
Finance report

Executive Summary

This report presents the financial position as at the end of March 2022, with a commentary on the major variances, risks and opportunities. The operating deficit for the year to date is £0.93m compared to a budgeted deficit of £2.28m and a forecast deficit of £1.55m for financial year 2021-22. Although an improvement compared to the budget and forecast, there are a number of risks, opportunities and timing differences in both income and cost allocation to manage as part of year-end adjustments.

| | |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Previous consideration | The operating deficit for February 2022 year to date was £0.8m compared to a budgeted deficit of £2.2m and a forecasted deficit of £1.4m. |
| Decision | The Council is asked to review the March 2022 Finance Report. |
| Next steps | Thorough review of balance sheet reconciliations, income recognition reviews and other key year-end activities to take place to ensure all income and expenditure is accurately captured to present pre-audit accounts for the current financial year's performance. |
| Strategic priority | Actual figures provide indication of expected financial performance for the current year, which will inform decisions to defer or bring forward key expenditure items. Accuracy of our budgeting and forecasting is another significant indication of the effectiveness of our reporting capabilities. |
| Financial and resource implications | The implications are as set out in this report. |
| EDI impact | N/A |
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Finance Report

Executive Summary

1. This report presents the financial position as at the end of March 2022, with a commentary on the major variances.
2. The operating deficit for the year to date is £0.93m compared to a budgeted deficit of £2.28m and a forecast deficit of £1.55m.
3. The outturn position versus the year-end forecast has significantly improved mainly due to additional international scrutiny income, higher registration fees due to the new international registrants and the reduced levels of actual expenditure in FtP and Information Technology.
4. The reported position is subject to further potential adjustments from year-end work currently under way, including on income recognition and bad debts, as well as to any audit adjustments.

Headlines

5. The reported deficit of £0.93m for the year to date is favourable compared to the previous forecast deficit of £1.55m, which can be attributed to the significant increase in income and some departmental underspends across the organisation. The opportunity of further international income was recognised in the last set of management accounts but could not be accurately quantified at that point. It is worth noting that if we exclude the additional income from international applications, we would be roughly in line with forecast for the financial year.
6. Included in this report are estimates that will be further updated with actuals as part of preparing the year-end statutory accounts. Detailed reviews are still taking place as part of the year-end process and potential movements include the following:
 - a. Registrant Income - the renewal and registration fees are being reconciled to calculate the actual recognised income for 2021-22. Within this report, £25.7m of renewal and registration income as well as £0.3m of bad/doubtful debts have been estimated (other categories of income are actual figures). The finalisation of income recognition figures will also affect the level of deferred income reported on the balance sheet.
 - b. Accrued expenses in relation to late invoices, through reviewing outstanding purchase orders and contracts. Currently, included in this report is an estimated £300k worth of legal fees related to work in progress costs and £100k of general software support costs. Further work is being done on investigating and reconciling major project spend, FtP and IT expenditure, which will be updated in the next iteration of the report.
 - c. Deferred expenses pertaining to ongoing major projects.

- d. Depreciation costs are estimated and subject to change as per the latest estates valuation and review of the fixed assets register.
7. Year to date registrant income is £498k favourable to forecast. The final forecast was based on income from 6,000 international applications and this was exceeded by 1,532 applications, which contributed to the significant favourable variance to forecast.
8. Year to date operational expenditure (excluding turnaround and relocation project costs) is £0.1m favourable to forecast, which is from an underspend in pay-related costs of £0.3m and an overspend on non-pay expenditure (including depreciation costs) of £0.2m.

Income and Expenditure

9. Table 1 below summarises the impact of the reported position on HCPC's Income & Expenditure account. The year-to-date deficit of £0.93m represents a favourable variance of £0.62m compared to the previous forecast deficit of £1.55m.

