Public Health England

Protecting and improving the nation's health

PHE Board Paper

Title of meeting	PHE Board
Date	Wednesday 22 February 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 December 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 nine.

3. FINANCIAL POSITION

3.1 The high level summary financial position for PHE for the three quarters to December 2016 is shown in the table below. Please note that PHE has achieved a year-to-date surplus of £7.9m, which equates to 0.3% of our phased budget.

2016/17 (£'ms)	**YEAR-TO-DATE**			**FULL YEAR**		
	Current Budget	**Actual**	**Variance**	**Full Budget**	**Forecast**	**Variance**
External Income	103.7	111.5	7.8	168.0	168.2	0.2
Core Expenditure:						
Pay	228.6	223.1	5.5	314.9	307.0	7.9
Non-pay	138.9	144.3	-5.4	221.1	229.2	-8.1
Subtotal - PHE Core Functions	**263.8**	**255.9**	**7.9**	**368.0**	**368.0**	**0.0**
Depreciation	24.1	24.1	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	329.4	329.4	0.0	471.3	471.3	0.0
Grand Total - PHE	**3,157.9**	**3,150.0**	**7.9**	**4,264.1**	**4,264.1**	**0.0**

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

(a) The receipt of royalty monies which are in excess of our expectations by £2.6m; Dysport royalty income for the first three quarters of 2016/17 has been significantly ahead of each quarterly budgetary expectation;

(b) Total payroll costs are recording a YTD surplus of £5.5m; the underlying level of vacant posts outweighing additional agency usage, where the vacancy levels are as the result of a proactive approach to managing future savings targets and the consequence of timing issues in respect of the on-going restructures;

(c) As reported throughout the year laboratory costs are overspending and this stands at £2.5m to date, this being 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 as evidenced by a £300k improvement in the month of December.

3.3 PHE has a realistic breakeven full year forecast given the potential pressures and underlying risk, which has the following highlights:

(a) Pay costs are now estimated to underspend by £8.0m for the year.

(b) Screening Operations are now forecast to underspend by £6.0m (£1.0m pay, £5.0m non-pay). The main underspend is arising from bowel scope work due to late transfers of activity and hence insufficient time to deploy the necessary resource;

(c) The Porton Biopharma Ltd (PBL) dividend forecast has been revised downwards to £5.2m. This has allowed us to follow the precedent set last year and prudently base our dividend income on the prior year's outturn of the company. Together with other PBL receipts such as corporate overhead recovery and interest receivable, we now expect minimum PBL related receipts of £9.2m against the original budgetary target of £15.0m;

(d) We will absorb other cost pressures such as laboratory consumable forecast overspends of £3.9m and agreed contingency fund awards of £1.0m in particular – whilst continuing to ensure that mitigating actions are employed to remove any recurrent issues.

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 December 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)	94.1	89.2	4.9	138.7	129.7	9.0
Other National Directorates (Health Protection including Global Health, Nursing, Marketing)	36.8	35.7	1.1	66.5	66.8	-0.3
Operational Directorates (Regions & Centres, National Infection Services, Science Hub, Deputy CEO)	113.8	108.5	5.3	151.3	146.2	5.1
Corporate Directorates (Communications, Corporate Affairs, Finance & Commercial, HR, Organisational Development and including royalties)	19.1	22.5	-3.4	11.5	25.3	-13.8
Subtotal - Net Operating Expenditure	**263.8**	**255.9**	**7.9**	**368.0**	**368.0**	**0.0**
Depreciation	24.1	24.1	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	329.4	329.4	0.0	471.3	471.3	0.0
Total - PHE	**3,157.9**	**3,150.0**	**7.9**	**4,264.1**	**4,264.1**	**0.0**

4.1 We have confidence that pay costs (our key cost driver) and forecasts are gripped and well understood. We have a fully costed staff establishment and have the necessary establishment controls in place, including those to cover the use of overtime related payments and agency and secondment costs. We also understand the recruitment pipeline and the financial effect of the planned staff exits. This is evidenced by spend that is well within budgetary allowances.

4.2 We understand the likely recovery levels in respect of income. We continue to carefully manage the major risks surrounding NHS debt recovery for example, where necessary escalating issues to DH and NHSI as appropriate.

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	48.2
Science Hub	15.6	15.6
Emergency vaccine stocks	124.6	117.7
3rd party grants: Local Authority projects	10.0	10.0
3rd party grants: fluoridation schemes	5.0	1.9
Total DH GIA capital funding	**201.2**	**193.4**

5.2 PHE's capital programme consists of individual projects covering all aspects of its operations. In practice, projects relate to:

(a) Laboratory equipment and accommodation schemes;

(b) "Vaccines assets"; assets that 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;

(c) Grants to be distributed by PHE for Local Authority projects and fluoridation schemes. These amounts will be spent on capital assets by the grant recipients but would not be owned by PHE

5.3 The allocation for the general programme includes funding for PBL. The full year budget for PBL is £20.0m. The budget allocated to PBL has a direct impact on the available budget to PHE and is overseen by the PHE Capital Group.

5.4 Spend on the general capital programme to the end of December 2016:

(a) PHE's spend excluding PBL was £20.1m compared with a budget of £26.5m; £6.3m less than budget (23%);

(b) PBL to date has spent £9.9m against a budget of £12.2m; £2.3m behind budget (19%).

5.5 The Capital Group is currently forecasting an underspend of £5m, however this is dependent on several major projects scheduled for delivery in the last quarter of the financial year:

(a) During the year we have bought forward £11.5m of projects from 2017/18 to compensate for projects that have not progressed according to their original budgets (£8.4m in the general programme and £3.1m for fluoridation schemes). Unfortunately we now recognise that we will be unable to fully utilise the available funding in the time remaining;

(b) We expect the Science Hub allocation of £15.6m to be spent in accordance with budget;

(c) The 2016/17 vaccines' budget allocation from DH now stands at £117.7m. If this should change further the budget will be flexed and 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 £1.9m against an original budget of £5m. The reduction of £3.1m 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 deliver financial balance 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.

6.3 We have reallocated known slippage on a non-recurrent basis to fund unavoidable pressures as well as to provide additional funds for our new and emerging priorities.

6.4 Thus, we remain confident that our financial forecast remains at breakeven and that we have understood all of our key financial risks.

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