
Provision Financial Outturn 2020-21

Executive Summary

Provisional I&E and capital outturn 20/21

In March, the Council approved a budgeted deficit for 20/21 of **(£2.867m)**. In October 2020, Council was presented with a 6+6 revised forecast deficit of **(£0.692m)**. At the end of March 2021 the provisional outturn deficit is **(£1.361m)**.

This is a favourable variance of £1.703m when compared to the budgeted variance but an unfavourable movement of £669k when compared to the 6+6 forecast position.

This movement from the forecast can be further analysed into an increase in income of £524k, being offset by £1.4m of additional FTP improvement plan costs being incurred earlier than planned in the October forecast. The balance of the movement comprises a number of other expenditure movements.

The outturn also includes a year-end accounting adjustment in respect of an additional accrual of £230k for annual leave carried forward. This has arisen from the interim policy of allowing staff to carry over 20 days annual leave as a result of the pandemic. However, as this is an accounting adjustment, this will only result in a temporary reduction in reserves.

Overall, the outturn is lower than budgeted and this is mainly due to reduced non-pay expenditure directly related to property, partners and human resources costs because of the impact of lockdown due to Covid.

In March 2020 the Council also approved a capital budget of £2m and the final outturn is £1.9m.

Reserves

The deficit of **(£1.361m)** means that HCPC will have closing general fund reserves of £2.699m against forecast closing reserves of £3.369m. The interim 3-month budget also estimated that reserves would be at £1.7m at the end of June 2021 and this will now reduce to £1.0m.

Final figures

There are currently a number of additional checks and balances in progress to validate the provisional outturn figures and these will be concluded in time for the production of the draft financial statements.

Council will be updated on any changes to the outturn numbers in the 21/22 budget report to be presented on 1 July 2021. Draft accounts will also be going to ARAC on 23 June, and this will also include an update on the outturn position.

Risk and opportunities

In finalising the year end outturn there are a number of risks:

- The income figures have been calculated using two registration and finance systems as a result of the core system changes during the year. Income has previously been accounted for on adjusted cash basis whereas the new system operates on an accruals basis. The system implementation has resulted in a number of systems issues and the raising of incorrect billing documents. Manual workarounds have been used but further work is needed to validate the income figures.
- A recent legal case brought has been lost at the appeal stage and this is likely to have implications for the wider regulatory and other sectors. Depending on advice received and discussions with the external auditors, a provision may be required, and this could have a significant impact on the outturn position. If a provision is not required at this stage, this could still have an impact in future financial years.
- Other checks and balances on expenditure cut-off are still in progress and the outcome of this work could have an impact on the final outturn figures.

Previous consideration	The March 2021 (Month 12) provisional outturn was presented to SMT on the 18 May 2021
Decision	For discussion March 2021 (Month 12) Un-audited Management Accounts - for note
Next steps	A final audited 20-21 year-end finance update will be provided at the next meeting of the Council on the 1 July 2021
Strategic priority	Strategic priority 5: Build a resilient, healthy, capable and sustainable organisation
Risk	Strategic risk 5 - The resources we require to achieve our strategy are not in place or are not sustainable.
Financial and resource implications	None as a result of this paper
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Provisional Financial outturn 20/21

1. Overview

- 1.1. The provisional outturn is a £1.4m I&E deficit against a budgeted deficit of £2.8m and a 6+6 forecast deficit of £0.7m.
- 1.2. The significant underspend of £1.6m against the original budget is mainly due to lower than anticipated non-pay expenditure directly related to property, partners, office, travel and subsistence and human resources costs because of the impact of lockdown due to Covid.
- 1.3. Also, there is a negative impact of £230k on pay which relates to the additional annual leave allowed to be carried over from 20/21 into 21/22 due to the impact of Covid and temporary revisions to the HCPC Annual Leave Policy. This is an accounting adjustment only.
- 1.4. The adverse movement of c£699k from the October 6+6 forecast can be broken down into an increase in income of £525k together with a net additional increase in DHSC temporary register reimbursement of £81k which is offset by an increase in operating expenditure of £1.3m.
- 1.5. The capital outturn is £1.9m compared to an original budget of £2m and forecast outturn of £2.6m.