Table 1.1: Income & Expenditure Account

| | Mar-22 YTD Actual | Mar-22 YTD Forecast | Variance | Full Year Budget | Full Year Forecast | Variance |
|------------------------------------|-------------------------|---------------------------|------------|---------------------|-----------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Registration Income | 30,505 | 30,007 | 498 | 28,556 | 30,007 | 1,451 |
| Other Income | 178 | 177 | 1 | 120 | 177 | 57 |
| Total Income | 30,683 | 30,184 | 499 | 28,676 | 30,184 | 1,508 |
| Pay Costs | 13,078 | 13,372 | 294 | 13,590 | 13,372 | 218 |
| Non-Pay Costs | 17,543 | 17,231 | -312 | 15,889 | 17,231 | -1,342 |
| Depreciation | 1,067 | 1,185 | 118 | 1,090 | 1,185 | -95 |
| Total Operating Expenditure | 31,688 | 31,788 | 100 | 30,569 | 31,788 | -1,219 |
| Corporation Tax | 34 | 34 | 0 | 0 | 34 | -34 |
| Turnaround Costs | 537 | 528 | -9 | 383 | 528 | -145 |
| * HCPTS Relocation Project | 72 | 91 | 19 | 0 | 91 | -91 |
| Total Expenditure | 32,331 | 32,441 | 110 | 30,952 | 32,441 | -1,489 |
| Grant Income | 715 | 706 | 9 | 0 | 706 | 706 |
| Total Surplus/(Deficit) | -933 | -1,551 | 618 | -2,276 | -1,551 | 725 |

Table 1.2: Registration Income by Category

| | 2021/22 Outturn | | | |
|---------------------------------|-----------------|---------------|------------|---------------|
| | Actual | Forecast | Variance | Budget |
| | £'000 | £'000 | £'000 | £'000 |
| Renewal & Graduate Reg Fees | 25,427 | 25,595 | -168 | 25,402 |
| Readmission Fees | 192 | 176 | 17 | 211 |
| International Scrutiny Fees | 3,929 | 3,295 | 633 | 2,027 |
| UK Scrutiny Fees | 946 | 938 | 9 | 886 |
| EPC Income | 11 | 4 | 8 | 30 |
| Total Income by Category | 30,505 | 30,007 | 498 | 28,556 |

Note. £308k Bad Debt Provision applied to Renewal & Graduate Reg Fees.

Income

10. Total registrant income for the financial year is £30.5m versus the forecast of 30.0m, delivering us a £500k favourable variance.
11. The forecast outturn for the full year for total income is £30.18m compared to the original budget of £28.68m, which represents a £1.51m favourable variance against the original budget. There was a significant increase in processed international applications in March with an additional 1,532 applications. We also had additional registration income from new international registrants.

Expenditure

12. Total operating expenditure for the full year is £31.7m versus forecasted expenditure of £31.8m, which is close to budget, with a favourable variance of £0.1m. The majority of the variance relates to lower pay costs of £0.3m associated with the annual leave provision credit (20 days of accrued leave has reduced to 8 days) and unfilled vacancies. The offsetting £0.2m unfavourable variance is associated with slightly higher non-pay-related costs compared to forecast (see Tables 3a and 3b).
13. Departmental variances (summarised in Table 3a) include lower pay costs of £294k for the year compared to forecast, arising as a result of a lower annual leave provision, turnover and unfilled vacancies.

Note. Average FTE figures as at the end of March 2022 were 280 versus budgeted FTE figures of 289. There are currently 37 positions covered by fixed term contractors (refer to Table 2 below).

Table 2: FTEs by Department

| Department | FY21-22 Budgeted FTEs | | | Mar-22 FTEs | | | Variance |
|----------------------|-----------------------|-----------|------------|-------------|-----------|------------|-----------|
| | Permanent | FTC | Total | Permanent | FTC | Total | Total |
| Chief Executive | 7 | 0 | 7 | 7 | 0 | 7 | 0 |
| Governance | 10 | 1 | 11 | 11 | 0 | 11 | 0 |
| Policy & IIA | 10 | 0 | 10 | 7 | 2 | 9 | -1 |
| Communication | 6 | 0 | 6 | 5 | 0 | 5 | -1 |
| Professional Liaison | 4 | 0 | 4 | 2 | 1 | 3 | -1 |
| Fitness to Practise | 107 | 17 | 124 | 110 | 14 | 124 | 0 |
| Registration | 53 | 3 | 56 | 47 | 16 | 63 | 7 |
| Education | 12 | 0 | 12 | 9 | 0 | 9 | -3 |
| IT & Digital | 16 | 1 | 17 | 13 | 0 | 13 | -4 |
| Business Change | 6 | 1 | 7 | 6 | 0 | 6 | -1 |
| Finance | 9 | 5 | 14 | 10 | 2 | 12 | -2 |
| HR | 10 | 1 | 11 | 10 | 0 | 10 | -1 |
| Office Services | 9 | 1 | 10 | 7 | 2 | 9 | -1 |
| Total FTEs | 259 | 30 | 289 | 243 | 37 | 280 | -8 |

14. Total non-pay costs are above forecast by £194k for the year, driven mainly by underspends across the majority of departments including Fitness to Practise, IT & Digital, HR, Policy and Office Services (additional provision for Stannary street dilapidations).

