Mid-Year Finance Review

A detailed financial review for the HSCIC 2014/15 as at September 2014.

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Background

This paper provides the Board with a detailed review of the financial position of the HSCIC at the mid-year point of the 2014/15 financial year.

Executive Summary

At the half-year position both actual spend and year-end forecast are below the initial budgeted positions. The month 7 figures in the Performance Pack will provide the latest update on the position. Although Directorates are still forecasting some 'catch-up' this is likely to be challenging, and the nature of any new or accelerated expenditure needs to be considered in conjunction with 2015/16 budget planning.

The expectation is that the settlement from DH for 2015/16 will lead to a reduction in GIA on a like-for-like basis and therefore the organisation needs to plan to ensure that the run rate to the end of the year is consistent with the expectations of 2015/16 budget to avoid unnecessary cost-reduction measures.

The first six months of the year showed several trends including:

- Over-estimate of recruitment of staff (both headcount and cost)
- Over-estimate of professional fees
- A degree of uncertainty over certain income lines.

Detailed work has begun to address these factors, working closely with other Directorates, this includes changing processes (e.g. Provision Of Service Agreement arrangements with external commissioners of work to give more certainty on income lines) and by ensuring that key drivers are better understood and factored into future planning (e.g. currently over 40% of recruitment leads to an internal candidate being appointed thereby creating an additional vacancy).

Given the increasing year-to-date underspend, and reviewing the likelihood of directorates' recruitment and procurement expectations, it is now thought that we will probably end the year with a net underspend approaching £20m.

It is proposed that we should target a net underspend of £25m (including ring-fenced costs) for this financial year. Our estimate is that after taking account of a further reduction in core GiA of £7.0m, and the ending of £2.5m funding for GPES, a £20m underspend this year (excluding ring-fenced costs) will give us around £3.4m to invest in priorities next year from core GiA. Given known pressures, this £3.4m is less than we would ideally like so we are proposing that we aim for £25m.

Note on figures presented in this paper:

All figures are shown in £'m throughout. Rounding differences may arise but detailed figures in £ are available.

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1. HSCIC Summary Position for 2014/15

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Total GiA	(70.9)	(70.9)	-	(154.8)	(154.8)	-
Total Ring-fenced GiA	(3.1)	(3.1)	-	(10.2)	(10.2)	-
Total Income	(28.8)	(24.5)	(4.2)	(56.7)	(57.0)	0.3
Total Staff Costs	69.5	66.9	2.6	143.8	143.1	0.7
Total Other Costs	31.8	25.7	6.0	67.8	67.0	0.8
Unallocated Costs	1.5	0.0	1.5	10.2	3.9	6.3
Surplus/ (Deficit)	**(0.0)**	**(5.9)**	**5.9**	**0.0**	**(8.1)**	**8.1**
Depreciation GiA	(6.5)	(6.5)	-	(13.0)	(13.0)	-
Depreciation Cost	6.5	5.2	1.3	13.0	12.0	1.0
Surplus/ (Deficit)	**0.0**	**(1.3)**	**1.3**	**0.0**	**(1.0)**	**1.0**

The forecast core GiA-funded (gross costs net of external income) financial position for the year is £4.5m below budget. Ring-fenced GiA expenditure is £3.6m below budget as expenditure on in-sourced programmes is no longer required in the current year at budgeted levels, giving a total variance against forecast of £8.1m.

The year-to-date position is £5.9m under budget (compared to £11.2m @ M6 last year) with total expenditure being £10.1m under budget and income being £4.2m under budget; individual cost centres are forecasting that much of the underspends will be recovered, but much of this is based on challenging assumptions.

The full year forecast includes potentially unachievable recruitment targets in the remainder of the year, with 240 vacancies included in directorate forecasts (down from 320 in the August forecast). Additionally, expenditure for Professional Fees is £9m year-to-date but with a full year forecast of £28m, indicating optimistic procurement assumptions. Based on our top-down analysis of these costs, we would have an actual forecast underspend of around £20m.

