
Quarterly management accounts 21/22

Executive Summary

This quarterly report presents the financial position and activities as at the end of June, with a commentary on the major variances, risks and opportunities.

The operating deficit for the period was (£690k) compared a budgeted deficit of (£2,013k). Income is £369k favourable to budget and operating expenditure is £954k favourable to budget.

The forecast outturn for fee income is expected to exceed budget, with a net opportunity (after taking account of related costs) of around £1m, predominately driven by the increase in international applications.

The variance on expenditure principally relates to FtP, which is £803k favourable and Recruitment Costs which is £102k favourable.

Because of the size of the timing differences in both income and expenditure and challenges with the baseline Q1 FtP budget, the reported figures at Q1 do not reflect the true financial position of HCPC.

Risk and opportunities

There are two principal risks to the approved budget:

- The financial implications of the decision to terminate the lease on 405 KPR; and
- Aligning the FtP operational requirements with the FtP budget.

Since the budget was agreed, a decision to terminate the lease on 405 KPR was made, with consequent refurbishment planned to repurpose part of 184/186 KPR for hearing suites. A full evaluation of the costs and savings accruing to the current financial year has yet to be made. There is a separate paper on the costs associated with restructuring the operations of FtP Hearings as a result of the termination of the lease on 405 KPR.

The Q1 FtP budget was set by extrapolating costs from 2020/21 Q4 results. However, this quarter was not representative of true running costs. The Q1 FtP budget of £4,263k indicates an annual run-rate of £17,052k. The Q1 FtP Actuals of £3,460k indicates an annual run-rate of £13,840k. To stay within a £13m budget allocation, FtP would have to delay legal instructions and limit the number of hearings, which would increase the backlog of cases instead of decreasing it.

The main opportunity is in income, where renewals and international scrutiny fees are expected to exceed forecast by over £1m.

Previous consideration

Decision The PRC is asked to:

- i. Note the latest management accounts position; and
- ii. Note the financial risks and opportunities.

Next steps The key next steps are:

- Review the operational and financial assumptions to create a financial forecast through until Mar-23;
- Undertake sensitivity analysis based on different scenarios of assumptions; including
 - Assumptions for future fee rises;
 - Impact of the Estates Strategy;
 - Potential Operating Model Changes; and
 - Major projects

Strategic priority

Risk

Financial and resource implications As described in the paper.

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Quarterly Management Accounts 21/2

1. Budget movements

- 1.1. Since the budget was agreed, a decision to terminate the lease on 405 KPR was made, with consequent refurbishment planned to repurpose part of 184/186 KPR for hearing suites. A full evaluation of the costs and savings accruing to the current financial year has yet to be made.
- 1.2. With the increase in the number of International Applications the ELT has approved the business case for additional Registration Staff to process the applications. The budget for International Assessors will also increase accordingly.

2. Income

- 2.1. The table below shows the breakdown of registration income for the year to date, with a projection to show forecast outturn.
- 2.2. International scrutiny fees assumed 3,833 applications this year. The number for Q1 was 1,430, with HEE and LAS actively recruiting for further applicants. Increased applications will also lead to increased renewal fees.
- 2.3. For non-registration income, the principal risk is that the GCC may elect to move out of our premises early. The maximum risk is 4 months' income foregone, which equates to £58k. There is a small upside opportunity in that the rent receivable may be renegotiated upwards.

Registration Income by Activity

Income by Activity	Actual YTD	Budget YTD	Variance YTD	Variance YTD %	Full Year Budget	Outturn Forecast
Graduate Registration Fees	580,271	316,926	263,345	83	1,493,230	1,480,101
Readmission Fees	27,486	47,152	-19,666	-42	166,717	160,373
Renewal Fees	5,759,353	5,887,722	-128,370	-2	23,159,399	23,267,663
International Scrutiny Fees	599,520	320,551	278,969	87	1,478,055	2,438,711
UK Scrutiny Fees	63,693	101,649	-37,956	-37	850,125	821,754
Registration Income	7,030,323	6,674,000	356,323	5	27,147,526	28,168,602

3. Operating Expenditure

3.1. Overview

- 3.1.1. Reported operating expenditure is £954k favourable to budget. However, as has been noted above, this figure is distorted by under accrued costs, with WIP in FtP legal costs alone accounting for £350k.