15. Table 3a outlines the departmental variances for the year to date against the forecast.

Table 3a: Year to Date Forecast Variances by Department

| Department | Mar-22 YTD Forecast Variance | Comment | Note |
|------------------------------------|------------------------------|------------|------|
| Depreciation | 117,621 | Favourable | (a) |
| Fitness to Practise | 89,607 | Favourable | (b) |
| IT & Digital | 69,769 | Favourable | (c) |
| Policy & IIA | 70,793 | Favourable | (d) |
| HR | 64,611 | Favourable | (e) |
| Other Departments | 57,518 | Favourable | (f) |
| Office Services | -144,575 | Favourable | (g) |
| Registration | -226,262 | Adverse | (h) |
| Total Operating Expenditure | 99,082 | | |

- a) Depreciation - £118k Further review of the fixed asset register is required to finalise numbers.
- b) FtP - £90k underspend driven by legal costs with fewer final hearings prepared for in Mar-22 than previously anticipated.

- c) POL/IIA - £71k underspend relates to no expenditure on research versus forecast due to lack of resources.
- d) IT - £70k underspend relates to lower software support costs due to lower total costs from ongoing projects.
- e) HR - £65k underspend related to lower training and recruitment costs, with a combination of fewer vacant posts being filled than expected and greater number of direct hires rather than via agencies.
- f) Other Departments – £58k underspend relates to a net effect of both over and underspends across remaining departments.
- g) Office Services – (£145k) overspend relates to the additional provision for Stannary Street dilapidations and cost of business rates being higher than anticipated. The business rates forecast was based on a lower year to date figure in January 22.
- h) Registration – (£226k) overspend is associated with the additional cost of international assessors' fees incurred due to the higher than forecasted number of applications processed. **Note.** This has generated additional associated income of £633k.

Table 3b: Year to Date Forecast Variances by Category of Spend

| Category | Mar-22 YTD Forecast Variance | Comment | Note |
|------------------------------------|------------------------------|------------|------|
| Annual Leave Provision | 209,622 | Favourable | (a) |
| Depreciation | 117,621 | Favourable | (b) |
| Professional fees | 87,591 | Favourable | (c) |
| ICT & Computer | 67,549 | Favourable | (d) |
| Staff Recruitment | 65,516 | Favourable | (e) |
| Communication | 54,764 | Favourable | (f) |
| Major Projects | 50,104 | Favourable | (g) |
| Pay | 35,636 | Favourable | (a) |
| Other Categories | -7,374 | Adverse | - |
| Overheads & Miscellaneous | -115,381 | Adverse | (h) |
| Property | -180,406 | Adverse | (i) |
| Partners | -286,160 | Adverse | (j) |
| Total Operating Expenditure | 99,083 | | |

- a) Pay Costs/Annual Leave Provision - £246k underspend relates to a lower annual leave provision credit of £210k and ongoing unfilled vacancies.
- b) Depreciation - £118k Further review of the fixed asset register is required to finalise numbers.
- c) Professional Fees - £88k underspend driven by legal costs with fewer final

hearings prepared for in Mar-22 than previously anticipated **Note**. Awaiting final WIP reports for ongoing cases from KN and Blake Morgan. WIP reports from Capsticks has been received and included within figures.

- d) ICT & Computer Costs - £68k underspend relates to lower ongoing projects costs. £100k of estimated costs have been included related to maintenance & support. Further reviews are taking place to finalise the numbers.
- e) Staff Recruitment - £66k underspend relates to the impact of less vacancies being filled and more direct hires rather than via agency.
- f) Communication - £55k underspend relates to lower research costs compared to the forecast in the final quarter.
- g) Major Projects – £50k underspend relates to lower ongoing projects costs. Further reviews are taking place to finalise the numbers.
- h) Overheads & Miscellaneous Costs – (£115k) overspend relates to higher costs than expected for bank charges and general insurance. Also, for a period during implementation of the new telephony system, double running costs were incurred. Additionally, room hire costs for FtP hearings were higher than anticipated after leaving 405.
- i) Property – (£180k) overspend relates to the additional provision for Stannary Street dilapidations and cost of business rates being higher than anticipated. The forecast was based on a lower year to date figure in January 22.
- j) Partners – (£286k) overspend is associated with the additional cost of international assessors' fees incurred due to the higher than forecasted number of applications processed.