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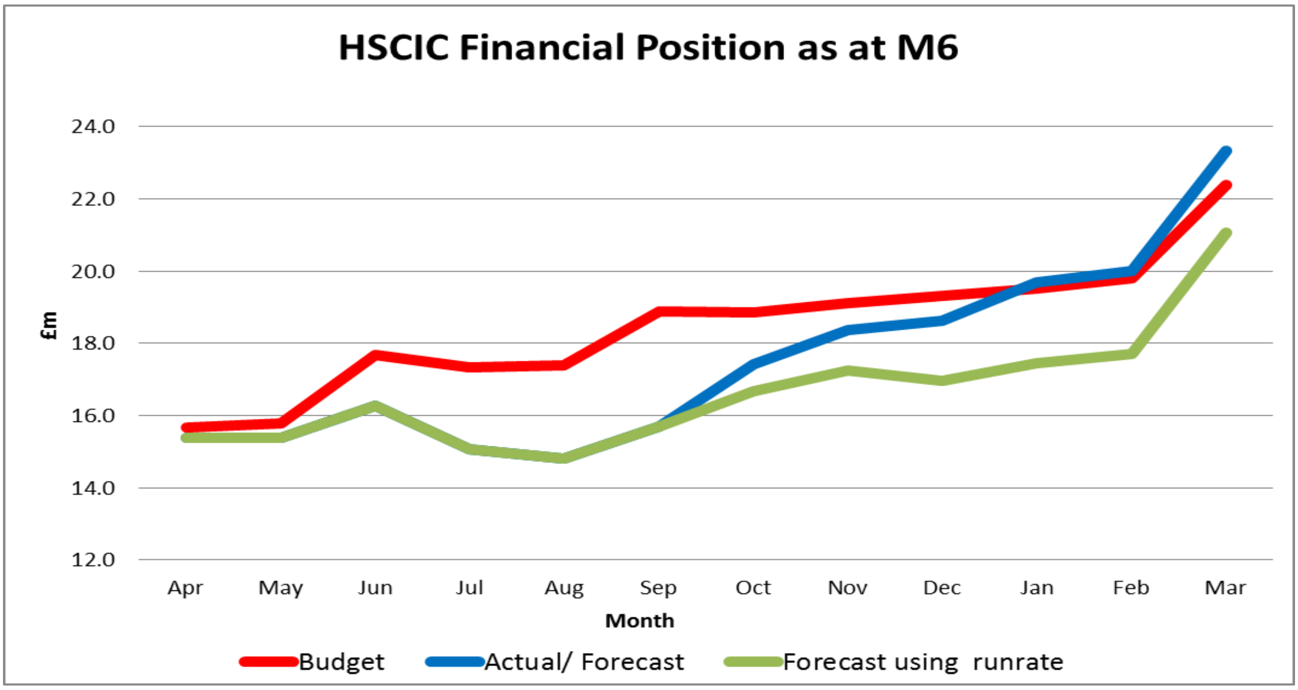

This chart shows the Monthly trend of gross expenditure for the organisation, the original budget (red) and the latest directorate forecasts (blue) (6 months of actual costs and 6 months of forecast costs) and an extrapolation (run-rate) of the position if the current staff position remained at September levels for the remainder of the year (green).

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2. Implications for 2015/16 Budgets

It is proposed that we should target a net underspend of £25m for this financial year, as keeping a tight control of costs for the remainder of the 2014/15 financial year will mean that we start 2015/16 with a lower fixed cost base, allowing more flexibility to adapt to changing requirements. As yet we do not have a plan to increase our underspend from the current forecast of £20m to £25m, so the finance team will explore options over next few weeks that do not impact on delivery this year.

Our estimate is that after taking account of a further £7.0m reduction in core GiA, and the ending of £2.5m funding for GPES, a £20m underspend this year will give us around £3.4m core GiA to invest in priorities next year (although this is dependent on the profile of our expenditure this year, and the proportion of the underspend that is funded externally or by ring-fenced GiA).

The current runrate is the average aggregate expenditure across the organisation, and this would lead to an underspend of £22m for 14/15. If we don't increase costs for the remainder of this year we will have scope to increase expenditure next year by an average of around £1.5m per month (£17.8m annualised); however, the majority of this (£1m per month/ £12.4m annualised) would be restricted to ring-fenced and externally funded activities. The funding available from core GiA to fund our new priorities and other cost pressures would be £0.4m a month/ £5.4m - see table below.