2. Income

- 2.1. The provisional outturn for income is £27.4m compared to the original budget of £27.4m and the 6+6 forecast of £26.9m. The outturn is therefore in line with the original budget..
- 2.2. Registrant income is showing a positive variance of £315k compared to the original budget and £524k greater than the October forecast outturn.
- 2.3. The key variances are mainly in the registration, UK scrutiny fees from graduates and International scrutiny fees.
- 2.4. Income from graduates has been impacted negatively by the pandemic throughout the year, mainly because the temporary register has enabled new graduates or students to work without registering. There has been a slight catch-up since November 2020 when the register ceased to accept new graduates.
- 2.5. International applications have increased mainly due to the NHS global recruitment drive of allied health professions in the 3rd and 4th quarters of the year.
- 2.6. The forecast outturn was based on the reduced numbers of graduate UK applications, registrations and the impact of the 1st two quarters of the year on International application which was based on a decrease in applications due to the Impact of leaving the Europe Union.

- 2.7. Further work is currently in progress to validate the final income figure due to the number of system issues that were experienced in 20/21.
- 2.8. HCPC also received a net additional £81k for reimbursement of the temporary register costs than originally forecast.

3. Operating Expenditure

- 3.1. Overall operating expenditure was £28.1m compared to £29.8m in the original budget and £26.8m in the 6+6 forecast, a positive variance of £1.7m and a negative movement of £1.3m respectively.
- 3.2. Pay costs of £12.1m were in line with the original budget but were £200k higher than the 6+6 forecast, mainly as a result of the year end accrual for annual leave carried over.
- 3.3. Non-pay costs were £1.9m lower than originally budgeted but were £1.1m higher than the 6+6 forecast. The explanations are set out below.

Pay

- 3.4. Mainly agency premium costs to cover vacancies in IT, FTP and also recruitment of the temporary staff required to support the FTP Improvement plan together with the additional resources required in Finance.

Non-pay costs

- 3.5. The main reason for the positive expenditure variance of £2.851m compared to the original budget is directly related to the impact of Covid-19. This is driven by the unplanned reduction in the expenditure categories that are related to partners, property, training, travel & subsistence and office costs, mainly due to reduction in face-to-face meetings and the use of the office premises.
- 3.6. However, the adverse movement of £1.1m from the 6+6 forecast is explained by the key category expenditure variances below:
 - **Other professional fees:** The actual cost of other professional fees is £6.6m, an adverse movement of £1.8m compared to the 6+6 forecast. This is mainly due to the cost of implementing the FTP Improvement plan which relates to the PWC project management and front loading and threshold legal costs.
 - **Major Projects:** Actual cost of operational major projects at the end of March 2021 was £162k, an adverse movement of £72k compared to the 6+6 forecast, mainly due to the overspend of £40k on the Telephony and Sage upgrade project. A project was created to monitor the FTP Improvement plan costs, £26k was incurred.
 - **Miscellaneous:** The remaining expenditure categories have a combined underspend of £856k. For some expenditure categories the outturn was lower than forecast due to continued reduced costs arising from the winter Covid lockdown and restrictions which were not anticipated in the October forecast. These are in areas such as reduced partner costs as result of not

holding face-to-face hearings and reduced overheads costs as a result of staff continuing to work remotely.

4. Turnaround costs

- 4.1. Turnaround costs are broadly in line with the forecast outturn at £655k (£647k: 6+6). Actual costs were £227k higher than the original budget of £427k and this was mainly as a result of the increased cost of retaining the transformation team over and above the initial 6-month budgeted period.

5. Departmental Analysis

FTP

- 5.1. FTP expenditure is showing a positive variance of £781k, compared to the original budget. This is driven by the unplanned reduction in the volume of panels and final hearings due to the impact of Covid.
- 5.2. However, there has been an adverse variance of £1,466k compared to the 6+6 forecast outturn due to the implementation of the FTP Improvement plan which mainly impacted professional fees costs and higher than anticipated transcript and investigative costs. The payroll costs were impacted by the higher annual leave provision of £100k.

