



PHE Board

Title of meeting PHE Board
Date Wednesday 23 November 2016
Sponsor Michael Brodie
Title of paper 2016/17 Financial Review – Year to Date

1. PURPOSE OF THE PAPER

1.1 This paper presents a summary financial review for Public Health England for the period ended September 2016.

2. RECOMMENDATIONS

2.1 The PHE Board is asked to **NOTE** the summary financial position of PHE as at the end of reporting month six.

3. FINANCIAL POSITION

3.1 The high level summary financial position for PHE for the half year to September 2016 is shown in the table below. Please note that PHE has achieved a year-to-date surplus of £5.1m, which equates to 3% of our phased core budget.

2016/17 (£'ms)	YEAR-TO-DATE			FULL YEAR		
	Current Budget	Actual	Variance	Full Budget	Forecast	Variance
External Income	69.0	70.3	1.3	169.1	183.0	13.9
Core Expenditure:						
Pay	150.6	148.8	1.8	308.3	315.4	-7.1
Non-pay	93.0	91.0	2.0	221.6	228.4	-6.8
Subtotal - PHE Core Functions	174.6	169.5	5.1	360.8	360.8	0.0
Depreciation	15.8	15.8	0.0	37.3	37.3	0.0
Local Authority Public Health Grant	1,693.7	1,693.7	0.0	3,387.5	3,387.5	0.0
Vaccines and Countermeasures	186.5	186.5	0.0	478.5	478.5	0.0
Grand Total – PHE	2,070.7	2,065.6	5.1	4,264.1	4,264.1	0.0

3.2 The year-to-date surplus is mainly underpinned by:

- (a) Gross payroll underspends of £4.6m (3%) are being recorded, which is being offset by redundancy costs of £2.8m that have been paid in the year. Redundancy costs, both current and projected to fall later in this financial year, are the subject of a DH transition funding bid, which we have now been notified has been agreed.;
- (b) The National Screening programme is recording a year-to-date underspend of £1.2m, which is due to slippage of non-pay commissioning spends such as the Diabetic Eye programme;
- (c) Social Marketing expenditure is recording a year-to-date underspend of £2.0m, mainly due to the profile of spend in areas such as social marketing advertising, production costs and media evaluation.

3.3 PHE has a breakeven full year forecast, which has the following main highlights:

- (a) The dividend from Porton Biopharma Ltd will be lower than budgeted due, primarily, to the impact of corporation tax on PBL's profits. The current trading conditions will also result in a slightly lower profit than PHE saw in previous years and on which the budgeted dividend was based.
- (b) National Screening Operations expects underspends for the full year that total £3.1m; based on slippage due to lower than anticipated activity levels resulting in reduced commissioning spend;
- (c) Royalty income is forecast to be in excess of the full year budget by £1.7m – the Dysport royalty forecast is based on the first quarter receipt extrapolated using a rolling average, where the quarter ended 30 June was the second best quarterly receipt since the start of PHE.
- (d) Laboratory costs are overspent by £2.6m based on additional activity levels and dual running costs in respect of Whole Genome Sequencing together with pressures in respect of equipment maintenance costs; both issues are being managed and will be resolved for next year's budget;
- (e) Expenditure of £1.0m, as agreed by Management Committee in July to deliver a number of business plan priorities not built into original budgets.

