Resources Directorate	5,016	4,958	(59)	-1%	6,979	7,145	166	2%
Approvals Service Directorate	6,351	5,968	(383)	-6%	7,697	7,231	(466)	-6%
Chief Executive (inc Board)	238	232	(6)	-2%	287	292	4	2%
Policy and Partnerships Directorate	1,165	1,154	(11)	-1%	1,635	1,554	(81)	-5%
Digital Transformation Directorate	3,923	3,846	(78)	-2%	5,137	4,467	(670)	-13%
<b>Total</b>	<b>17,683</b>	<b>17,082</b>	<b>(602)</b>	<b>-3%</b>	<b>22,864</b>	<b>21,771</b>	<b>(1,092)</b>	<b>-5%</b>

The year-to-date position shows is an underspend of £602k (3%). This is mostly due to underspends on pay costs.

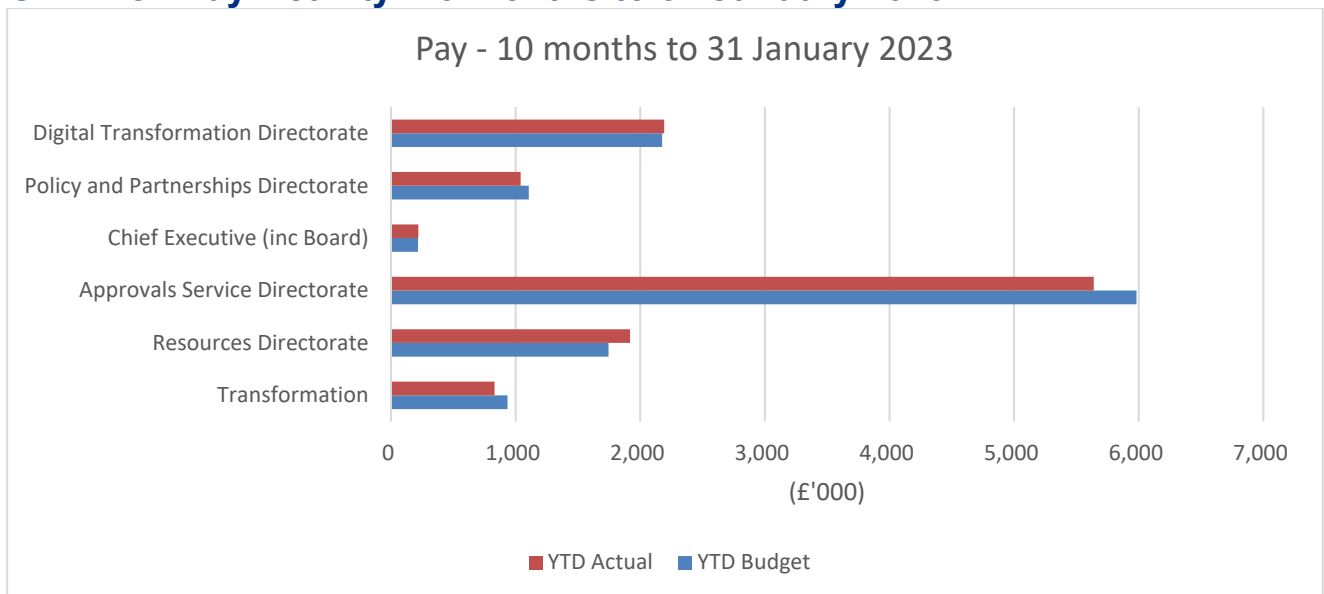
Digital directorate presents as a forecast £670k underspend in this report. This is linked to the programme pause and deferral of costs following the strategic review. Capital costs have also reduced while commercial activities have been extended to seek a new delivery partner.

## Of Which Non-Pay Activity: 10 months to 31 January 2023



Digital transformation directorate is underspent by £95k on non-pay expenditure. This is due to the ongoing pause on research systems programme following extension of the procurement activity and associated governance arrangements.

## Of Which Pay Activity: 10 months to 31 January 2023



Pay is now tracking slightly behind budget, reversing our experience earlier in the year where pay was greater than budget. 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. Through tight vacancy and establishment control this unfunded budget pressure has been managed within operational budgets.

Vacancy factor was set at 5% this year to reflect historic trends. It is included in Resources Directorate figures above resulting in the overspend in this Directorate which off-sets underspends in 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 Budget	YTD Actual	YTD Variance	Variance %	Annual Budget	Forecast Outturn	Forecast Variance	Variance %
Research Systems Programme *	3,642	3,522	(120)	-3%	5,112	4,212	(899)	-18%
Corporate Information Management	88	52	(36)	-41%	98	96	(2)	-2%
Think Ethics	139	137	(2)	-2%	149	148	(0)	0%
SDDR	413	400	(12)	-3%	468	371	(96)	-21%
Research Resilience and Growth	437	387	(51)	-12%	512	505	(8)	-2%
CT Legislation	92	46	(46)	-50%	125	87	(38)	-30%
<b>Total programmes</b>	<b>4,812</b>	<b>4,545</b>	<b>(267)</b>	<b>-6%</b>	<b>6,463</b>	<b>5,419</b>	<b>(1,044)</b>	<b>-16%</b>

\* 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 £703k 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 31 January 2023 is £60k. The low level of activity compared to budget is related to the Research Systems Programme strategic refresh and the decision to stop our planned refurbishment of our Manchester office and instead move to other offices in Manchester, consolidating the health family occupation in central Manchester. Our forecast position on capital is £284k, some £419k below the 2022/23 plan of £703k. 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 early March; and
- ii) the refurbishment of our office at Barlow House is no longer going ahead as the HRA will instead be moving to another government leased property in June 2023.

## Better payments performance

The HRA have a duty to pay 95% of invoices in 30 days. For the 10 months to 31 January 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%
10 months to 31 January 2023	94%	98%

## Cash performance

The HRA have an annual cash allocation in 2022/23 of £19,787k. The cash balance at the end of December 2022 was £1,096k which is 6% 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)
<i>Opening Balance</i>	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)
<b><i>Closing Balance</i></b>	<b>(29)</b>	<b>234</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 10 months ended 31 January 2023.

**Matt Balding**

**Deputy Director Finance and Estates**