We know there are cost pressures on GiA built into current plans for the remainder of 14/15 which would reduce our underspend to around £20m. With this level of underspend, our flexibility for next year would be reduced to around £3.4m.

Additionally, there are cost pressures impacting on next year's plans, including staff pay increases/ increments, and the extent of these will determine what is available next year as a contingency fund for new priorities.

The below table assumes external income continues at 14/15 levels (excluding GPES); however, some of this may be dependent on budget prioritisation at NHS England, DH and other funding bodies and the affordable cost position will drop if external funding reduces.

	Per month			Annualised		
	2015/16	**2014/15**	**Var**	**2015/16**	**2014/15**	**Var**
£'m	**Affordable**	**Current**		**Affordable**	**Current**	
Permanent Staff	10.9	10.3	0.6	131.2	123.6	7.6
Non-permanent Staff	0.9	0.9	0.0	10.8	10.8	0.0
Non-staff	5.4	5.0	0.4	64.8	60.0	4.8
Available core GiA	0.4	0.0	0.4	5.4	0.0	5.4
	17.7	**16.2**	**1.5**	**212.2**	**194.4**	**17.8**
Income:						
Exernally Funded	4.5	4.0	0.5	54.2	48.2	6.0
Ring-fenced GiA	0.8	0.3	0.5	10.0	3.6	6.4
Core GiA	12.3	11.9	0.4	148.0	142.6	5.4
	17.7	**16.2**	**1.5**	**212.2**	**194.4**	**17.8**

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3. Review by Cost Category

Income

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income						
Grant in Aid	(70.9)	(70.9)	-	(154.8)	(154.8)	-
Grant in Aid (ring-fenced)	(3.1)	(3.1)	-	(10.2)	(10.2)	-
Income	(28.8)	(24.5)	(4.2)	(56.7)	(57.0)	0.3
Total Income	**(102.7)**	**(98.5)**	**(4.2)**	**(221.8)**	**(222.0)**	**0.3**

Income has increased significantly year on year largely due to a full year of NHS Choices £4.6m and the transfer of the NHS Direct workstreams £5.5m. Other significant areas include increases in MCDS, Child Health Programme, the commencement of the Local Health & Wellbeing Survey, funding for Data Services for Commissioners and the Adaptor Project.

There are one or two areas of concern that funding may not be receivable, for instance the NHS Choices clinical indicators work £543k, but there are equally a number of new workstreams emerging through the New Work Commission process where income hasn't yet been allowed for.

At this stage in the year, we believe that £57m still reflects a reasonable forecast for total income.

Work is on-going to increase the certainty of external income streams going forwards, with Provision of Service Agreements (POSA) in the process of being agreed with external commissioners; this will continue with the 2015/16 business planning/ budgeting process.

Staff costs

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Staff Costs						
Permanent Staff	63.3	60.2	(3.1)	132.4	129.4	(3.0)
Non Permanent Staff	6.2	6.7	0.5	11.4	13.7	2.3
Total Staff Costs	**69.5**	**66.9**	**(2.6)**	**143.8**	**143.1**	**(0.7)**

Permanent staff costs remains at a level well below budget and will do for the rest of the year. There is a gradual increase in staff numbers but much less than that being forecast. For instance the forecast for October (as produced in September) allowed for an increase of over 90 permanent staff, but whilst there were actually 60 new starters (a record for any individual month), there were also 20 leavers, giving a net increase of 40.

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The above forecast is a worst case scenario in that the 2nd half of the year will be at budgeted levels. However, we believe the pattern of underspending against budget will continue throughout the 2nd half of the year.

Accurate forecasting of staff costs is complicated by the number of vacancies that are filled with internal candidates. Currently over 40% of recruitment leads to an internal candidate being appointed; this leads to an additional vacancy being created and therefore the overall vacancy level for the organisation remains.

Work is on-going between Finance, HR and Procurement to align reporting and processes and to set an agreed establishment level for staff cross the organisation.

