

25 November 2021

Finance Report - Management Accounts Quarter 2 - September 2021

Executive Summary

This report presents the financial position and activities as at the end of September 21, with a commentary on the major variances, risks and opportunities.

The operating deficit for the period to date is (£1,355k) compared to a budgeted deficit of (£1,907k). Income is £307k favourable to budget and operating expenditure is £245k favourable to budget.

The forecast outturn for fee income is expected to exceed budget by circa £1m, predominately driven by the increase in international applications. Currently, based on the variance to date, the further increase in outturn will be over £600k. The timing difference in the processing of the UK and International applications (i.e. applications received by not processed) means that we expect a significant increase in the October figures.

The variance on expenditure principally relates to Fitness to practice, Registration and the IT departments which are (£168k), (£162k) and (£211k) over budget respectively and facilities management and Policy are £172k and £114k under budget.

The ELT has approved an overspend in Registration costs which will be net off by the additional income forecasted.

Currently the additional income up to September 21 is £307k compared to Registration additional costs of £162k

The overspend in Fitness to Practice and Information technology is mainly due to the overall 2021/22 budget shortfall on legal costs and general software costs.

Risk and opportunities

Below are three principal risks and two opportunities to the approved budget:

- The financial implications of the decision to terminate the lease on 405 KPR which is an short term £1.2m cash impact with savings being realised over the longer period
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- Aligning the FTP operational requirements with the FTP budget
- The financial implication of energy prices rising

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 associated with restructuring the operations of FTP Hearings as a result of the termination of the lease on 405 KPR is £1.2m. The expenditure items were provided for in 2020/21 and the capital costs will be incurred in 2021/22.

Based on the year to date actuals for FTP; the forecast outturn for the year will be around £14.5m.

The main opportunities are in income, where renewals, international scrutiny fees are expected to exceed budget by over £1m and also the additional income from DHSC of £0.2m.

Previous consideration	The People and Resources Committee considered the paper at its meeting on 17 November 2021.
Decision	The Council is asked to: <ol style="list-style-type: none"> i. Note the latest management accounts position; and ii. Note the financial risks and opportunities.
Next steps	The quarter three report will be presented at the Council's February 2022 meeting.
Strategic priority	Relevant to the achievement of all strategic priorities.
Risk	<ol style="list-style-type: none"> 1. Our performance does not improve to a standard that enables us to achieve all the PSA standards of good regulation. In seeking to meet these standards we lose focus and lose standards in other areas. 5. The resources we require to achieve our strategy are not in place or are not sustainable.
Financial and resource implications	As described in the paper.
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September 21 Management Accounts

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 associated with restructuring the operations of FTP Hearings as a result of the termination of the lease on 405 KPR is £1.2m
- 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 cost for International Assessors will also increase accordingly.

2. Income

The income from the scrutiny fees are improving as reported in the Quarter 1 accounts. International scrutiny fees are now up by 38% and the UK scrutiny fee's unfavourable variance is now down to (6%) from (25%) in August.

- 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. There has been a slight improvement in the UK scrutiny income from August to the end of September; the unfavourable variance % has reduced from (25%) to (6%). This is mainly due to a shift of resources from processing International applications to UK applications. The processing of all applications is on track to significantly improve by October; and the increased income will be reflected in the figures.
- 2.3. For non-registration income, there is an opportunity in receiving £200k from DHSC for maintaining the temporary register.

Registration Income by Activity

Income by Activity	Actual YTD	Budget YTD	Variance YTD	Variance YTD	Full Year Budget	Outturn Forecast
	£	£	£	%	£	£
Renewal & Graduate Reg Fees	12,544,658	12,496,674	47,984	0	25,402,377	25,902,377
Readmission Fees	62,360	87,533	(25,173)	(29)	210,659	210,659
International Scrutiny Fees	1,199,470	870,394	329,076	38	2,027,303	2,527,303
UK Scrutiny Fees	498,793	532,186	(33,393)	(6)	885,771	885,771
EPC Income	3,705	15,000	(11,295)	(75)	30,000	0
Total Income by Category	14,308,986	14,001,787	307,199	2	28,556,110	29,526,110

3. Operating Expenditure

3.1. Overview

Reported operating expenditure is £245k favourable to budget. Payroll is underspent by £486k and non-payroll is overspent to date by £241k.