4. FINANCIAL POSITION BY DIRECTORATE

4.1 PHE's net expenditure by directorate for the year to date and full year forecast is shown below:

Financial position - end of September by Directorate Groupings (£'ms)	Year to date			Full Year		
	Current budget	Actual	Variance	Full Year Budget	Full Year Forecast	Variance
Tri-Directorate (Chief Knowledge Officer, Health & Wellbeing, Strategy)	65.9	62.2	3.7	138.5	135.4	3.1
Other National Directorates (Health Protection including Global Health, Nursing, Marketing)	23.2	20.8	2.4	66.4	67.6	-1.2
Operational Directorates (Regions & Centres, National Infection Services, Science Hub, Deputy CEO)	75.0	73.2	1.8	149.9	149.4	0.5
Corporate Directorates (Communications, Corporate Affairs, Finance, HR, Organisational Development and including royalty income and corporate balances)	10.6	13.4	-2.8	6.0	8.4	-2.4
Subtotal - Net Operating Expenditure	174.7	169.6	5.1	360.8	360.8	0.0
Depreciation	15.8	15.8	0.0	37.3	37.3	0.0
Local Authority Public Health Grant	1,693.7	1,693.7	0.0	3,387.5	3,387.5	0.0
Vaccines and Countermeasures	186.5	186.5	0.0	478.5	478.5	0.0
Total – PHE	2,070.7	2,065.6	5.1	4,264.1	4,264.1	0.0

4.2 The redundancy costs incurred to date of £2.8m and the full year estimate of £10m are currently recorded within Corporate Balances, pending funding provided by DH Transition monies.

4.3 Our main cost is staffing; we have a fully costed establishment, understand the recruitment pipeline and are clear on the effect of planned staff exits. We can now see long established trends in respect of turnover and churn, thus we are confident that our pay forecasts are realistic.

4.4 We understand the likely recovery levels in respect of income; including the likely shortfall in some commercial sales income due to anticipated slower sales in the second half of the financial year compared to the plan - based on a partially full order book at the Porton site. Note this shortfall is more than offset by research income from grant awarding bodies including the EU.

4.5 We also understand our various material variances against non-pay categories; both over and under spending elements. We have instigated corrective action or have realised the necessary mitigating measures.

4.6 The Management Committee of PHE receives and reviews a detailed report on the organisation's financial position on a monthly basis and provides high level scrutiny on the financial position and underlying assumptions.

4.7 In totality, we are confident that our financial forecast remains at breakeven and that we have understood all of our key financial risks.

5. CAPITAL EXPENDITURE

5.1 The current capital funding for the 2016/17 year is shown in the table below:

Capital Funding & Programme - 2016/17 (£'ms)	Original Budget	Current Budget
Total General capital projects	46.0	49.3
Science Hub	15.6	15.6
Emergency vaccine stocks	124.6	117.2
3rd party grants: Local Authority projects	10.0	10.0
3rd party grants: fluoridation schemes	5.0	1.7
Total DH GIA capital funding	201.2	193.8

5.2 PHE's capital funding is almost wholly provided by the DH but some is also received from external R&D grants and contractual trading arrangements.

5.3 PHE's capital funding allocation includes amounts for "vaccines assets". These assets are emergency stocks which would be used if required. They are recorded in the accounts as assets even though they are "stocks" by nature. The cash amount is not fixed; it will be whatever the actual costs are in the year.

5.4 Spend on the general capital programme to the end of September 2016 was £11.4m compared with a budget of £17.9m; £6.5m less than budget (36%).

5.5 In respect of the full year forecast outturn spend against the capital programme:

- (a) PHE's Capital Group will oversee the programme to ensure that we either delay lower priority projects to avoid overspending against budget, or bring projects forward to negate any risk of under spending;
- (b) The 2016/17 vaccines' budget allocation from DH now stands at £117.2m. If this should change further the budget will be flexed and in any case, PHE will receive an allocation from DH that meets the actual expenditure;
- (c) The National Panels finalised the successful bids for the £10m Capital Drugs and Alcohol Recovery Grant scheme. The awards were communicated in the 2015/16 year and payments have been made during the 2016/17 financial year;
- (d) The 2016/17 Fluoridation forecast currently stands at £1.7m against an original budget of £5m. The reduction of £3.3m is due to the proposed schemes not progressing at the rate envisaged. This reduction effectively increases the funding available for PHE's general programme.

6. CONCLUSION

6.1 The current financial performance for the half year provides strong indication that our plans to balance the budget are both realistic and robust.

6.2 We are identifying pressures quickly and gaining understanding in a similar timely manner in order to enact mitigation. And we are confident that we can deal with any new pressure that may emerge in the remainder of the year.

6.3 Hence, we continue to forecast a break-even position for the financial year 2016/17.

Michael Brodie

Finance and Commercial Director

November 2016