Non Permanent Staff costs are partially compensating the shortfall in permanent staff costs. However the ability to process PSBCs through the system is becoming increasingly difficult and we envisage a slow-down in such costs within the next few months as existing contracts end.

However, there remain areas of the business where appointing permanent staff has proved difficult and where key roles are currently filled by contractors as a result. Work is on-going to find solutions to these issues (e.g. review of recruitment and retention payments)

In addition the following factors will contribute to a lower cost base in the 2nd half:

- We will shortly be undertaking an exercise to review capitalised staff costs and we anticipate a transfer of up to £1m from revenue to capital expenditure to cover development work undertaken by several areas of the organisation.
- All VAT on temporary staff is currently being disallowed. A business relief claim for both 2013/14 and 2014/15 is to be made which will generate an amount of VAT recovery.

Non-staff Costs

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Other Costs						
Professional Fees	13.3	9.0	4.3	28.0	27.7	0.4
Information Technology	7.0	6.6	0.4	14.7	14.9	(0.1)
Travel & Subsistence	2.4	2.1	0.3	4.8	4.4	0.4
Accommodation	6.3	5.9	0.4	12.5	12.1	0.4
Marketing, Training & Events	0.7	0.4	0.3	1.8	1.7	0.1
Office Services	1.9	1.4	0.5	3.6	3.8	(0.2)
Other	0.3	0.4	(0.1)	2.3	2.5	(0.2)
Total Other Costs	**31.8**	**25.7**	**6.0**	**67.8**	**67.0**	**0.8**

Non-staff costs are running below budget by £6.0m for the year-to-date, the majority of this coming from Professional Fees (£4.3m) as workpackages and legal fees lag behind budget and some budgeted workpackages are actually being incurred as non-permanent staff costs.

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The full year forecast for Professional Fees of £27.7m in unlikely to be achieved; however, some of this would be funded by external income, so if the workpackages are not incurred, income would also drop giving a net nil impact to the bottom-line.

IT costs are £0.4m below budget year-to-date. Potentially circa £1m of the full year forecast may not be incurred but, similarly to Professional fees, some of this would be offset by corresponding reductions to external income streams.

Travel & Subsistence is £0.3m below budget year-to-date, if the current run-rate continues, the full year forecast appears realistic.

Accommodation costs are £0.4m under budget for both the year-to-date and the full year; this is primarily due to savings on Rent and Building Maintenance.

Marketing, Training & Events primarily comprises Advertising and Training costs. Advertising is below budget for both year-to-date by £0.1m and full year by £0.3m. Training is below budget for year-to-date by £0.1m but is forecasting to end the year slightly over budget by £0.2m

Office Services is £0.5m below budget for the year-to-date, The full year forecast at M6 was £0.2m over budget; however, this contains £0.8m on DAS that was mis-budgeted and will be reallocated to professional fees in M7 – excluding this the Office Services forecast is to be £0.2m under budget.

The full year forecast for Other includes £1.5m for potential redundancy costs. It is not expected that this will all be required for this financial year (possible forecast reduction of £1m).

Unallocated Funds

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Unallocated Costs						
Unallocated Costs	1.5	0.0	1.5	10.2	3.9	6.3

Unallocated funds were set aside at 2014/15 budget setting to provide flexibility for the organisation to be able to fund new and changing priorities as they arose during the year. Release of the funds to directorate budgets is subject to approval by the Programme & Service Delivery Board (PSDB). To date, no funds have been released to directorates and as underspends are increasing as the year progresses, directorates will be required to use their own underspends to fund new work before accessing the Unallocated Funds. As a result, the forecast unallocated spend has been reduced to £3.9m and may reduce further in coming months.

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4. Review by Directorate

4.1 Provider Support

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income	0.0	(0.0)	0.0	0.0	(0.1)	0.1
Staff Costs	5.6	5.4	0.2	11.9	11.1	0.7
Other Costs	0.5	0.3	0.2	1.1	1.0	0.1
Unallocated/ Virements	0.0	0.0	0.0	0.0	0.0	0.0
Net GiA funded	**6.1**	**5.7**	**0.4**	**13.0**	**12.0**	**0.9**

The Provider Support directorate mainly comprises staff costs and it is this that is driving an overall forecast underspend for the full year. There has been an increase against budget due to the payment of salaries to staff on redundancy notice following the LSP Transformation process; however, this has been more than offset by underspends due to unfilled vacancies/ delayed recruitment (particularly in the LSP teams). A further headcount review is planned which may further increase this underspend.

