Public Health England

Protecting and improving the nation's health

Enclosure PHE/17/17

PHE Board

Title of meeting	PHE Board
Date	Wednesday 26 April 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 February 2017.

2. RECOMMENDATIONS

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

3. FINANCIAL POSITION

3.1 The high level summary financial position for PHE for the eleven months to February 2017 is shown in the table below. Please note that PHE has achieved a year-to-date (YTD) surplus of £6.7m, which equates to 0.2% of our phased budget.

2016/17 (£'ms)	**YEAR-TO-DATE**			**FULL YEAR**		
	Current Budget	**Actual**	**Variance**	**Full Budget**	**Forecast**	**Variance**
External Income	130.9	141.7	10.8	163.9	163.8	-0.1
Core Expenditure:						
Pay	280.9	274.2	6.7	312.5	304.5	8.0
Non-pay	183.2	194.0	-10.8	220.9	228.8	-7.9
Subtotal - PHE Core Functions	**333.2**	**326.5**	**6.7**	**369.5**	**369.5**	**0.0**
Depreciation	28.7	28.7	0.0	37.3	37.3	0.0
Local Authority Public Health Grant	3,387.5	3,387.5	0.0	3,387.5	3,387.5	0.0
Vaccines and Countermeasures	412.3	412.3	0.0	475.8	475.8	0.0
Grand Total – PHE	**4,161.7**	**4,155.0**	**6.7**	**4,270.1**	**4,270.1**	**0.0**

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

(a) Additional income of £10.8m being generated in excess of original estimates:

(i) Royalties from our royalty bearing license agreement for the product 'Dysport' produced by a predecessor to PHE, has shown significant increased quarterly receipts leading to an overall YTD gain of £3.8m;

(ii) Other income gains due to timings are being noted against research and commercial income, which includes a specific £1.7m YTD gain regarding National Screening Programme monies due to the phasing of the NHSE Bowel Scope work;

(b) Total payroll costs are underspending in the amount of £6.7m, which is 2% below the phased budget of £280.9m. These underspends are due to the underlying level of vacant posts outweighing additional agency and secondment usage. This position is wholly expected and in line with our plans to manage on-going and future financial targets;

(c) Non-pay costs are in excess of the original budget by £10.8m YTD:

(i) As reported throughout the year, laboratory costs are overspending and at £3.4m YTD. This overspend relates to additional equipment maintenance costs and slippage in the delivery of planned procurement savings - leading to higher than anticipated chemicals and reagents costs; mitigation measures are in place against both issues but we are still seeing residual pressures whilst these actions take effect;

(ii) Goods and Services are over-spending in the amount of £5.3m. This relates to the write off of prior year VAT rebates for marketing spend (£1.8m) and contingency fund development awards made to pump prime key priorities – as agreed by Management Committee and with cognisance for savings delivered elsewhere.

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

(a) The main movement on income budgets that we expect to see in March relates to the Porton Biopharma dividend receipt – where, prudently and based on precedent, we are expecting to receive £5.8m in month 12 as the 2016/17 dividend payment. This payment is based on the profit of the entity in the prior financial year.

(b) Total pay costs are estimated to underspend by £8.0m for the full year; this total includes estimated redundancy costs of £7.5m that are being funded by DH transition funds;

(c) Non-pay costs are estimated to return an adverse variance of £7.9m; in total, known or planned overspends outweigh screening related underspends within non-pay:

(i) Laboratory costs are forecast to overspend by £3.9m, provisions have been made for a series of contingency fund awards at £7.7m and one-off cost pressures such as bad debts at £2.4m and VAT debits at £1.8m;

(ii) Goods and Services and Communications costs include a net underspend of £7.8m related primarily to Screening Operations – against slippage of bowel scope and other programmes in relation to commissioned costs.

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 February 2017 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)	118.8	111.4	7.4	138.8	126.3	12.5
Other National Directorates (Health Protection including Global Health, Nursing, Marketing)	52.3	50.1	2.2	67.8	67.2	0.6
Operational Directorates (Regions & Centres, National Infection Services, Science Hub, Deputy CEO)	139.0	133.5	5.5	151.3	145.5	5.8
Corporate Directorates (Communications, Corporate Affairs, Finance & Commercial, HR, Organisational Development and including royalty income)	23.1	31.5	-8.4	11.6	30.5	-18.9
Total - Core PHE functions	**333.2**	**326.5**	**6.7**	**369.5**	**369.5**	**0.0**

4.1 We have a strong understanding of the National Screening Programme within Tri-directorate. We expect underspends with Screening Programmes to total £8.7m by the end of the financial year – mainly as a result of vacancies, revenue to capital budget adjustments to reflect appropriate practice and some planned activity associated with Bowel Scope Wave 3 not going forward now. (We have rectified issues between capital and revenue funding of the Screening activity for future years).

4.2 Within other directorates, Social Marketing expenditure is recording a YTD underspend of £1.9m. Overspends in social marketing digital and creative development costs in particular are being more than outweighed by underspends in social marketing partnership, website and media evaluation costs due primarily to budget phasings.

4.3 Operational directorates are recording payroll underspends that are outweighing non-pay overruns; we are controlling the establishment, the use of overtime and other related discretionary payments, especially within National Infections Service in light of their impending restructure.

4.4 The Corporate directorate total includes the necessary budgetary adjustments within Corporate Balances to reflect contingency fund awards as well as to account for the

Porton Biopharma dividend payment and other variations such as bad debt provisions and VAT adjustments.

4.5 The Management Committee of PHE continues to receive and review 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. Financial plans are being monitored tightly in order to maintain overall balance across the organisation.

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**	**Current Forecast**
General capital projects	26.6	23.5	18.5
Porton Biopharma	19.5	20.2	20.2
Science Hub	15.6	15.6	15.6
Emergency vaccine stocks	124.6	117.7	117.7
3rd party grants: Local Authority projects	10.0	10.0	10.0
3rd party grants: fluoridation schemes	5.0	1.3	1.3
Total DH GIA capital funding	**201.3**	**188.3**	**183.3**

5.2 As reported previously to the Board, in PHE's quarter 3 return to DH we declared a forecast underspend of £5m against the general capital programme. Consequently the funding (budget) available to PHE has been reduced by £5m.

(a) Spend on the general capital programme to the end of February 2017 was £31.0m compared with a phased budget of £36.3m; £5.3m less than budget (15%);

(b) During the year we have brought forward £8.4m of projects from 2017/18 to compensate for projects that have not progressed according to their original budgets.

5.3 We expect the Science Hub allocation of £15.6m to be spent in accordance with budget.

5.4 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.

5.5 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.

5.6 The 2016/17 Fluoridation forecast currently stands at £1.3m against an original budget of £5.0m. The reduction of £3.7m is due to the proposed schemes not progressing at the rate envisaged.

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 - we have prioritised our contingency fund to cover any significant unfunded cost pressures, the reduced Porton Biopharma dividend and to also provide monies for new key initiatives and priorities.

6.2 We have full confidence that we can meet any further cost pressures that may transpire in the final month of the financial year whilst continuing to deliver on all of our key objectives.

6.3 The Capital Group will continue to monitor the forecasted year end position against the revised budget to ensure the programme is completed to plan.

6.4 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
April 2017