Public Health England

Protecting and improving the nation's health

Enclosure PHE/17/32

PHE Advisory Board

Title of meeting	PHE Advisory Board
Date	Wednesday 29 November 2017
Sponsor	Michael Brodie
Presenter	Alan Stapley
Title of paper	**2017/18 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 2017.

2. RECOMMENDATIONS

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

3. FINANCIAL POSITION

3.1 The high level summary financial position for PHE for the six months to September 2017 is shown in the table below. Please note that PHE has achieved a year to date surplus of £7.5m. This equates to a 4.7% positive variance against our core operating budget of £160.4m.

2017/18 (£'ms)	**YEAR-TO-DATE**			**FULL YEAR**		
	Current Budget	**Actual**	**Variance**	**Full Budget**	**Forecast**	**Variance**
External Income:	74.3	72.4	-1.9	171.5	168.8	-2.7
Core Expenditure:						
Pay	149.8	145.3	4.5	304.2	297.8	6.4
Non-pay	84.9	80.0	4.9	217.6	221.4	-3.8
Subtotal - PHE Core Functions	**160.4**	**152.9**	**7.5**	**350.4**	**350.4**	**0.0**
Depreciation	15.2	15.2	0.0	24.5	24.5	0.0

Local Authority Public Health Grant	1,545.3	1,545.3	0.0	3,090.5	3,090.5	0.0
Vaccines and Countermeasures	186.7	186.7	0.0	432.2	432.2	0.0
Grand Total – PHE	**1,907.6**	**1,900.1**	**7.5**	**3,897.6**	**3,897.6**	**0.0**

3.2 Currently the Grant-in-aid (GIA) funding for PHE in 2017/18 stands at £3,897.6m. This funding is inclusive of:

(a) £350.4m in respect of our baseline core GIA agreed with DH:

(i) £345.5m as the second year of the Spending Review settlement, inclusive of National Screening Programme funding at £48.5m;

(ii) New GIA receipts in 2017/18 received in respect of National CEA award monies at £3.2m and the pump priming of nationally focused organisational development activities at £1.7m such as Childhood Obesity monies at £0.8m, Substance Dependency Trial monies at £0.2m, ONS national cancer survival statistics at £0.2m, and Overseas Development Assistance (ODA) monies of £0.4m based on the actual spend;

(b) Immunisation and Counter-Measures (vaccines) funds, the budget for which is determined by the net expenditure incurred, which is forecast at £432.2m;

(c) Ring-fenced Local Authority Public Health Grant funding at £3,090.5m;

(d) Non-cash funding for anticipated depreciation charges in respect of our asset base at £27.3m after a £10.0m reduction for Drug and Alcohol grant monies; this is £24.5m for the core fixed asset base plus £2.8m related to Vaccines;

3.3 We expect to receive external income receipts of £171.5m, which is inclusive of Dysport royalties, the Porton Biopharma Ltd (PBL) dividend and an income generation portfolio including clinical diagnostic testing, vaccine evaluation, research grants from various awarding bodies and consultancy income.

3.4 This income augments our core GIA funding and reduces our call on direct taxpayer funding, meaning that the total expenditure budget for our core functions is £521.8m.

3.5 The year to date underspend for the organisation has arisen due to the following factors:

(a) External income is £1.9m (3%) below the YTD budget of £74.3m. This mainly relates to timing issues in external project and grant work, and a provision made in respect of possible non-recoverable EU income. It is also reflective of aspirational income targets within certain research departments and the current gap in their order books that is estimated at £1.4m for the full year;

(b) Payroll costs are underspending, in the amount of £4.5m (3%) below the phased budget of £149.8m. This position is in line with our plans to manage on-going, absorb one-off staff exit costs and to facilitate the delivery of future financial targets including the impending National Infection Service directorate restructure;

(c) Goods and Services costs are underspent by £4.0m (12%) YTD; this underspend mainly relates to Health Improvement directorate and slippage in planned commissioning activity. We expect expenditure to catch up with budget as the year progresses.