3.2. Staffing

HCPC Latest Headcount						
Department	Original Budget			Sept 21 Position		
	Permanent	Super-numerary	Total	Permanent	Super-numerary	Total
Chief Executive	7.0	0.0	7.0	6.0	1.0	7.0
Governance	9.8	1.0	10.8	9.6	1.0	10.6
Policy	10.0	0.0	10.0	7.0	1.0	8.0
Communication	6.0	0.0	6.0	3.0	1.0	4.0
Professional Liaison	4.0	0.0	4.0	2.0	1.0	3.0
Fitness to Practise	107.0	17.0	124.0	106.8	13.0	119.8
Registration	53.0	3.0	56.0	49.3	15.0	64.3
Education	12.0		12.0	12.0		12.0
IT & Digital	15.5	1.0	16.5	13.5	2.0	15.5
Business Change	6.5	1.0	7.5	3.5	1.0	4.5
Finance	9.0	5.0	14.0	6.0	4.0	10.0
HR	9.8	1.0	10.8	9.8	1.0	10.8
Office Services	9.0	1.0	10.0	9.0	0.0	9.0
Total	258.6	30.0	288.6	237.5	41.0	278.5

Average staff numbers were 10 below budgeted establishment, with 279 actual staff against 289 budgeted. There are 43 positions across the organisation covered by the use of agency staff.

YTD Pay expenditure variance is £486k favourable to the budget.

See agency table below:

Agency Table		
Department	No of Agency staff	Comments
Registration	18	12 Agency staff approved by ELT and 6 covering vacancies
FTP	14	Covering vacancies
Corporate Departments	8	Finance, IT, Business Change and HR - covering vacancies
PPID	3	Covering vacancies
Total	43	

The favourable variance on staffing will reduce in the final quarter of 21/22. There are new staff appointed in Policy, IT and Finance and recruitment is also underway in other departments that will reduce the variance.

- 3.2.1. Recruitment is £109k underspent, which is at least partly a timing difference, most departments have been participating in their recruitment drive over the summer.
- 3.2.2. Training is £44k underspent; 95% of the under spend is in the departmental budgets; and to some extent may be linked to the performance appraisal season; there will be a spike in the cost in the final two quarters of the financial year.

Note that both staff training and recruitment actual YTD costs are still below budget even after their budgets were reduced due to the efficiencies listed in section 5.

3.3. Overheads (non-staffing)

- 3.3.1. IT non-pay expenditure is (£142k) adverse to profile. This relates to software support.
- 3.3.2. Office running/property costs are £163k underspent, with permanent savings in the 405 Kennington property/utilities costs. Some of these costs in 184/186 and Stannary Street will increase as the organisation returns back to a new way of working and also the impact of the rise of energy prices.

3.4. Research costs

- 3.4.1. Research costs are currently under spent by £58k; there are existing plans to spend at least 80% of the £150k budget in the remaining months of this financial year.

3.5. Partner Costs

- 3.5.1. Registration partner costs are (£100k) overspent due to the increased requirement for international scrutiny partners which correlates with the additional income. There is a £34k underspend on other non-pay registration budgets; mainly on CPD Assessments.
- 3.5.2. Hearing costs are over budget by £44k; there has been a higher number of ICP panels and review hearings than planned in the first half of the financial year.

3.6. Legal and professional

- 3.6.1. FTP professional and legal costs are reported as (£274k) overspent. Contracts with Kingsley Napley, Blake Morgan and Capsticks comprise the bulk of this spend.
- 3.6.2. Other professional costs relating to hearings – Investigating and transcript costs are over budget by (£169k); mainly due to the 21/22 budget shortfall.

There are concerns about the run-rate of the cost of FTP. The current indication is showing that the forecast outturn including the unbilled work from Kingsley Napley will be £14.5m; which reflects the original budget that went to PRC in February 21 to deliver the FTP Improvement plan (See note on Risks on page 9)

4. Non-operating expenditure

- 4.1. Transformation costs is overspent by £29k. This is mainly due to the additional Estates adviser costs being allocated to the budget.

5. Savings and efficiencies

Any savings linked to an empty Stannary street can no longer be realised because it's now being occupied and used as a storage space. Also previous bankable utilities savings from exiting 405 will be reduced by the potential increase in energy prices.

- 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.
- 5.2. Up to the end of September 21; see below for the cashable benefits realised from the efficiencies identified in the 21/22 expenditure budget. New savings and efficiencies may crystallise from the decision to leave 405 KPR. There will be bankable savings from the rent and utilities for four months if the provision of short term room hire is less than the cost of the rent and utilities saved.
- 5.3. The additional income due to fee increase up to the end of September is very minimal at £34k; see below for the breakdown. The impact on the renewal and registration fees from the fee increase will start to impact the income numbers by October 21.