Risks and Issues

Given the predominance of staff costs in the directorate budget, the accuracy of the forecast is subject to recruitment meeting forecast expectation. For future years, an accurate headcount profile as the LSP contracts reach end-of-life and new work is developed will be key.

4.2 Programmes Delivery

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income	(9.7)	(7.6)	(2.1)	(19.4)	(20.4)	0.9
Staff Costs	12.2	11.6	0.6	25.4	24.9	0.5
Other Costs	5.1	2.6	2.5	10.6	11.2	(0.6)
Unallocated/ Virements	0.0	0.0	0.0	0.0	0.0	0.0
Net GiA funded	**7.5**	**6.6**	**1.0**	**16.6**	**15.8**	**0.9**

The Programmes Delivery Directorate delivers many of the ex CFH programmes out to external stakeholders. There are a number of Programmes which are fully funded, predominantly from DH or from NHS England, so income is a factor in these forecasts and funding is always an issue.

Across the Programmes Delivery area there are many over and underspends, mainly staff related, which net back resulting in the Directorate showing an underspend of £900k for the year. There are some large work-packages to deliver towards the end of the financial year which are seen as a risk to these forecasts.

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Risks and Issues

The adaptor project has already received funding from Greenwich Borough of £0.7m, but there are some issues around the forecast spend, which are being resolved. Digital Assessment Service has a transfer in of assets from NHS Direct but we have not yet been able to identify the asset value or the accounting treatment, due to a lack of information received. Choices Managed Services are currently running above their agreed projected income stream from NHS E, but there are lot of forecast vacancies which may not be filled.

4.3 Operations and Assurance Services

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income	(7.8)	(7.5)	(0.3)	(14.9)	(16.7)	1.8
Staff Costs	23.2	21.1	2.1	49.4	47.3	2.1
Other Costs	6.8	6.0	0.8	13.7	14.3	(0.5)
Unallocated/ Virements	0.0	0.0	0.0	0.0	0.0	0.0
Net GiA funded	**22.2**	**19.6**	**2.6**	**48.2**	**44.9**	**3.3**

The underspend against budget for both year-to-date and the full year is primarily driven by unfilled vacancies related to the in-sourcing of Spine 2 and SUS – these are funded by ring-fenced GiA.

Income for the directorate is above budget for the full year, funding additional costs on NHS Pathways, cybersecurity, capitalisation of staff costs to DH assets and the SSD Service Desk.

Risks and Issues

There is an opportunity to further reduce these forecasts if the vacancies are not recruited against ring fenced posts and GiA posts. There are also some workpackages forecast for later in the financial year which may slip reducing the forecasts further.

4.4 Information and Analytics

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income	(10.6)	(8.6)	(1.9)	(20.9)	(18.2)	(2.7)
Staff Costs	11.0	11.6	(0.6)	22.4	24.8	(2.4)
Other Costs	8.4	7.4	1.0	18.3	17.2	1.1
Unallocated/ Virements	0.0	0.0	0.0	0.0	0.0	0.0
Net GiA funded	**8.9**	**10.4**	**(1.5)**	**19.8**	**23.9**	**(4.0)**

The main drivers for this directorate are the staff costs in all areas and non staff costs predominantly in relation to work packages in Population Health and GPES. These costs are offset against income across the Directorate. The £3m overspend is due to vacancies being removed from budgets causing an over spend against staff which may be

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compensated from the central unallocated funds. The other overspend is due to income reduction in several areas.