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 2017 by Directorate Groupings (£'ms)	Year to date			Full Year		
	Current budget	Actual	Variance	Full Year Budget	Full Year Forecast	Variance
Operational Directorates (Regions & Centres, National Infection Services, Science Hub, Deputy CEO)	76.1	73.5	2.5	154.2	152.4	1.8
Other National Directorates (Health Improvement, Health Protection including Global Health, Nursing, Marketing)	80.8	76.1	4.7	196.1	188.0	8.1
Corporate Directorates (Communications, Corporate Affairs, Finance & Commercial, HR, People, Strategy and including PBL, royalty income and corporate balances)	3.5	3.3	0.2	0.1	10.0	-9.9
Subtotal - Net Operating Expenditure	**160.4**	**152.9**	**7.5**	**350.4**	**350.4**	**0.0**
Depreciation	15.2	15.2	0.0	24.5	24.5	0.0
Local Authority Public Health Grant	1,545.3	1,545.3	0.0	3,090.5	3,090.5	0.0
Vaccines and Countermeasures	186.7	186.7	0.0	432.2	432.2	0.0
Total - PHE	**1,907.6**	**1,900.1**	**7.5**	**3,897.6**	**3,897.6**	**0.0**

4.2 Year end forecasts have been formulated for each directorate, including anticipated pay underspends. Underspends are being matched by slippage and provisions shown within Corporate Balances (which is a budget area used to record transactions that cannot be assigned to a specific directorate) - such as redundancy costs estimated at £1.2m (which we will now not seek reimbursement from the DH for), spend agreed against cost pressures of £2.4m such as the Apprenticeship levy and emerging priorities at £2.1m - such as the Air Pollution Review and work on cardiovascular disease.

4.3 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 of the financial position and underlying assumptions. Financial plans are being monitored tightly in order to maintain overall balance across the organisation.

4.4 PHE's budget setting process and medium term financial planning, received a **'substantial'** rating from Internal Audit in September, the highest assurance rating available:

(a) The complexity of PHE's business makes it imperative to understand and have assurance that financial forecasts are based on sound inputs, calculations and outputs. PHE has developed a comprehensive medium term planning model that is fully aligned with the PHE Strategy in order to achieve this - in Internal Audit's opinion, this framework of governance, risk management and control is both adequate and effective;

(b) Budgets are therefore aligned fully to business plans for each directorate, thus allowing for the delivery of key priority areas as well as extracting the required cash-releasing savings.

5. CAPITAL EXPENDITURE

5.1 The total capital funding for the 2017/18 year is shown in the table below:

Capital Funding & Programme - 2017/18 (£'000s)	Original Budget	Current Forecast
General capital projects	30.3	33.0
Porton Biopharma	14.7	12.0
Science Hub	45.5	45.5
Emergency vaccine stocks – additions	46.7	26.4
Emergency vaccine stocks – disposals	-49.4	-39.4
Screening (Section 7a)	9.6	1.6
3rd party grants: fluoridation schemes	3.0	3.0
Total DH GIA capital funding	**100.4**	**82.1**

5.2 The allocation for the general programme includes funding for Porton Biopharma Ltd (PBL). The full year budget for PBL is £1.2.0m. The budget allocated to PBL has a direct impact on the available budget to PHE and is overseen by the PHE Capital Group.

5.1 Spend on the general capital programme to the end of September 2017 was £9.8m compared with a budget of £13.0m; £3.2m less than budget (25%).

5.2 It should be noted that PHE has now acquired the former GSK site at Harlow, as planned, at a cost of £30m (including irrecoverable VAT). This cost was included in the Science Hub budget for the year.

5.3 The 2017/18 vaccines' budget allocation for emergency preparedness stocks from DH is currently £26.4m, if this should change further the budget will be flexed and PHE will receive an allocation from DH that meets the actual expenditure.

5.4 PHE has a separate allocation in relation to the screening capital projects of £9.6m under section 7a funding for the National Screening Programme. It is already likely that this full sum won't be required in year and our revised requirement is £1.6m; this underspend will be returned to the Department of Health and used to support priorities in the wider health system.

5.5 The 2017/18 Fluoridation forecast currently stands at £4.6m against an allocated budget of £3m, we have yet to reflect this in the general programme allocation as previous years have suggested that most fluoridation schemes do not progress at the envisaged rate. In effect, we are assuming a specific over-programming allowance of £1.6m.

5.6 We are confident that the capital programme can be delivered in the year, using an over-programming allowance to balance the budget. This position will be monitored and reassessed on a monthly basis.

6. CONCLUSION

6.1 Financial plans are being monitored tightly in order to maintain overall balance across the organisation, with corrective action being taken as appropriate.

6.2 Staffing costs and establishment levels are well controlled, including the reduced use of contingent labour. Recruitment pipelines are understood and we have been careful to remain cognisant of future savings requirements.

6.3 PHE has also ensured that robust plans are in place to support the delivery of realistic contributions from our income generating activities and the delivery of a procurement pipelines. The year-to-date financial performance provides an additional indication that our plans to deliver against our balanced budget are robust and therefore, we forecast a break-even position for the year.

6.1 The Capital Group oversees the capital 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.

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