



PHE Board

Title of meeting PHE Board
Date Wednesday 25 January 2017
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 November 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 eight.

3. FINANCIAL POSITION

3.1 The high level summary financial position for PHE for the eight months to November 2016 is shown in the table below. This demonstrates that PHE has achieved a year-to-date surplus of £4.5m, which equates to 1% of our gross operating budget.

2016/17 (£'ms)	YEAR-TO-DATE			FULL YEAR		
	Current Budget	Actual	Variance	Full Budget	Forecast	Variance
External Income	92.1	98.5	6.4	167.8	171.1	3.3
Core Expenditure:						
Pay	202.7	198.5	4.2	314.1	309.5	4.6
Non-pay	119.9	126.0	-6.1	221.7	229.6	-7.9
Subtotal - PHE Core Functions	230.5	226.0	4.5	368.0	368.0	0.0
Depreciation	21.4	21.4	0.0	37.3	37.3	0.0
Local Authority Public Health Grant	2,540.6	2,540.6	0.0	3,387.5	3,387.5	0.0
Vaccines and Countermeasures	287.3	287.3	0.0	478.5	478.5	0.0
Grand Total – PHE	3,079.8	3,075.3	4.5	4,271.3	4,271.3	0.0

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

- (a) Total payroll costs recording an underspend to date of £4.3m; due to the underlying level of vacant posts outweighing any additional agency usage. This underspend was anticipated due to our continued staffing reconfiguration programmes and the planned number of staff exits;
- (b) Laboratory cost are recording overspends of £2.8m to date, which is related to additional equipment maintenance costs and slippage in the delivery of planned procurement savings; both issues are being addressed but we are still seeing residual pressure whilst mitigating action is completed;
- (c) Royalty monies are higher than forecast for the year-to-date in the amount of £2.5m, as Dysport royalty receipts for the first two quarters of 2016/17 has been significantly ahead of the budgetary expectation.

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

- (a) Planned redundancy and other staff exits are estimated to cost a total of £10m for the full financial year. We have received confirmation from Department of Health that they will cover this cost in full by providing matching transition funding;
- (b) National Screening Operations has a forecast underspend of £3.9m as at November 2016 - as a result of staff vacancies and in particular, some planned activity associated with Bowel Scope Wave 3 not progressing as planned;
- (c) As reported at the last Board meeting the dividend receivable from Porton Biopharma Limited (PBL) now has a revised forecast of £9.8m recognising a range of trading issues such as reduced government demand for a core product, increased regulatory requirements and unavoidable corporation tax charges.
- (d) Dysport royalty income is now forecast to be £23.2m for the full financial year, which is based on a prudent rolling average of the receipts seen in the first two quarters. This gives us excess income over budget of £2.8m when compared to the full year budgetary expectation of £20.4m.

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 November 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)	82.9	82.1	0.8	138.7	133.0	5.7
Other National Directorates (Health Protection including Global Health, Nursing, Marketing)	30.1	28.2	1.9	66.5	66.7	-0.2
Operational Directorates (Regions & Centres, National Infection Services, Science Hub, Deputy CEO)	101.4	97.7	3.7	151.3	149.5	1.8
Corporate Directorates (Communications, Corporate Affairs, Finance & Commercial, HR, Organisational Development and including royalty income, PBL dividend and balances)	16.1	18.0	-1.9	11.5	18.8	-7.3
Subtotal - Net Operating Expenditure	230.5	226.0	4.5	368.0	368.0	0.0
Depreciation	21.4	21.4	0.0	37.3	37.3	0.0
Local Authority Public Health Grant	2,540.6	2,540.6	0.0	3,387.5	3,387.5	0.0
Vaccines and Countermeasures	287.3	287.3	0.0	478.5	478.5	0.0
Total – PHE	3,079.8	3,075.3	4.5	4,271.3	4,271.3	0.0

- 4.1 Corporate balances include the reallocation of contingency funds where we have realigned slippage to fund new and emerging priorities as well as to unavoidable cost pressures.
- 4.2 Our main cost is staffing. We have a fully costed and controlled staff establishment; we understand the recruitment pipeline and the financial effect of the planned staff exits and we have successfully bid for transition funding to cover the redundancy cost of these planned staff exits in 2016/17. We thus remain confident that our pay forecasts are wholly reasonable.
- 4.3 We understand the likely recovery levels in respect of our income streams; we are monitoring the increasing income recovery levels against our royalties, and our likely dividend recovery from PBL; we have recognised the seasonality of our workload within certain departments, where we should expect slower sales in the second half of the financial year; we have recognised income gains in areas such as Global Health; we have also recognised incomplete order books (and anticipate lower than expected contribution levels of income) where applicable.

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 (£'000s)	Original Budget	Current Budget
Total General capital projects	46,020	48,243
Science Hub	15,592	15,592
Emergency vaccine stocks	124,643	117,238
3rd party grants: Local Authority projects	10,000	10,000
3rd party grants: fluoridation schemes	5,000	1,801
Total DH GIA capital funding	201,255	192,874

5.2 PHE's capital programme consists of individual projects covering all aspects of its operations. In practice, most projects relate to laboratory equipment and to accommodation schemes.

5.3 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.

5.4 The allocation for the general programme includes funding for PBL. The full year budget for PBL is £20.2m inclusive of £0.1m over-programming. The budget allocated to PBL has a direct impact on the available budget to PHE and is overseen by the PHE Capital Group, but is invested in projects which will maximise future returns for PBL and hence dividend to PHE.

5.5 Spend on the general capital programme to the end of November 2016 was £14.9m compared with a budget of £17.4m; £2.5m less than budget (14%). To date PBL has spent £7.2m against a budget of £8.2m; £1m behind budget (12%).

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

- (a) Having assessed each of the projects in the general programme we are still predicting spend to budget but there is now an increasing risk of a full year underspends.
- (b) The Science Hub programme continues to forecast expenditure at £15.6m for the year, in line with budget.
- (c) 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.
- (d) 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.
- (e) The 2016/17 Fluoridation forecast currently stands at £1.8m against an original budget of £5m. The reduction of £3.2m 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 continues to provide a strong indication that our plans to balance the budget are both realistic and robust.
- 6.2 We have adequate controls in place that allow us to identify pressures quickly. We investigate all material variances against budget and instigate corrective action or mitigating measures as appropriate – and further, have reallocated slippage to fund unavoidable pressures as well as to provide additional funds for our new and emerging priorities.
- 6.3 Thus, we remain fully confident that our financial forecast remains at breakeven and that we have understood all of our key financial risks.

Michael Brodie

Finance and Commercial Director

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