Other departments – positive variances (£1.49m)

- 5.3. Compared to the original budget, other departments positive variances totalled £1.49m mainly, as a result of the impact of Covid but other notable variances:
- **HR – an underspend of £383k** against budget and £164k against the 6+6 forecast outturn. This is mainly due to spending about 50% of the original staff recruitment budget and an underspend of £114k on the training budget.
 - **Office services – an underspend of £550k** against the original budget and £178k lower than the 6+6 forecast as this was based on returning to the office and also resumption of face-to-face hearings, training in October 2020 which did not happen as a result of the second national lockdown. This resulted in reduced expenditure on catering, postage, utilities and other property costs.
 - **Partners – an underspend of £136k** against the original budget, similarly as a result of reduction in face-to-face hearings and training costs as well as reductions in Partners and staff travel, accommodation and subsistence costs.

Other departments – negative variances (£495k)

- 5.4. The departments collective adverse variance total £495k compared to the original budget and £91k to the forecast outturn. The key adverse departmental variances are listed below:

- **Information Technology – an overspend of £197k** compared to the original budget but broadly in line with the 6+6 forecast. The driver for the overspend was the double-running costs of both registration systems plus additional staffing costs – mainly overtime and agency premium costs due to covering vacancies.
- **Finance – an overspend of £150k** compared to the original budget of and an adverse movement of £56k from the 6+6 forecast position. This is as result of additional resources required to help rectify the finance/registration system issue.

5.5. Appendix 1 shows the month 12 accounts in detail. Council is asked to note the management accounts provisional outturn for the year ended 31 March 2021.

6. Capital

- 6.1. At the end of March 2021, the final capital outturn against the original budget is a favourable variance of £101k and a favourable variance of £689k against the 6+6 forecast outturn.
- 6.2. This is mainly due to the year-end disposals of the non-project capital assets and the slippage realised on the following projects:
- Education Dynamics 365
 - Data Platform
 - Reg Online Portal
 - Work Mobilisation
- 6.3. Non-IT project capital costs consist of computer and office equipment and there is a favourable variance of £331k mainly due to the disposals at year end of £200k compared to the additions of £298K.
- 6.4. Major Projects final outturn variance is an adverse variance of £229k compared to the budget and a favourable variance of £338k compared to the forecast.

7. Matters outstanding

- 7.1. Validation work is currently in progress to ensure appropriate checks and balances have been undertaken on the provisional outturn figures.
- 7.2. Specific due diligence work is being carried out on income to ensure the accuracy of the figures, given the systems problems which have occurred. There is also additional work being undertaken to ensure that the cut-off for legal billing is accurate, as well as the usual reviews of invoices pre and post year end to confirm accruals figures.
- 7.3. In finalising the year-end financial statements, there are invariably a number of accounting adjustments which need to be made and some matters discussed with the external auditors.

- 7.4. For 20/21, the outstanding adjustments mainly relate to provisions and there is one matter to be discussed which could result in an additional provision being required.

8. General Reserves

- 8.1. The general reserve balance (excluding the revaluation reserve) represents the amount of free reserves available to the organisation.
- 8.2. The interim budget for 21/22 was based on opening general reserves of £3.369m and a 20/21 deficit of £692k.
- 8.3. The provisional outturn deficit of £1.4m means that the opening general reserves (excluding the revaluation reserve) will now be in the region of £2.699m and will reduce to £0.5m by the end of June 2021 assuming the I&E position is in line with the forecast overspend of £2.193m
- 8.4. However, this reserve figure of £0.5m has been reduced by c£200k, as a result of the holiday accrual accounting adjustment, meaning that **usable** free reserves are forecast to be £0.7m.
- 8.5. Including the revaluation reserve of £699k will give total general fund reserves of £3.369m as at 31 March 2021 and £1.2m (£1.4m adding back the holiday accrual adjustment) at the end of June 2021.
- 8.6. The HCPC Reserves Policy ambition is to maintain positive net realisable assets. This is calculated taking the overall General Fund reserves balance (£3.369m as at 31 March 2021) and deducting the intangible assets value which at 31 March is £3.897m (subject to final year-end adjustments). This would give **negative** net realisable assets of £0.528m.
- 8.7. The Reserves Policy recognises that there may be periods where HCPC is in a negative net realisable assets position and, in that case, the policy also states that positive net assets should be maintained and a move back to positive net realisable assets should be achieved within five years.
- 8.8. The 20/21 outturn position of £3.369m net assets is therefore within the parameters of the current HCPC Reserves Policy.