3.2. Staffing

- 3.2.1. As shown in the table below, average staff numbers were 14 below establishment, with 279 staff against 293 budgeted. FtP were 21 posts below the budgeted establishment, with delayed recruitment for 4 scheduling officers and 9 case managers, and other posts held vacant. Average headcount in registration was 6 higher than budget, due to 12 temporary staff being taken on for 10 weeks to assist with the higher volume of applications.
- 3.2.2. Note that as establishment budgets were devolved to departments on the basis of a resource envelope, no permanent savings can be identified from the underspend in Q1, as managers have discretion to vary their pay costs within their overall allocation.
- 3.2.3. The annual pay award was budgeted for at £126k, but cost £116k, yielding a £10k permanent saving which will be reflected in Q2.
- 3.2.4. Recruitment is £81k underspent, which is at least partly a timing difference, as there was a recruitment freeze and departments delayed recruiting to a number of posts until later in the year.
- 3.2.5. Training is £42k underspent and is to some extent linked to the delay in recruitment. The variance is split fairly evenly between organisational and departmental training.

HCPC Latest Headcount						
Department	Original Budget			Q1 position		
	Permanent	Super-numerary	Total	Permanent	Super-numerary	Total
Chief Executive	8		8	7	1	8
Governance	12		12	12		12
Policy	10		10	8		8
Communication	6		6	5	1	6
Professional Liaison	3		3	1	1	2
Fitness to Practise	115	17	132	86	25	111
Registration	54		54	54	6	60
Education	12		12	12		12
IT & Digital	17		17	14	3	17
Business Change	6	1	7	4	3	7
Finance	12		12	7	7	14
HR	11		11	10	2	12
Office Services	9		9	8	2	10
Total	275	18	293	228	51	279

3.3. Overheads (non-staffing)

- 3.3.1. IT non-pay expenditure is (£117k) adverse to profile. This relates to software support.
- 3.3.2. Office running/property costs are £85k underspent, with permanent savings on repairs and maintenance, cleaning materials, electricity and

security. Some work was paused pending the evaluation of estates. Building refurbishment was based on a work plan which is changing, so an underspend on maintenance contracts is a timing difference. Outturn will be dependent on the costs associated with the estates programme. A substantial provision (£350k) for dilapidations was made in the 2020/21 accounts, and some of the work will be capitalised, meaning that only some of the costs will fall into the current year, but there is still a risk of overspending this budget.

- 3.3.3. Registration partner costs are (£85k) overspent due to the increased requirement for international scrutiny partners. There is a further £3.4k pressure on registration budgets as the cost of transcription services was not included.

3.4. Legal and professional

- 3.4.1. FTP professional and legal costs are reported as £721k underspent. Contracts with Kingsley Napley, Blake Morgan and Capsticks comprise the bulk of this spend. We are negotiating to receive monthly reports of work in process (WIP), as the cost of work performed but unbilled is reflected in the profiling of the budget. The cost of this WIP is estimated at £350k. (Work on the backlog cases given to all three firms has been unaffected.) The expectation is to be at least caught up in the remaining 3 quarters.
- 3.4.2. Education is £29k below forecast, of £14k relates to Visitors (timing difference in QA of investigations). £9k is slippage related to the upgrade of the Dynamics system.

4. Non-operating expenditure

- 4.1. Transformation costs for Q1 are over budget by £77k. This is driven by staff changes in the finance department and the delay in the implementation of the FtP K2 Nexus system.

5. Savings and efficiencies

- 5.1. The budget included £1.83m for additional income, reflecting the increased registrant base, the additional income due to a fee increase effective for professions whose renewal window opened in or after July, and additional scrutiny fees, especially from international applicants. It is currently forecast that this increase will be exceeded by a further £1m.
- 5.2. No cashable benefits have as yet been realised from the efficiencies identified in expenditure (see table below), and no new savings and efficiencies have been identified. The decision to leave 405 KPR will certainly save rent and utilities for 4 months, but the in-year costs may outweigh these longer-term benefits.

	Savings & Efficiencies		
	Permanent	One-off	Total
	£	£	£
Summary of Savings			
Office Services without exit of 405	-	(103,233)	(103,233)
Exit of 405	(62,450)		(62,450)
Training and Staff Recruitment	(250,000)		(250,000)
Corporate Directorate Savings	(11,000)	(54,000)	(65,000)
Regulation Directorate one-off savings		(17,252)	(17,252)
Registration Costs	(309,750)		(309,750)
Professional Practice and Insight Directorate Savings	(10,397)		(10,397)
Depreciation	(14,868)		(14,868)
Total Expenditure Savings	(658,465)	(174,485)	(832,950)

6. Capital

6.1. Capital spend in 2021/22 was £145k in Q1, which is £127k favourable to budget. As the table below illustrates, there has been slippage in non-project capital costs (£82k) as well as the CMS replacement project (£33k). There is no indication that the projects will be underspent over their lifetime, but there may be a permanent underspend within the current year.

