

Finance report August 2022

Executive Summary

This report presents the financial position as at the end of August 2022, with a commentary on the major variances, risks and opportunities. The operating surplus for the year to date is £1.57m compared to a forecasted surplus of £0.98m.

There are a number of risks, opportunities and timing differences to manage over the course of the financial year with detailed reviews taking place on income recognition, on-going project costs and the latest work in progress reports for current cases.

Previous consideration	Standing item to update Council on HCPCs financial position.
Decision	The Council is asked to note the report.
Next steps	Thorough review of income, particularly renewal and registration fees and international application as well as detailed reviews of vacant posts and legal/partners costs to ensure income and expenditure is accurately captured to report financial performance for the upcoming Q2 forecast.
Strategic priority	Strategic priority 5: The organisation continues to be financially sustainable, enabling us to invest in those areas of our operations which are most important to service users and patients, our registrants and partners.
Financial and resource implications	The implications are set out in the report.
EDI impact	Procurement process – implement additional requirement for suppliers to outline their EDI policies to ensure these are aligned with those of HCPC.
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Finance Report – August 2022

Executive Summary

1. This report presents the financial position as at the end of August 2022, with a commentary on the major variances, risks and opportunities.
2. The operating surplus for the year to date is £1.6m versus the forecasted surplus of £1.0m.

Headlines

3. The reported surplus of £1.6m for the year to date is above the forecast of £1.0m, giving us a favourable variance of £0.6m. The majority of the variance (£0.4m) relates to departmental underspends across the organisation, which are mostly related to timing of costs. The remaining £0.2m is driven by over-forecasted expenditure in other professional fees relating to PWC, which will be corrected in the Q2 forecast.
4. Year to date income is £15.4m compared with the forecast of £15.3m, which gives us a favourable variance of £0.1m. A deep-dive exercise will be carried out on renewal and registration fees to further refine the forecast with accurate profiling of income as per specific renewal cycles.
5. Year to date operating expenditure is £0.5m favourable to forecast. Pay related expenditure is roughly in line with forecasted figures, with the majority of the underspend relating to non-pay expenditure due to timing of costs. Main areas of underspend include FtP legal costs and office services (£0.3m) and over-forecasted expenditure in Registrations related to PWC professional fees (£0.2m). Similar to the deep-dive exercise that is being carried out on renewal and registration fees, we will be carrying out a detailed review of our professional fees and partners costs that make up the bulk of the underspend.
6. We have applied weighting against the quantified risks and opportunities with a view on the net impact on the Q1 forecast. Based on risks and opportunities materialising, this would result in increasing the Q1 forecast deficit from £0.9m to a deficit ranging from £1.12m to £1.16m.
7. The first half of the financial is a surplus position, which will move towards a deficit as we progress through the year as vacant posts will begin to be filled and non-pay related costs including legal and partners costs ramping-up, full utilisation of our contingency pot as well as the associated costs of the HEE Partnership work being realised. Coupled with the forecasted slow-down in international applications for the latter half of the year, which will contribute towards the forecasted deficit of £0.9m.

Income and Expenditure

8. Table 1.1 below summarises the impact of the reported position on HCPC's Income & Expenditure.
9. The forecast outturn for the financial year is a deficit of £0.9m. The position will be managed actively with our forecasting exercises to mitigate any further risks and maximise opportunities before the year-end.

Table 1.1 - Income & Expenditure Account

	Aug-22 YTD			Full Year
	Actual	Forecast	Variance	Forecast
	£'000	£'000	£'000	£'000
Registration Income	15,298	15,213	84	35,053
Other Income	99	84	15	207
Total Income	15,397	15,298	99	35,259
Pay Costs	5,996	5,972	(23)	15,061
Non-Pay Costs	7,330	7,806	476	19,878
Depreciation	412	418	5	999
Total Operating Expenditure	13,738	14,196	458	35,939
Operating surplus/(deficit)	1,659	1,102	557	(679)
Corporation Tax	0	0	0	0
Turnaround Costs	73	80	7	147
HEE Funding Associated Costs	11	2	(9)	271
Contingency Costs	0	35	35	279
Other exceptional expenditure	85	117	(33)	697
* HCPTS Relocation Project	(43)	(43)	0	(43)
Grant Income	38	38	0	546
Total Surplus/(Deficit)	1,570	981	590	(873)

Table 1.2 - Registration Income by Category

	Aug-22 YTD			Full Year
	Actual	Forecast	Variance	Forecast
	£'000	£'000	£'000	£'000
Renewal & Graduate Reg Fees	10,853	10,980	(127)	27,192
Readmission Fees	103	90	13	178
International Scrutiny Fees	3,852	3,700	152	6,731
UK Scrutiny Fees	490	444	47	951
Total Registration Income	15,298	15,213	84	35,053