Table 1 – Income & Expenditure Summary (1 April-31 March 2021)

Income and Expenditure Account YTD up to end of March 21	2019-20	2020-21				
	Final Outturn £	Full Year Original Budget £	Forecast Outturn £	Actual Outturn £	Outturn Variance to Budget £	Outturn Variance %
Income (A)						
Registration Income	32,650,735	27,177,526	26,770,847	27,295,344	117,818	0
Rental Income	175,000	175,000	175,000	175,000	0	(0)
Investment Income	113,138	50,000	9,767	9,990	(40,010)	(80)
Income (A)	32,938,873	27,402,526	26,955,614	27,480,333	77,807	0
Expenditure						
Pay Costs	12,450,112	12,101,636	11,942,776	12,153,388	(51,752)	(0)
Non Pay Costs	19,356,325	17,045,309	14,021,166	15,091,872	1,953,437	11
Depreciation	938,948	695,080	780,528	817,128	(122,048)	(18)
Total Expenditure (B)	32,745,385	29,842,024	26,744,470	28,062,387	1,779,637	6
Operating Surplus/(Deficit) C= (A-B)	193,488	(2,439,498)	211,144	(582,054)	1,857,444	
Corporation Tax	54,174	0	35,106	34,969	(34,969)	0
Impairment of Intangible Assets	283,007	0	0	0	0	0
Missed Opportunity Costs	(709,393)	0	0	0	0	0
CIP/Accounting Policy Changes	(743,218)	0	0	0	0	0
Turnaround Costs	1,019,973	427,440	647,542	655,062	(227,622)	(53)
Grant Costs - Covid 19	0	0	475,720	450,956	(450,956)	0
Total Other Exceptional Expenditure (D)	(95,457)	427,440	1,158,368	1,140,987	(713,547)	(167)
COVID 19						
Miscellaneous Income	0	0	255,294	361,763	361,763	0
Total COVID 19 (E)	0	0	255,294	361,763	361,763	0
Total Surplus/(Deficit) F= (C+E-D)	288,945	(2,866,940)	(691,930)	(1,361,278)	1,505,662	
Transfer From (Deficit)/ To (Surplus) Reserves	(288,945)	2,866,940	691,930	1,361,278	(1,505,662)	
Balance	0	0	0	0		

Table 2 – Income by Activity Category

Registration Income Categories	2019-20	2020-21				
	Final Outturn £	Original Budget £	Forecast Outturn £	Actual £	Full Year Variance £	Full Year Variance %
Renewal & Graduate Reg Fees	29,294,029	24,652,629	24,314,955	24,504,214	(148,415)	(1)
Readmission Fees	290,790	166,717	183,725	210,717	44,000	26
International Scrutiny Fees	2,009,570	1,478,055	1,380,078	1,715,455	237,400	16
UK Scrutiny Fees	1,077,081	850,125	862,088	833,480	(16,646)	(2)
EPC Income	(20,735)	30,000	30,000	31,479	1,479	5
Total Income by Category	32,650,735	27,177,526	26,770,847	27,295,344	117,818	0

Table 3 – Income & Expenditure by Departments (1 April-31 March 2021)