Capital Report	2021-22				
	YTD Original Budget	YTD Actual	Total Original Budget	YTD Budget Variance	Budget Variance
	£	£	£	£	%
	Information Technology	77,500	12,994	150,000	64,506
Office Equipment	17,500	0	70,000	17,500	100
Non Project Capital Costs	95,000	12,994	220,000	82,006	86
Reg Transformation and Improvement		(19,431)		19,431	0
Education Dynamic 365		4,279	50,000	(4,279)	0
FTP CMS Replacement - Phase 1&2	177,000	144,292	208,000	32,708	18
Data Platform		729		(729)	0
Reg Phase 3		2,566	500,000	(2,566)	0
Work Mobilisation					
Other Projects					
Total Major Projects	177,000	132,436	758,000	44,564	25
Total Capital	272,000	145,430	978,000	126,570	47

7. Cashflow and investments

7.1. The cash balance as at 30 June was £5,321k.

7.2. The cash policy is to maintain positive balances in all accounts. We are not, and do not forecast to be, in breach of this policy at any point during the year.

8. Reserves

8.1. HCPC general fund reserves opened in April at £2.896m. The budgeted deficit for the year is (£2.276m), which would give closing reserves of £620k. With income forecast to exceed target, but FtP costs likely to exceed budget and uncertainty around the in-year costs associated with estates moves, there are both pressures and opportunities which will impact on closing reserves.

Income and Expenditure

30 June 2021

Income by Activity	Year to date				Full Year Budget
	Actual	2021-22 Budget	Variance v Year to date Forecast	Variance v Year to date Forecast %	
Graduate Registration Fees	580,271	316,926	263,345	83	1,546,777
Readmission Fees	27,486	47,152	(19,666)	(42)	210,659
Renewal Fees	5,759,353	5,887,722	(128,370)	(2)	23,855,600
International Scrutiny Fees	599,520	320,551	278,969	87	2,027,303
UK Scrutiny Fees	63,693	101,649	(37,956)	(37)	885,771
Registration Income	7,030,323	6,674,000	356,323	5	28,526,110
Other Income	3,205	5,000	(1,795)	(36)	30,000
Investment Income	470	500	(30)	(6)	3,000
Rental Income GCC	43,750	29,167	14,583	50	117,000
Total Income	7,077,748	6,708,667	369,081	6	28,676,110
Chair	18,221	18,103	(118)	(1)	72,410
Chief Executive	307,450	333,539	26,089	8	1,041,118
Council & Committee	53,895	61,030	7,135	12	244,120
Communications	169,537	183,489	13,952	8	733,956
Data Intelligence Team	0	0	0	#DIV/0!	
Education	147,658	176,863	29,206	17	678,254
Office Services	555,855	672,173	116,318	17	2,652,482
Finance	229,800	249,852	20,053	8	881,227
Fitness to Practise	3,460,146	4,263,036	802,890	19	13,000,000
Human Resources	282,948	388,001	105,053	27	1,311,219
Human Resources Partners	60,420	58,033	(2,387)	(4)	232,132
IT Department	795,879	651,752	(144,126)	(22)	3,009,898
Major Projects	48,412	0	(48,412)	#DIV/0!	0
Project managers	84,023	153,977	69,954	45	475,446
Policy	117,392	154,219	36,826	24	683,994
Professional Liaison Team	43,570	39,946	(3,624)	(9)	233,207
Quality Assurance	(4)	0	4	#DIV/0!	0
Registration	770,539	681,932	(88,607)	(13)	2,793,358
Secretariat	155,910	155,408	(501)	(0)	621,633
Depreciation	261,964	276,428	14,464	5	1,090,844
PSA Levy	195,164	195,162	(2)	(0)	780,648
Apprenticeship Levy	8,777	8,498	(280)	(3)	33,990
Operating expenditure	7,767,555	8,721,441	953,886	10.9	30,569,937
Operating surplus/(deficit)	(689,807)	(2,012,774)	1,322,968		(1,893,827)
Other exceptional expenditure					
Transformation costs	120,947	197,580	76,633	12	382,580
Corporation Tax	0	0	0		0
	120,947	197,580	76,633	11	382,580
COVID 19 Changes					
Grant Costs		0	0	0	0
Grant Income	2,987	0	2,987	0	0
	2,987	0	2,987		0
Revaluation					
Revaluation on Freehold land and buildings	0	0	0		0
	0	0	0		0
Total surplus/(deficit)	(807,766)	(2,210,354)	1,402,588		(2,276,407)

Risks and Opportunities

A. 405 KPR and implications on FTP Hearings

The options for FTP Hearings as a result have different implications on the budget even though the cash implications may be similar.