Balance Sheet and Reserves

16. The impact of the reported position on the balance sheet is shown in the table below.

Table 4: Balance Sheet

| | Actual 31-Mar-22 | Budget 31-Mar-22 | Forecast 31-Mar-22 |
|----------------------------------|---------------------|---------------------|-----------------------|
| | £'000 | £'000 | £'000 |
| Total Fixed Assets | 10,585 | 10,467 | 10,743 |
| Current Assets | | | |
| Other Current Assets | 2,479 | 1,463 | 1,761 |
| Cash & Cash Equivalents | 11,845 | 8,233 | 9,186 |
| Total Current Assets | 14,324 | 9,696 | 10,947 |
| Total Assets | 24,909 | 20,163 | 21,690 |
| Current Liabilities | | | |
| Current Liabilities | 3,606 | 2,453 | 1,769 |
| Deferred Income | 18,911 | 16,220 | 18,433 |
| Total Current Liabilities | 22,517 | 18,673 | 20,202 |
| Liabilities > 1 Year | 85 | 360 | 0 |
| Total Liabilities | 22,602 | 19,033 | 20,202 |
| NET ASSETS | 2,307 | 1,130 | 1,488 |
| Reserves | 3,240 | 3,406 | 3,039 |
| Surplus/(Deficit) | -933 | -2,276 | -1,551 |
| GENERAL FUND | 2,307 | 1,130 | 1,488 |

17. HCPC opening reserves balance as at 1st April 2021 was £3.04m. The actual deficit for the year of £0.93m would give us a closing reserves balance of £2.31m as at 31st March 2022. **Note.** This balance does not include any system software impairments.
18. As at 31st March 2022, our reserves closing balance is £2.31m compared to budgeted reserves of £1.13m and forecasted reserves of £1.49m for the same period.
19. The cash balance as at 31st March 2022 is £11.85m. The cash management policy is to maintain positive balances in all accounts. We do not forecast to be in breach of this policy at any point during the financial year.

Capital Expenditure

20. Year to date capital expenditure related to Major Projects is £503k, which is lower than the previous forecast of £648k, which results in a £145k favourable variance. Further information is to be provided on whether this is related to timing of deliverables or genuine savings for the year.
21. Total capital spend amounts to £590k for 2021-22 with actuals coming in significantly lower compared to the forecasted spend of £735k.
22. The forecast outturn for the full financial year for the new tribunal suites was £734k with actual spend totalling £486k, giving a favourable variance of £248k.

Note. This project was not part of the original FY21-22 budget, hence the need to track these costs are separately.

Table 5: Capital Expenditure Report

| | | 2021-22 Full Year | | | |
|----------------------------------|---------------------------------------------------------------------------------------------------------------|-------------------|----------------|----------------|-------------------|
| | | Forecast | Budget | Actual | Forecast Variance |
| Non-Projects | Description | £ | £ | £ | £ |
| Information Technology | Includes infrastructure, property, software licenses and IT equipment costs. | 87,359 | 150,000 | 87,359 | 0 |
| Office Equipment | Furniture and fixtures (including cost of furniture that is treated as single unit, such as a group of desks) | 0 | 70,000 | 0 | 0 |
| Total Non-Project Costs | | 87,359 | 220,000 | 87,359 | 0 |
| Major Projects | Description | | | | |
| Reg Transformation & Improvement | Replacement of the old registration system NetRegulate - Phase 1 & 2 | 47,857 | 0 | 47,857 | 0 |
| Education Dynamic 365 | Annual development of the Education system | 73,424 | 50,000 | 36,485 | 36,939 |
| FTP CMS Replacement P1 | CMS Replacement of the old FTP system - Phase 1 | 211,023 | 31,000 | 211,023 | 0 |
| Hybrid Working | Purchase of equipment to enable and implement hybrid working in the organisation | 155,000 | 0 | 120,479 | 34,521 |
| Data Platform | Build a new data platform | 2,551 | 0 | 2,551 | 0 |
| Online Experience | Enhance the registration system to improve the registrant's online experience | 10,000 | 0 | 0 | 10,000 |
| FTP CMS Product Development | New CMS system Product Development - Phase 2 | 0 | 177,000 | 5,375 | -5,375 |
| Landline Mobility | Implement the landline system in the cloud | 50,268 | 0 | 0 | 50,268 |
| Reg Phase 3 | Registration system Product Development - Phase 3 | 97,698 | 500,000 | 79,279 | 18,419 |
| Major Projects Costs | | 647,821 | 758,000 | 503,049 | 144,772 |
| Total Capital Spend | | 735,180 | 978,000 | 590,408 | 144,772 |
| HCPTS Relocation Project | | 734,000 | 672,833 | 486,491 | 247,509 |