DEPARTMENTS	2019-20 Final Outturn £	2020-21				
		Original Budget	Forecast Outturn	Actual Outturn	Outturn Variance to Budget	Outturn Variance
		£	£	£	£	%
Income						
Total Registration Income	32,650,735	27,177,526	26,770,847	27,295,344	117,818	0
Rental Income GCC	175,000	175,000	175,000	175,000	(0)	(0)
Investment Income	113,138	50,000	9,767	9,990	(40,010)	(80)
Total Income	32,938,873	27,402,526	26,955,614	27,480,333	77,807	0
Departmental Expenditure						
Chief Executive	835,553	1,106,016	1,042,812	1,050,609	55,407	5
Quality Assurance	419,079	300,698	242,608	261,186	39,511	13
Governance	334,205	278,615	281,984	266,947	11,668	4
Chair, Council & Committees	371,081	391,149	331,668	312,332	78,817	20
Human Resources	1,215,518	1,569,751	1,350,571	1,186,402	383,348	24
Finance	800,759	540,806	634,373	690,521	(149,715)	(28)
Information Technology	2,503,523	2,767,022	2,965,656	2,963,946	(196,924)	(7)
Office Services	2,468,984	2,883,435	2,510,647	2,332,987	550,448	19
Partners	316,401	197,676	134,767	61,599	136,077	69
Project Managers	335,194	281,596	150,763	178,350	103,246	37
Fitness to Practice	15,935,873	13,054,759	10,808,061	12,274,198	780,560	6
Education	740,563	659,630	627,476	617,719	41,911	6
Registration	3,450,633	2,822,509	2,752,730	2,836,692	(14,183)	(1)
Communication	583,056	687,587	639,710	649,614	37,973	6
Policy and Data Intelligence	262,571	514,546	489,265	487,343	27,203	5
Professional Liaison Team	28,044	145,240	124,211	125,345	19,895	14
Apprenticeship Levy	36,100	43,200	33,324	34,451	8,749	20
PSA Levy	902,250	752,711	752,711	752,711	0	0
Major Projects	267,052	150,000	90,605	162,306	(12,306)	(8)
Depreciation	938,948	695,080	780,528	817,128	(122,048)	(18)
Total Operating Expenditure	32,745,385	29,842,025	26,744,470	28,062,387	1,779,638	6
Operating Surplus/(Deficit)	193,488	(2,439,499)	211,144	(582,053)	1,857,445	
Other Exceptional Expenditure						
Change Costs	1,019,973	427,440	647,542	655,062	(227,622)	(53)
Corporation Tax	54,174	-	35,106	34,969	(34,969)	0
Impairment of Intangible Assets	283,007	-	-	-	-	0
Missed Opportunity Costs	(709,393)	-	-	-	-	0
CIP/Accounting Policy Changes	(743,218)	-	-	-	-	0
COVID 19 Costs	-	-	475,720	450,956	(450,956)	0
COVID 19 Miscellaneous Income	-	-	(255,294)	(361,763)	361,763	0
Total Surplus/(Deficit)	(288,945)	(2,866,940)	(691,930)	(1,361,278)	1,505,662	

Table 4 – Income & Expenditure by Expenditure Category (1 April-31 March 2021)

Expenditure Categories	2019-20	2020-21				
	Final Outturn	Original Budget	Forecast Outturn	Actual Outturn	Outturn Variance to budget	Outturn Variance
	£	£	£	£	£	%
Overheads	1,372,280	1,094,379	424,729	230,391	863,988	79
Pay	10,981,186	11,049,587	10,892,570	10,801,890	247,697	2
Agency Staff	1,090,771	302,051	641,118	980,517	(678,466)	(225)
Staff Recruitment	247,641	600,000	382,628	321,483	278,517	46
Council & Committee	286,274	317,397	258,148	239,852	77,545	24
Computer Costs	1,699,503	1,944,471	2,071,884	2,019,491	(75,020)	(4)
Communication	111,079	313,255	349,574	337,932	(24,677)	(8)
Property	1,795,358	2,171,831	1,872,082	1,822,870	348,961	16
Partners	5,467,199	3,954,031	2,865,183	2,497,599	1,456,432	37
Professional Fees	6,692,077	5,680,571	4,676,430	6,556,912	(876,341)	(15)
Training	269,772	338,772	336,452	225,032	113,740	34
Travel & Subsistence	118,158	157,522	7,485	386	157,136	100
Depreciation	596,555	695,080	780,528	817,128	(122,048)	(18)
Major Project	816,298	150,000	90,605	162,306	(12,306)	(8)
Apprenticeship Levy	36,100	43,200	33,324	34,451	8,749	20
PSA Levy	902,250	752,711	752,711	752,711	0	0
Other Miscellaneous Costs	351,022	277,167	309,020	261,433	15,734	6
Total Expenditure by Category	32,833,523	29,842,025	26,744,471	28,062,387	1,779,638	6
Corporation Tax	54,174		35,106	34,969	(34,969)	0
Change Costs	1,019,973	427,440	647,542	655,062	(227,622)	(53)
Impairment of Intangible Assets	283,007	0	0	0	0	0
Missed Opportunity Costs	(709,393)	0	0	0	0	0
CIP/Accounting Policy Changes	(743,218)	0	0	0	0	0
COVID 19 Costs	0	0	475,720	450,956	(450,956)	0
COVID 19 Miscellaneous Income	0	0	(255,294)	(361,763)	361,763	0
Total Expenditure	32,738,066	30,269,465	27,647,545	28,841,611	1,427,854	5
Income	33,027,011	27,402,526	26,955,614	27,480,333	77,807	0
Surplus/Deficit	288,945	(2,866,940)	(691,930)	(1,361,278)	1,505,662	

