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| **Agenda item:** | **9** |
| **Attachment:** | **B** |

**HRA BOARD COVER SHEET**

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| **Date of Meeting:** |  15th April 2015 |

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| **Title of Paper:** |  Financial Plan 2015/16 |
| **Purpose of Paper:** | To report on the financial plans of the Authority. |
| **Reason for Submission:** | To ensure the EMT and the Board approve the financial plan of the HRA. |
| **Details:** | This paper presents the financial plans for the 2015/16 year with a forward look beyond that. A longer term more strategic plan is being prepared.**The Board is asked to approve the financial plan for 2015/16**.**The Board is asked to note the following significant points:**To note the assumptions made.To note the risks contained within this financial plan.To note the savings plan.To note the workforce planning assumptions on which these plans are based.To approve and note the high level capital plan requirements. |
| **Suitable for wider circulation?** |  **Yes**  |

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

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| **Name:** | Debbie Corrigan |
| **Job Title:** | Director of Finance |
| **Date:** | 1/04/2015 |

**Financial Plan - Financial Year 2015/16**

**Health Research Authority**

1. **Introduction**

This report outlines the following:

* Income and expenditure plans for the Authority for 2015/16;
* Summary workforce plans on which the financial plan is based;
* Plans for efficiency savings for 2015/16 and beyond;
* Capital plans for 2015/16;
* Early assessment of likely forecast outturn for 2015/16;

**2. Income plans**

The HRA income envelope is based on the assumptions presented in table 1 below.

Table 1: HRA Income plans 2015/16



An initial indicative grant in aid and opening revenue resource limit for 2015/16 has been received which is based on the 2015/16 business planning round. However, at this stage it still excludes the funding associated with the statutory function that the HRA assumed when it became an NDPB in January related to its additional duties in relation to CAG. The latter currently presents a risk to the organisation (£250k in 15/16 for CAG 2 and CAG 3 part year effect; £418k full year effect). When the 2015/16 business plan was prepared the understanding was that the Health and Social Care Information Centre (HSCIC) would fund these additional costs, with DH Finance and the HRA sponsor leading on those negotiations. There is a risk that the HRA will be asked to contribute costs as yet unspecified but which could amount to 50%.

The income plan here includes an assessment of the part year effect of a CAG2 and a CAG3 effective from October 2015 but with recruitment activity and staff in post by September.

Plans are also based on additional income receipts from other government departments and the devolved administrations, the planning assumptions for which amount to a sum of £206k. This represents a decrease of £34k on 2014/15 income due to a rebasing of the recharge for systems costs to better reflect actual users. There is a slight risk regarding this assumption as although good progress has been made final agreement on the final recharge is outstanding.

A significant element of our funding for 2015/16 is linked to the business case for HRA Approval. The business case set out a requirement for £4.89million in 2015/16 less an efficiency savings contribution from the HRA of £0.077m. This equates to a net increase in funding linked to the business case in 2015/16 of £0.297m. The funding is subject to the following caveats:

* A regular review of costs by our DH Sponsors and DH Finance colleagues to critically assess the running costs of HRA in the new structure.
* Development of a strategy for charging, over a period of time appropriate to ensure services are developed and embedded. Work will be required early in the new financial year setting out the position with regard to this. The current organisational view is that this will not be effective and could lead to unintended consequences and the loss of goodwill within and across the NHS primarily.

It should be noted that recurrent income related to the business case for HRA Approval will drop significantly in 2016/17, by a sum of £710k, linked to the termination of fixed term posts identified in the business case. Work will be required early in the new financial year setting out the position and plans to ensure that the HRA continues to manage within its means.

The revenue cash limit is likely to match our final agreed revenue resource limit for the year. The HRA made good progress in reducing its cash balances at the end of 2015/16.

**3. Expenditure Plans**

Expenditure plans are presented in a table format to allow comparison with the prior year.

Table 2 presents a summary of expenditure plans based on current reporting directorates along with expected income sources.

Significant expenditure continues to be invested in the HRA Approval programme along with investment in resources within other directorates to increase capacity and capability to support this important programme as well as continuing to focus on business as usual activities and stretched and ambitious KPI targets.

The allocation of budgets linked to the business case have where possible been included in the base budgets presented below. In addition a further £3million is currently allocated to reserves and EMT is working to agree the virements required to meet planned expenditure areas.

Reserves are being retained as two distinct allocations. One represents recurrent funding (referred to as Business as Usual in this plan but terminology will need to be updated to enable greater focus on the position following closure of the HRA Approval Programme) . and the other the balance of funding remaining from the HRA Approval business case funding.

A profiled plan to give an idea of the expected run rate of expenditure is shown in appendix 1.

