Public Health England

Protecting and improving the nation's health

Enclosure PHE/19/04

PHE Advisory Board

Title of meeting	PHE Advisory Board
Date	Wednesday 27 February 2019
Sponsor	Michael Brodie
Title of paper	**2018/19 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 2018.

2. RECOMMENDATIONS

2.1 The PHE Advisory 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 nine months to December 2018 is shown in the table below. The underlying financial position for PHE is in line with that which has been reported throughout the year. However, because of cash flow issues for Porton Biopharma Ltd (PBL) arising from production issues, we will not now take the expected dividend that was built into our original budget. As a result, our year to date position shows a deficit of £2.2m. The deficit equates to a 0.8% adverse variance against our core operating budget and a 0.1% adverse variance against our overall total budget.

2018/19 (£'ms)	**YEAR-TO-DATE**			**FULL YEAR**		
	Current Budget	**Actual**	**Variance**	**Full Year Budget**	**Forecast**	**Variance**
External Income:	135.6	127.5	-8.1	179.7	175.4	-4.3
Core Expenditure:						
Pay	236.8	226.0	10.8	316.7	303.8	12.9
Non-pay	149.2	153.9	-4.7	213.2	221.6	-8.4
Subtotal - PHE Core Functions	**250.4**	**252.4**	**-2.0**	**350.2**	**350.0**	**0.2**
Depreciation	26.9	27.1	-0.2	35.7	35.9	-0.2
Local Authority Public Health Grant	2,258.3	2,258.3	0.0	3,011.1	3,011.1	0.0
Vaccines and Countermeasures	308.9	308.9	0.0	637.6	637.6	0.0
Grand Total – PHE	**2,844.5**	**2,846.7**	**-2.2**	**4,034.6**	**4,034.6**	**0.0**

3.2 Currently the Grant-in-aid (GIA) funding for PHE in 2017/18 stands at £4,034.6m. This funding is inclusive of:

(a) £350.2m in respect of our baseline core GIA agreed with DH:

(i) £291.9m as the third year of the Spending Review settlement,

(ii) National Screening Programme funding at £42.8m;

(iii) New GIA receipts in 2018/19 at £15.5m; including:

- National Clinical Excellence Award monies for medical consultants at £3.0m;
- pump priming of nationally focused priority activities at £12.5m such as Childhood Obesity monies, Substance Dependency Trial monies, and Overseas Development Assistance (ODA) monies based on the actual spend;

(b) Immunisation and Counter-Measures (vaccines) funds, the budget for which is determined by the net expenditure incurred, is forecast at £637.6m;

(c) Ring-fenced Local Authority Public Health Grant funding at £3,011.1m;

(d) Non-cash funding for anticipated depreciation charges in respect of our asset base at £35.7m, inclusive of £1.3m funds for the disposal of fixed assets in the Southampton clinical laboratory transfer back to the host NHS Trust;

3.3 We expect to receive external income receipts of £179.7m, which is inclusive of Dysport royalties, the PBL dividend (albeit now reduced) 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 £529.9m.

3.5 The year to date overspend has arisen due to the following factors:

(a) A reduced accrual for the PBL dividend payment of £10.0m compared to the original budgetary expectation of £19.8m. PBL is wholly owned by PHE on behalf of the Secretary of State;

(b) Payroll costs underspending to date, in the amount of £10.8m and 4.6%. This position is expected given historical trends, our anticipated recruitment pipeline and our plans to manage on-going and future financial targets;

(c) Premises costs are overspending to date by £3.8m, mainly relating to excess rates costs in respect of the Harlow site (£1.6m), for which we are in ongoing discussions with Harlow Council and additional planned site maintenance costs again at the Harlow site (£0.7m).

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 2018 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 Service, Science Hub, Deputy CEO)	123.0	118.5	4.5	164.3	158.5	5.8
Other National Directorates (Health Improvement, Health Protection including Global Health, Nursing, Health Marketing)	137.8	135.1	2.7	195.7	192.8	2.9
Corporate Directorates (Communications, Corporate Affairs, Finance & Commercial, People, Strategy and including PBL and royalty income)	-10.4	-1.2	-9.2	-9.8	-1.3	-8.5
Subtotal - Net Operating Expenditure	**250.4**	**252.4**	**-2.0**	**350.2**	**350.0**	**0.2**
Depreciation	26.9	27.1	-0.2	35.7	35.9	-0.2
Local Authority Public Health Grant	2,258.3	2,258.3	0.0	3,011.1	3,011.1	0.0
Vaccines and Countermeasures	308.9	308.9	0.0	637.6	637.6	0.0
Total – PHE	**2,844.5**	**2,846.7**	**-2.2**	**4,034.6**	**4,034.6**	**0.0**