A provision for the dilapidations for 405 KPR has been included in the 2020/21 accounts. The I&E for 2021/22 will be impacted by any variation once the actual cost of the dilapidations is crystallised. The current cashflow incorporates the payment of the dilapidations provision in December 2021.

The current plans are to remodel 184/186 KPR to allow for hearings capacity. The remodelling costs would be capitalised and depreciated in line with HCPC accounting policies. This would impact the depreciation budget for 2021/22. The alternative of using external spaces for a number of physical hearings is also being considered and will be required during the remodelling period. These costs will directly impact the FtP external meeting room hire expenses. The forecast of the mix of internal and external hearing capacity and the timing of its use has to be completed prior to a revised phased budget being finalised.

B. Aligning the FtP operational requirements with the FtP budget

The original proposed budget to deliver the FtP Improvement Plan put to PRC in February 2021 was £14.7m. With additional savings, such as increasing the assumption on use of virtual hearings and potential timing differences, this figure could be reduced to circa £14.3m. This proposed budget figure was based on a number of key assumptions provided to the Finance Team by the Head of FtP.

Ahead of PRC in March and Council ultimately approving the full year budget in July there was a priority given to reducing costs across the organisation in order to have a break-even position in FY2021/22 by the then Executive Director of Corporate Services.

To support this cost reduction aim the number of final hearings budgeted for was reduced from 40-45 per month to 35 per month. This was on the assumption that the average rate of new FtP concerns is circa 110 per month (which requires the need to complete 400-435 final hearings per year not to increase the volume of cases in progress (i.e. this would not reducing the backlog)). The cost for delivering this 'standstill' (in relation to hearings) FtP workplan was circa. £13.5m – £13.8m.

The FtP budget set of £13m enabled HCPC to almost balance the budget but will result in an increase in the number of cases awaiting a final hearing. An analysis of the working papers from the Finance team to support the £13m budget showed that it was calculated by using the 2020-2021 FtP outturn, removing the non-recurrent costs and then adding in the new expected non-recurrent costs. In a steady state this would be a good cross-check. However, 2020-2021 was not steady state with there being circa. 3 months with a reduced number of ICPs and 6 months with very few final hearings. As a result, the £13m budget has these reduced baseline volumes of ICPs and Final Hearings built into the budget. This also does not align the budget planning assumptions (e.g. number of ICPs and hearings etc.) provided by the Head of FtP as part of the budget setting process.

The Q1 actuals for FTP show a spend of £3.46m. This figure doesn't include circa. £0.33m for FTP Case Preparation Legal Fees where the method of invoicing by the legal firms was changed some cases were only invoiced at milestones rather than monthly WIP. The finance team did not change the accrual process. Therefore, the real spend for Q1 was circa. £3.79m which is a run- rate of circa £14.78m which is in line with the operating plan to deliver the FTP improvement plan.

The FTP budget was finalised by the Executive Director of Corporate Service effectively reduced the £14.3m required to deliver the operational plan to the £13m which provided a balanced overall budget for the HCPC. The primary impact of this will be a delay in hearings.

The £13m budget is circa £500-800k short of the standstill position required by hearings and is due to incorrect assumptions being used by the Finance team when finalising the budget.

The FtP Case Backlog was built up over several years when balancing the budget was given a higher priority to case progression, i.e. the number of Final hearings was limited by the budget rather than the number of Hearings required to conclude the cases in a timely manner. This built a contingent liability that will be realised as the backlog of cases is concluded. Reducing the FtP case backlog will result in HCPC setting deficit budgets, in the short-term, using the cash from pre-paid registrant fees to fund the deficit. This will mean that HCPC will need to set surplus budgets in the medium term to rebuild the reserves.

C. Increase in International Scrutiny Fees and Related Fee Income

The Registration budget and the HCPC registrant forecast is based upon receiving 3,833 international applications this financial year. In Q1, HCPC received 1,430 international applications which is 36% more than forecast.

The NHS is continuing to recruit internationally and with the lifting of travel restrictions it is expected that international applications will continue to be received in quantities above the budgeted amount.

A working group has been established and will be reviewing the Registrant forecast numbers.