Table 2: Summary of income and expenditure plans based on current directorates



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| Assumptions |
| 1. HRA Approval business case funding year 2 allocated where possible in base budgets or earmarked on BC reserve. |
| 2. Social Care REC pay costs of £51k plus travel costs included in 15/16. |
| 3. Review of Social Care REC during 15/16 with aim of delivering further efficiencies as part of cost savings programme of £25k. |
|  |

1. **Pay Cost Pressures**

The directorate pay base budgets include the unavoidable costs of the amended national Insurance rates and the increased Employer Superannuation costs (increase of 0.03%). They are also based on the Agenda for Change *2014/15* pay scales and expected increments as the calculations were prepared ahead of the final agreement on the 2015/16 pay award.

Now that the final pay award offer has been confirmed, virements will need to be actioned to transfer out budgets relating to assumed increments for staff earning over £40,558 back to reserves (£30,480 transfer from base to reserves). The agreed 1% pay award for staff upto band 8b (£56,500) and £200 consolidated payment for lower paid staff (£57,558) will need to be vired from reserves to base budgets . Reserves currently reflect the net £27k impact of the pay award offer.

The Board is asked to note that EMT has approved the following.

1. Within the base budgets an additional post to support external training has been established and it is anticipated this will be required during the move to the establishment of the E-Learning platform. (£38k). This post is to be on a secondment basis.
2. Also included within the base budget is the continued provision of a Finance Trainee post, which is currently due to expire in July at a cost of £25k to fund a further replacement trainee at band 3. The placement for the past year has proved worthwhile. It has provided an opportunity for the HRA to invest in a young person who has flourished and who has provided much needed resilience to a stretched team.
3. A budget has been included to provide a repeat of the support for a repeat of the communications function led stakeholder and key opinion leaders and perception survey within the pay base budgets £10k funded from the former Director of Communications post. A further £5k is earmarked in reserves. The timing of a repeat of this work is still to be agreed.

1. Funding has been approved by EMT from reserves to fund the proposed reconfiguration of the support to the External and Staff training provision and the Corporate Services admin function The proposed reconfiguration would convert two band 4 posts to a band 5 and a band 3 post at a cost of £13.5k.
2. EMT is aware of the further work that is required to review operational staff budgets linked to the HRA Approval business case funding to ensure that all requirements for resources have been considered. Confusion has arisen in relation to funding within the business case for 5 band 4 operational posts and 4 band 5 operational posts. An urgent exercise mapping posts to the business case funding is underway with a view to completing as soon as possible.
3. Funding has been agreed by EMT to create a permanent band 4 post in the Programme Management Office to further support the growing demand for administrative support to Programmes and Projects. The maximum cost is £32k. Plans to fund are currently based on delaying recruiting to a further band 5 Project Officer role (in reserves) to allow a review of workload to be undertaken.
4. **Additional Expenditure Plans**

Within the non-pay base budgets there have been some additional areas of expenditure approved by EMT which require highlighting. These include:

1. Funding for public events in relation to engagement on the new research governance policy and provision of copies of the new policy for the events – £10k
2. Funding for Public Involvement events including attending recruitment panels, public involvement advisory group, production of on-line resources in relation to public involvement, development of staff and REC member training and work on the IRAS development and associated increased staff travel costs – public involvement as a function has only received a small non pay budget to date. This area is a priority for the HRA and the EMT has approved an initial sum of £25k.
3. Additional budget for the Research Information Systems budget as a result of adopting the industry standard (80% capital/20 revenue) with regards to development/maintenance costs. This has resulted in an additional net budget requirement of £79k.
4. The non-pay budget within Operations and Approval has seen an overall reduction of £24k in comparison to the original 2015/16 plan. Further work is required to ensure that the planned efficiency savings resulting from a REC closure and reported to the Board in 14/15 have been reflected within the areas of travel, meeting costs, stationery and postage, as well as the staffing budget.
5. The budget for the ATOS contract and associated IT costs has been included at the level agreed at the budget management meeting. Due to the increased level of spend during 2014/15 and the development of the managed print services and associated ‘click charges’ – some of which have been already received in 2014/15 there are some concerns about the resource requirement. There is a £60k earmarked reserve for IT costs relating to additional staff for 2016/17 – it has also been agreed that a further £44k funding be set aside with the actual contractual requirements identified by June.
6. The late but welcome decision regarding the lease exemption case for the Manchester office has meant that monies which were to have been spent in 2014/15 could not be spent in full. There may be some additional expenditure linked to the termination of the Standard Court lease, further set up of the Old Chapel office and linked costs of IT and other investments. A proposed additional reserve has been approved at £50k.
7. Expenditure assumptions relating to CAG 2 and 3 have been included within earmarked reserves. Any reduction in expected income will require an equal and opposite reduction in expenditure plans or a call on reserves. Any shortfall will be flagged to EMT.
8. **Workforce assumptions**

Pay represents the majority of the costs incurred in year. The financial plan is based on the workforce plans summarised in table 3 below which show the estimated actual WTE in March 2015, planned WTE in March 2016 and March 2017.