Income

10. Total registration income for the year to date is £15.3m versus the forecast of £15.2m, giving us a favourable variance of £0.1m. As Table 1.2 outlines, this is mainly due to international scrutiny fees exceeding forecast.
11. There continues to be an upward trend in international applications with 7,171 applications having been processed to date. The higher volumes have been driven by accelerated processing of paper applications to clear an overall backlog of applications.
12. The revised Q1 forecast has been based on middle case estimations, resulting in a total of 12,500 international applications to be received by this financial year compared to the original budget projections of 7,000 applications.
13. The renewal and registration fee income has been calculated based on the latest number of registrants as at the end of August 2022. A deep-dive exercise will be carried out on renewal and registration fees to further refine the forecast with accurate profiling of income as per specific renewal cycles. At present, actuals to date are showing as being under-forecast, which is related to timing rather than a reduction in the number of registrants.
14. Interest rates have increased since the budget was set from 0.1% to 0.7%, which has contributed to the increase in investment income (£9k for the year to date).

Expenditure

15. Total operating expenditure for the year to date is £13.7m versus forecasted expenditure of £14.2m, which is a favourable variance of £500k (refer to tables 3a & 3b).
16. Table 3a outlines the departmental variances for the year to date against the budget.

Table 3a - Year to Date Forecast Variances by Department

Department	Year to Date Forecast Variance	Type	Note
Registration	257,000	Favourable	(a)
Fitness to Practise	107,000	Favourable	(b)
Office Services	57,000	Favourable	(c)
Other Departments	37,000	Favourable	-
Total Operating Expenditure	458,000		

- a) Registration - £257k underspend. Mainly relates to £200k of over-estimated PWC accruals and other costs, which is slightly offset of by £65k of increased International assessors fees.
- b) Fitness to Practise - £107k underspend. Driven by timing issues with partner costs and professional fees relating to panel costs (mainly legal assessors), transcript writers, investigation costs and travel.
- c) Office Services - £57k underspend. £40k of underspend relates to overall maintenance and £10k of postage costs, which we are expecting to incur in the next few periods.

17. Table 3b outlines the category of spend variances for the year to date against forecast.

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

Category of Spend	Year to Date Forecast Variance	Type	Note
Professional fees	252,000	Favourable	(a)
Partners	141,000	Favourable	(b)
Property	45,000	Favourable	(c)
ICT & Computer	27,000	Favourable	(d)
Other Categories	(7,000)	Favourable	
Total Operating Expenditure	458,000		

- a) Professional Fees - £252k underspend. Mainly related to £200k of over-forecasted costs for PWC, which will be revised as part of the upcoming Q2 forecast.
- b) Partners - £141k underspend. Mainly related to hearing panel costs due to timing differences where we expect a catch-up of costs.
- c) Property - £45k underspend. Related to overall building maintenance and refurbishment.

d) ICT & Computer – 25k underspend relates to Hardware, Software and internet services underspend.

18. Average FTE figures as at August 2022 were 304 versus forecast FTE figures of 339. There are currently 47 positions covered by fixed term contractors and agency workers.

Table 2 - FTEs by Department

Department	FY22-23 Forecast	Aug-22 FTEs			Variance
	Total	Permanent	FTC/Agency	Total	Total
Chief Executive	7	7	0	7	0
Governance	11	11	0	11	0
Policy	9	9	1	10	1
Insight & Intelligence Analytics	3	2	1	3	0
Communication	6	6	0	6	0
Professional Liaison	6	5	1	6	0
Fitness to Practise	141	98	22	120	(21)
Registration	79	57	18	75	(4)
Education	12	10	2	12	0
IT & Digital	16	14	0	14	(2)
Business Change	15	6.5	1	7.5	(8)
Finance	15	13	1	14	1
HR	10	10	0	10	0
Office Services	9	8	0	8	(1)
Total FTEs	339	257	47	304	(34)

Risks and Opportunities

19. The tables below summarise the risks and opportunities as we approach the end of the first quarter of the financial year and the net impact on the Q1 forecast based on the weighted figures.

Risk Description	Probability	Full Year Impact £'000	Weighting %	Weighted Impact	Weighting %	Weighted Impact
			Lower	Upper		
Increase in international assessors costs	High	400	75%	300	75%	300
Additional legal costs	High	300	75%	225	75%	225
Regulatory Reform	Medium	200	50%	100	75%	150
33 Stannary Street basement remedial works	High	150	75%	113	75%	113
Rising energy and property costs due to cost-of-living increases	High	90	75%	68	75%	68
Increase in recruitment and facilities costs from additional headcount and operational demands	High	30	75%	23	75%	23
*NHSEI - Funded Work	High	1000	75%	750	75%	750
Total		2,170		1,578		1,628