4.2 Despite the minor year to date deficit, we are confident that we will achieve financial balance and year-end forecasts remain at a breakeven position. This is underpinned by:

(a) Income streams under-recovering by £4.3m in total, mainly in respect to the revised PBL dividend expectation but offset by gains including NHS England marketing campaign income;

(b) Pay underspends totalling £12.9m and 4% forecast for the full year; which is predicted continued monthly payroll run rate offset by planned staff exit costs of £0.7m to be incurred at year-end;

(c) Additional health marketing spends of £5.3m, predominately against the new NHS England income;

(d) Several specific incidents and priority works, inclusive of the major incident (Breast Screening) – where the full year forecast spend is £1.9m including the independent review;

(e) Site issues at Porton – additional revenue costs have been incurred at £2.4m YTD, primarily against reactive maintenance costs;

(f) Emerging priorities – such as the Incentivisation Digital Exemplar project where the projected full year spend is 2018/19 is £0.5m.

4.3 The Management Committee of PHE receives and reviews a detailed report on the organisation's financial position monthly and provides high level scrutiny of the financial position and underlying assumptions. Financial plans are being monitored tightly to deliver overall balance across the organisation.

5. CAPITAL EXPENDITURE

5.1 The total capital funding for the 2018/19 year is shown in the table below:

Capital Funding & Programme - 2018/19 (£'000s)	**Original Budget**	**Current Forecast**
General capital projects	36.0	26.1
Porton Biopharma	9.0	12.3
Science Hub	39.7	39.7
Emergency vaccine stocks	110.8	68.2
Screening (Section 7a)	5.3	2.6
3rd party grants: fluoridation schemes	3.0	1.6
Drugs and Alcohol grants	4.5	-
Total DH GIA capital funding	**208.3**	**150.5**

5.2 We have officially reduced our current year budget allocation for the general programme and fluoridation. Our full year budget prior to the review stood at £48m. In collaboration with DHSC we have reduced this to £40m, with £38.4m allocated to our general programme and £1.6m allocated to Fluoridation schemes. Any variance in the Fluoridation outturn will increase or decrease our general programme budget.

5.3 The allocation for the general programme includes funding for PBL. The full year budget for PBL is £12.3m. 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 (including PBL) to the end of December 2018 was £18.2m compared with a budget of £24.9m; £6.6m less than budget (27%).

5.2 The Science Hub programme is anticipated to incur £39.7m expenditure in 2018/19. The year to date position is underspent but we expect to be balanced by the year end as expenditure is incurred on the enabling works in the final quarter of the year. This should bring the expenditure back in line with budget (as the works will be performed slightly earlier than originally budgeted).

5.3 The 2018/19 vaccines' budget allocation from DH is £68.2m, 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 £5.3m under section 7a, this budget will be monitored against project performance through the year.

5.5 The 2018/19 Fluoridation forecast currently stands at £1.7m against an allocated budget of £3.0m; the reduction in the fluoridation forecast directly increases the budget available to our general capital programme.

5.6 It was anticipated that PHE would deliver a Drugs and Alcohol grants scheme for £4.5m this financial year. We now have budgetary approval for the scheme, but it has been agreed the funding will be drawn in 2019/20, given the length of time to run the bid process.

6. CONCLUSION

6.1 The underlying year-to-date financial performance provides a good indication that our plans to deliver against our balanced budget are robust and therefore, we forecast a break-even position for the year.

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

6.3 PHE has also ensured that robust plans are in place to support the delivery of realistic contributions from our income generating activities, including covering aspects such as seasonality. The PBL dividend payment has also been accrued for with prudence.

6.4 Staffing costs and establishment levels are well controlled and in line with expectations of our recruitment pipelines, restructure plans and directorates being cognisant of on-going or future savings targets.

6.5 Non-pay costs are monitored closely, especially in respect of the delivery of a procurement pipelines. Cost pressures are noted, and mitigating action is sought immediately.

6.6 We are also confident that further identified slippage and other gains can be used to cover any unavoidable cost pressures or emerging priorities that may arise between now and the year end.

6.7 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. Thus, we are confident that the capital programme will be delivered in the year.

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February 2019