Impact of increased fees – Renewal fees: Impact starts in October 21

100 International scrutiny fees

4873 UK Scrutiny fees

129 Readmissions

Summary of Savings	Budgeted Savings & Efficiencies			Actual Savings & Efficiencies achieved			Comments
	Permanent	One-off	Total	Permanent	One-off	Total	
	£	£	£	£	£	£	
Office Services without exit of 405	-	(103,233)	(103,233)	(1,000)	(6,900)	(7,900)	Lease negotiations conducted in house and proceeds from sale of equipment from 405
Exit of 405	(62,450)		(62,450)	(22,485)		(22,485)	
Training and Staff Recruitment	(250,000)		(250,000)	(125,000)	0	(125,000)	Both budgets still underspent even after reduction in budget
Corporate Directorate Savings	(11,000)	(54,000)	(65,000)	0	0	0	
Regulation Directorate one-off savings		(17,252)	(17,252)		0	0	
Registration Costs	(309,750)		(309,750)	0		0	
Professional Practice and Insight Directorate Savings	(10,397)		(10,397)	0		0	
Depreciation	(14,868)		(14,868)	0		0	
Total Expenditure Savings	(658,465)	(174,485)	(832,950)	(148,485)	(6,900)	(155,385)	
Additional Income	1,485,311	344,798	1,830,109	33,715	0	33,715	Based on the new increased fees from July 21

6. Capital

- 6.1. Capital spend up to end of Sept 21 was £304k, which is £79k favourable to budget. £291k on Capital projects and £13k on non-project capital items. As the table below illustrates.

- 6.2. Most of the under spend is mainly due to the non-project capital items delayed spend. No planned spend on office equipment until after the re-modelling of 186 for additional tribunal rooms and there is some anticipated additional laptop spend in the month of October.

Capital Report					
			2021-22		
	YTD Original Budget	YTD Actual	Original Budget	Budget Variance	Budget Variance
	£	£	£	£	%
Information Technology	75,000	12,994	150,000	62,006	83
Office Equipment	35,000	0	70,000	35,000	100
Non Project Capital Costs	110,000	12,994	220,000	97,006	88
Reg Transformation and Improvement		55,765		(55,765)	0
Education Dynamic 365	25,000	6,308	50,000	18,692	75
FTP CMS Replacement	208,000	192,929	208,000	15,071	7
Data Platform		2,916		(2,916)	0
Reg Phase 3	40,000	33,468	500,000	6,532	16
Total Major Projects	273,000	291,387	758,000	(18,387)	(7)
Total Capital	383,000	304,381	978,000	78,619	21

7. Cash flow and investments

- 7.1. The cash balance as at 30 September was £7.92m.
- 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 £2.90m. The budgeted deficit for the year is (£2.28m), which would give a closing reserves balance of £0.620m. The September reserves closing balance is £1.68m compared to a budgeted reserves of £2.2m.
- 8.2. With income forecast to exceed target, but Regulation and IT costs will exceed budget and uncertainty around the in-year costs associated with estates moves, there are both pressures and opportunities which will impact on the closing reserves.

Income and Expenditure Account	Year to date		
	Actual	Budget	Variance
YTD up to end of September 21	£	£	£
Income (A)			
Registration Income	14,308,986	14,001,787	307,199
Rental Income	87,500	87,500	0
Investment Income	904	1,500	(596)
Income (A)	14,397,390	14,090,787	306,602
Expenditure			
Pay Costs	6,639,888	7,126,130	486,241
Non Pay Costs	8,556,232	8,293,011	(263,221)
Depreciation	556,266	578,569	22,303
Total Expenditure (B)	15,752,386	15,997,710	245,324
Operating Surplus/(Deficit) C= (A-B)	(1,354,996)	(1,906,923)	551,927
Corporation Tax	0	0	0
Turnaround Costs	321,482	292,580	(28,902)
Total Other Exceptional Expenditure	321,482	292,580	(28,902)
Grant Income	137,794	0	137,794
HCPTS Relocation Project	(19,538)	0	(19,538)
Total Grant Income/Project Cost (E)	118,255	0	118,255
Total Surplus/(Deficit) F= (C+E-D)	(1,558,223)	(2,199,503)	641,280
Transfer From (Deficit)/ To (Surplus) Reserves	1,558,223	2,199,503	(641,279)

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.