*Likely to be fully or partly deferred to FY 2023-24

Opportunity Description	Probability	Full Year Impact £'000	Weighting %	Weighted Impact	Weighting %	Weighted Impact
			Lower	Upper		
NHSEI Grant Income	High	1,000	75%	750	75%	750
*Increase in international scrutiny fees income as per current trend	High	700	75%	525	75%	525
Further slippage in recruitment	Medium	170	25%	43	75%	128
Reduction in business rates and rent - Stannary Street basement and 184/186	Low	40	0%	0	25%	10
Total		1,910		1,318		1,413

*Likely to be fully or partly deferred to FY 2023-24

Description	Weighted Impact Lower	Weighted Impact Upper
Q1 Forecast (excl. opps/risks)	(900)	(900)
Net Impact of opps/risks on Q1 Forecast	(260)	(215)
Q1 Forecast (incl. opps/risks)	(1,160)	(1,115)

Other Risks/Opportunities	Probability	Full Year Impact £'000	Type
Increase in the total cost of laptops to be issued to employees	High	30	Risk
Cost of Extended Temporary Registers	Low	TBC	Risk
NMC Case	Low	TBC	Risk
Extended Temporary Registers Income	Low	TBC	Opportunity
Additional phasing of vacant posts	Medium	TBC	Opportunity

Note. A deep-dive exercise will be carried out to ensure that we are forecasting costs, especially payroll, as per the latest recruitment data. Forecasts will be revised based on monthly reviews with budget holders and relevant departments.

Balance Sheet and Reserves

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

Table 4 - Balance Sheet

	Actual 30-Aug-22 £'000	Forecast 30-Aug-22 £'000	Budget 31-Mar-23 £'000
Total Fixed Assets	10,177	10,213	11,162
Current Assets			
Other Current Assets	1,295	1,572	1,761
Cash & Cash Equivalents	15,206	15,520	6,088
Total Current Assets	16,501	17,093	7,849
Total Assets	26,677	27,306	19,011
Current Liabilities			
Current Liabilities	4,152	6,850	1,769
Deferred Income	13,988	12,320	16,552
Total Current Liabilities	18,140	19,169	18,322
Liabilities > 1 Year	85	85	0
Total Liabilities	18,225	19,254	18,322
NET ASSETS	8,452	8,051	689
Reserves	6,882	7,068	1,487
Surplus/(Deficit)	1,570	983	(798)
GENERAL FUND	8,452	8,051	689

21. HCPC opening reserves balance as at 1st April 2022 was £1.5m. The budgeted deficit for the year is £0.8m, which would give a closing reserves balance of £0.7m as at 31st March 2023. **Note.** This balance does not include the audited reserves position of March 2022 to be carried forward. This will be updated during the Q2 forecasting exercise. A full year forecast balance sheet will be produced for Q2.
22. As at 31th Aug 2022, our reserves closing balance is £8.4m compared to forecast YTD reserves of £8.1m for the same period.
23. The cash balance as at 31th Aug 2022 was £15.2m. The cash management policy is to maintain positive balances in all accounts. We do not budget to be in breach of this policy at any point during the financial year. **Note.** We very close to producing a cashflow forecast once we verify the final figures for the current year, which should be ready for the Sep-22 finance report.

Capital Expenditure

24. Year to date capital expenditure is £147k compared to a forecast of £232k, giving us an £85k favourable variance. This is mainly due to the timing of invoices.
25. The forecast for the full financial year on project related capital spend is £1.4m and £174k for IT and office equipment (non-project related).
26. The capital forecast has been re-profiled during the Q1 forecasting exercise and the split between operational and capital spend is aligned to the new capital policy.

Table 5 - Capital Report

		Full Year	Year to Date		
		Forecast	Actual	Forecast	Variance
Non-Projects	Description	£	£	£	£
Information Technology	Includes infrastructure, property, software licenses and IT equipment costs.	174,280	25,473	17,280	(8,193)
Office Equipment	Furniture and fixtures (including cost of furniture that is treated as single unit, such as a group of desks)	0	0	0	0
Total Non-Project Costs		174,000	17,280	17,280	(8,193)
Major Projects	Description	£	£	£	£
Business Central	Business central re-implementation	489,220	0	0	0
Education Dynamic 365	Annual development of the Education system	40,000	1,187	1,187	0
Hybrid Working	Purchase of equipment to enable and implement hybrid working in the organisation	135,876	24,069	38,045	13,976
Data Excellence	Build a new data platform	90,831	0	0	0
Online Experience	Enhance the registration system to improve the registrant's online experience	60,000	0	0	0
FTP CMS Product Development	New CMS system Product Development - Phase 2	230,516	32,401	40,915	8,514
Landline Mobility	Implement the landline system in the cloud	24,000	12,000	24,000	12,000
Reg Phase 3	Registration system Product Development - Phase 3	315,345	51,458	110,100	58,642
Major Projects Costs		1,385,788	121,115	214,247	93,132
Total Capital Spend		1,560,068	146,588	231,527	84,939
HCPTS Relocation Project		29,469	31,623	29,469	(2,154)