Table 5 – Capital

	2019-20			2020-21		
	Final	Original	Forecast	Actual	Outturn	Outturn
	Outturn	Budget	Outturn		Variance	Variance
	£	£	£	£	£	%
Information Technology	105,215	338,520	327,000	57,226	281,294	83
Office Equipment	0	90,000	122,000	40,730	49,270	55
Non Project Capital Costs	105,215	428,520	449,000	97,956	330,564	77
Reg Transformation and Improvement	699,976		1,359,291	1,327,579		
Education Dynamic 365			97,893	22,559		
FTP CMS Replacement	45,540		448,257	468,482		
Data Platform			114,800	8,142		
Reg Phase 3			75,000	20,964		
Work Mobilisation			80,000	0		
Other Projects	119,409			(10,695)		
Total Major Projects	864,925	1,607,544	2,175,242	1,837,032	(229,488)	(14)
Total Capital	970,140	2,036,064	2,624,242	1,934,988	101,076	5

Table 6 – Headcount March 21 Reporting

HCPC Establishment Report									
Comparison of 20/21 budget compared to March 21 Outturn									
	Budget	Actual				Increase/(Decrease)			
Department	Core Establishment	Core Actual	Supernumary	Temporary Investment	Total	in Core	Agency	Notes	
Finance	8.00	9.00	5.00		14.00	6.00	5.00	1	
Governance	4.00	3.80	0.00		3.80	-0.20	0.00		
Chief Executive	10.00	8.00	1.00		9.00	-1.00	0.00		
Education	11.00	12.00	0.00		12.00	1.00	0.00		
Project team	6.50	5.50	2.00		7.50	1.00	1.00	2	
Policy	6.00	6.00	0.00		6.00	0.00	0.00		
Registration	53.00	51.30	5.71		57.01	4.01	5.71	3	
Human Resources	11.00	9.82	3.00		12.82	1.82	0.00		
Information Technology	11.50	14.50	2.00		16.50	5.00	2.00	4	
Communication	10.00	6.00	0.00		6.00	-4.00	0.00	5	
Quality Assurance	6.00	6.00	0.00		6.00	0.00	0.00		
Fitness to practice	101.20	98.00	4.00	14.00	116.00	14.80	14.00	6	
Office Services	9.00	8.00	2.00		10.00	1.00	1.00	7	
DIT	2.00	1.00	0.00		1.00	-1.00			
PLT	2.00	1.00	1.00		2.00	0.00			
Total	251.20	239.92	25.71	14.00	279.63	28.43	28.71		
Notes									
(1) 5.0 additional staff in Finance; 1.0 temporary replacement of the head of Finance and 4.0 temporary income team staff									
(2) 1.0 agency cover for Head of projects and a FTC Data migration analyst									
(3) 4.01 in total. Covering 1.5 maternity, 2.0 covering the Registration project work and 0.51 supernumary									
(4) 5.0 increase relates to the transfer of the 4.0 A&D posts from FTP.									
(5) 4.0 decrease relates to the introduction of Luther Pendragon covering the services									
(6) 14.8 increase relates to the temporary investment in the FTP Improvement plan									
(7) 1.0 maternity cover and agency covering the vacancy									