Risks and Issues

There are still some major risks against these forecasts namely:

GPES funding – still assumed to be £2.5m. NHSE indicating £1.5m available (Risk £1m)

NHS Choices Indicators – The separate funding for this has not been built into the Choices ministerial submission (Risk £0.5m)

Capitalised labour – to be assessed across IT development, MCDS and clinical audit (upside ca. £1.5m)

Prof fees / computer costs – a number of cost centres have budgeted for various initiatives the majority of which is unspent and still forecast. Any expenditure incurred is likely to be capital (upside ca. £0.8m)

Staffing – forecast increases in staff costs remain optimistic. For instance there is £851k on SUS Transition ring-fenced funding in the 2nd half when nothing has been spent to date (upside ca. £0.8m)

4.5 Architecture, Standards & Innovation

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income	(0.6)	(0.6)	0.0	(1.3)	(1.2)	(0.0)
Staff Costs	6.8	6.5	0.3	13.8	13.2	0.6
Other Costs	1.4	0.8	0.6	3.4	2.9	0.6
Unallocated/ Virements	0.0	0.0	0.0	0.0	0.0	0.0
Net GiA funded	**7.7**	**6.7**	**1.0**	**16.0**	**14.9**	**1.1**

The main driver for these costs across all areas is staff costs, with technical architects being the largest contributor with £4.3m of staff costs. Other costs include workpackages (some still to be delivered) and subscriptions. The Directorate is showing a small underspend due to vacancies not filled. The full year underspend comprises £0.6m on staff costs for delayed recruitment to vacancies and £0.6m on non-staff costs, mainly due to lower than budgeted professional fees/ work packages.

Risks and Issues

There is a Headcount Capitalisation review scheduled for Technical Architecture in December which may affect the income in the Directorate.

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4.6 Finance and Corporate Services

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income	(0.1)	(0.2)	0.1	(0.1)	(0.3)	0.2
Staff Costs	7.9	8.0	(0.1)	15.4	16.5	(1.0)
Other Costs	8.8	7.8	1.0	17.4	16.9	0.5
Unallocated/ Virements	0.0	0.0	0.0	0.0	0.0	0.0
Net GiA funded	**16.6**	**15.6**	**0.9**	**32.7**	**33.1**	**(0.3)**

The main cost drivers for this directorate are in relation to staff costs in all areas and non-staff costs for estates and legal costs. The £1.0m overspend in staff costs is due to vacancies being removed as part of the 2014/15 budget setting process resulting in an over spend, this was envisaged to be funded from the central unallocated funds, but is no longer required due to underspends in other areas. There is an issue in Portfolio Resourcing where the majority of the Project Staff are working on assignments in other Directorates and we do not have the facility to recharge their costs due to not currently having a time recording system. The options to resolve this are currently being reviewed.

Underspends on other costs are due to a saving on legal fees of £0.8m, partially offset by additional expenditure on workpackages.

Risks and Issues

The main risk is the overspend on workpackages above but this should be covered by funding from unallocated if required.

4.7 HR & Transformation

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	0.1
Staff Costs	1.4	1.3	0.1	2.9	2.7	0.2
Other Costs	0.3	0.3	0.1	2.2	2.4	(0.2)
Unallocated/ Virements	0.0	0.0	0.0	0.0	0.0	0.0
Net GiA funded	**1.7**	**1.6**	**0.2**	**5.0**	**4.9**	**0.1**

HR & Transformation is forecasting close to budget for the year; however, the forecast includes £1.5m for potential redundancy costs which are unlikely to be fully utilised this year and therefore there may be a release from forecast in future months.

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4.8 Customer Relations

£'m	Year-to-Date			Full Year		
	Budget	Actual	Var	Budget	F'cast	Var
Income	0.0	0.0	0.0	0.0	0.0	0.0
Staff Costs	1.3	1.3	0.0	2.6	2.5	0.1
Other Costs	0.4	0.3	0.0	0.9	0.9	0.0
Unallocated/ Virements	0.0	0.0	0.0	0.0	0.0	0.0
Net GiA funded	**1.7**	**1.6**	**0.1**	**3.5**	**3.4**	**0.1**

The Customer Relations directorate budget is newly created from the Communications team (formerly in Finance & Corporate Services) and is reporting very close to budget for the year.

Actions Required of the Board

The Board are asked to note the financial position for the HSCIC at the mid-year and, given the implications for the 15/16 budget position, approve a reduction in target net expenditure for the year of £25m.

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