The current cash flow incorporates the payment of the dilapidations provision in December 2021. The current anticipated final dilapidations cost is £275k but not yet finalised. There is a current provision of £360k.

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 facilities budget for external meeting room hire expenses; which will reduce the current savings.

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 work plan 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 Q2 actuals to date for FTP is £7.25m. Therefore, the current outturn based on the run rate is £14.5m 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 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 and long term to rebuild the reserves.

C. Energy prices rising

Energy prices are due to rise by 50% or more; mainly due to wholesale prices increasing by 1 October 21. Most of the initial savings realised on the exit of 405 will be spent on the increased bills.

D. 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. Up to the end of September 21, the fee income from International scrutiny applications is 38% 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.

E. Additional income from DHSC

Grant income of £200k is expected from DHSC for this financial year to maintain the registrants' temporary register.

Income and Expenditure

30 September 2021

	Period 6	Year to date				Full Year
	Actual	Actual	2021-22 Budget	Variance v Year to date Forecast	Variance v Year to date Forecast %	Full Year Budget
Income by Activity						
Graduate Registration Fees	27,493	284,298	788,806	(504,509)	(64)	1,546,777
Readmission Fees	13,653	62,360	87,533	(25,173)	(29)	210,659
Renewal Fees	2,038,231	12,260,360	11,707,867	552,493	5	23,855,600
International Scrutiny Fees	238,452	1,199,470	870,394	329,076	38	2,027,303
UK Scrutiny Fees	178,340	498,793	532,186	(33,393)	(6)	885,771
Registration Income	2,496,169	14,305,281	13,986,787	318,494	2	28,526,110
Other Income	500	3,705	15,000	(11,295)	(75)	30,000
Investment Income	276	904	1,500	(596)	(40)	3,000
Rental Income GCC	14,583	87,500	87,500	0	0	117,000
Total Income	2,511,528	14,397,390	14,090,787	306,602	2	28,676,110
Chair	6,062	36,408	36,205	(203)	(1)	72,410
Chief Executive	86,067	562,649	639,817	77,168	12	1,041,118
Council & Committee	14,847	100,557	122,060	21,503	18	244,120
Communications	44,866	328,480	366,978	38,498	10	733,956
Data Intelligence Team	0	0	0	0	#DIV/0!	
Education	46,658	304,610	339,360	34,750	10	678,254
Office Services	205,836	1,140,398	1,312,471	172,073	13	2,652,482
Finance	89,931	476,729	444,986	(31,744)	(7)	881,227
Fitness to Practise	1,426,577	7,248,134	7,080,098	(168,036)	(2)	13,000,000
Human Resources	63,693	554,439	695,407	140,968	20	1,311,219
Human Resources Partners	5,898	85,522	116,064	30,542	26	232,132
IT Department	294,378	1,650,528	1,437,803	(212,725)	(15)	3,009,898
Major Projects: <i>without COVID 19 Costs</i>	(28,723)	16,866	0	(16,866)	#DIV/0!	0
Project managers	4,854	83,918	261,134	177,215	68	475,446
Policy	34,867	216,537	330,810	114,273	35	683,994
Professional Liaison Team	11,662	97,212	104,683	7,471	7	233,207
Quality Assurance	0	0	0	0	#DIV/0!	0
Registration	253,141	1,574,851	1,413,131	(161,720)	(11)	2,793,358
Secretariat	47,917	310,037	310,817	780	0	621,633
Depreciation	119,159	556,266	578,569	22,303	4	1,090,844
PSA Levy	65,055	390,327	390,324	(3)	(0)	780,648
Apprenticeship Levy	2,853	17,919	16,995	(924)	(5)	33,990
Operating expenditure	2,795,597	15,752,386	15,997,710	245,324	1.5	30,569,937
Operating surplus/(deficit)	(284,069)	(1,354,997)	(1,906,923)	551,926		(1,893,827)
Other exceptional expenditure						
Transformation costs	143,254	321,482	292,580	(28,902)	(4)	382,580
Corporation Tax	0	0	0	0		0
	143,254	321,482	292,580	(28,902)	(4)	382,580
Grant/Projects						
HCPTS Relocation Project	(19,538)	(19,538)	0	(19,538)	4	0
Grant Income	134,806	137,794	0	137,794	0	0
	115,268	118,255	0	118,255		0
Total surplus/(deficit)	(312,055)	(1,558,224)	(2,199,503)	641,279		(2,276,407)