**Table 3: Workforce planning assumptions**

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| --- | --- | --- | --- |
| **Directorate** | **Actual WTE March 2015** | **Planned WTE March 2016** | **Estimated WTE March 2017** |
|
| Operations and Approval | 94.55 | 105.99 | 137.99 |
| Chief Executive inc. Corp Sec | 16.51 | 14.68 | 12.70 |
| Corporate Services | 16.99 | 17.45 | 17.20 |
| Systems and Development | 28.59 | 69.96 | 23.93 |
| Finance | 5.60 | 6.60 | 5.60 |
| **Total WTE** | **162.24** | **214.68** | **197.42** |
| Movement |  | 52 | -17 |

Note: Final timing of the transition of HRA Approval operational staff from Systems & Development to Operations and Approval is still subject to change.

1. **Efficiency savings for 2014/15 and beyond.**

All Arms Length Bodies were required to deliver efficiency savings of at least 4% as part of the 2015/16 business plan. The table below sets out the savings assumptions on which this plan is based.



Further work will be required to review the required budgets for the Social Care REC and the latest expectations regarding any savings that can be achieved.

With a view to **2016/17** , the following further areas for savings are proposed for investigation during 2015/16 as follows:

* Review of impact of e-submissions and electronic review on staffing numbers to release efficiencies linked to staff photocopying time, copying, stationery and postage costs.
* Review of workloads in light of e-booking through the central booking service to consider if any further efficiencies through possible reduction in number of Research Ethics Committees are possible or whether we have reached the cliff edge in this respect.
* Review of posts required when HRA Approval programme is completed. .
* Estates strategy to release efficiencies with a view to achieving the 7 desks to 10 staff ratio.
* Investing in projects in 15/16 which will generate future efficiencies eg training materials.
* Continued focus on realising benefits from investments in video conferencing through travel, hotel, time savings.
* Commencement for work to consider how we might measure the impact of HRA Approval on the number of provisional opinions and therefore the potential to reduce duplication of review of applications.
1. **Capital plans for 2015/16 and beyond**

The HRA opening capital resource limit has not been confirmed by DH, however the business plan for 2015/16 and subsequent meetings have set out a request for circa £1.1m in 2015/16. Capital plans have been revised in light of the internal advice with regards to the capitalisation of Information System costs. Capital plans for IRAS also include an initial assessment of plans for including further advice and guidance through that system, in line with the remit for the HRA to simplify and coordinate the regulatory system .

EMT has reviewed the the plan and approved the high level allocation.

In line with the Authority’s standing orders, the Board must approve capital expenditure in due course.

EMT is required under our delegations from the DH to include all expenditure over £113k in a procurement pipeline. This is in the work plan.

**Table 4: Capital Spend Plans.**



Note – estates potential requirement is retained to flag possibility of requiring funds should one of our lease exemption cases be turned down.

**9. Early assessment of likely forecast outturn for 2015/16**

The financial position will be much tighter this financial year and the early forecast is a break even.

To further strengthen the forecasting regime, additional tools and controls will be used this year to support budget managers and their finance leads as they work together to provide ongoing and updated forecasts. These include a strengthened budget manager meeting checklist alongside a requirement for budget managers to produce a profiled spend plan for those cost centres requested by finance. Requests from finance would typically relate to those cost centres which appear to be reflecting a forecast under spend but for which budget managers are predicting a break even . The spend plans will also require review and sign off by the budget managers line manager.

**10. Cash plans and handling for 2014/15;**

The cash flow forecast for the year will be presented on agreement of the financial plan and included within every monthly financial report.

There will be close monitoring of both expenditure, forecasts and cash throughout the year.

**11. Recommendations**

That the HRA Board approves the financial plan.

That the HRA Board notes the position relating to

* Income assumptions and the risks relating to CAG funding.
* Expenditure assumptions.
* Necessity to progress the HRA Estates Strategy in year with a view to realising savings for 2016/17 and possible avoidance of charging for services in future.
* Workforce planning assumptions.
* High level capital plan.

That the Board notes that EMT will be reviewing further calls on reserves which will be released as virements on approval in line with policies.

**Debbie Corrigan**

**Director of Finance**

**1 April 2015**

**Health Research Authority – Profiled forecast expenditure - 2015/16 Appendix 1**



Each quarter end includes the unearmarked reserves but largest amount in March

**Health Research Authority – Profiled forecast expenditure - 2015/16 part 2 Appendix 1 part 2**

