
Finance Report

Executive Summary

This report presents the HCPC financial position as at the end of February 2022, with a commentary on the major variances, risks and opportunities.

The operating deficit for the year to date is £0.8m compared to a budgeted deficit of £2.2m and a forecast deficit of £1.4m.

Although an improvement compared to the budget and forecast, there are a number of risks, opportunities and timing differences in cost allocation to manage over the final period of the financial year.

Previous consideration	The operating deficit for January 2022 year to date was £1.43m compared to a budgeted deficit of £2.21m. The forecast outturn for the year was a deficit of £1.55m; compared to a budgeted deficit of £2.28m with a positive impact of £725k on the forecasted closing reserves balance.
Decision	Council is asked to review the February 2022 Finance Report.
Next steps	Adjust for any prior period corrections in March 2022 actuals. Thorough review of accruals, income reconciliations 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

Author Alan Keshtmand, Head of Finance
Alan.keshtmand@hcpc-uk.org

Margaret Osibowale, Financial Planning and Analysis Manager
Margaret.osibowale@hcpc-uk.org

Sponsor Alastair Bridges, Executive Director of Resource and Business
Performance
Alastair.bridges@hcpc-uk.org

Finance Report

1. Executive Summary

- 1.2 This report presents the financial position as at the end of February 2022, with a commentary on the major variances, risks and opportunities.
- 1.3 The operating deficit for the year to date is £0.8m compared to a budgeted deficit of £2.2m and a forecast deficit of £1.4m. Although an improvement compared to the budget and forecast, there are a number of risks, opportunities and timing differences in cost allocation to manage over the final period of the financial year.
- 1.4 We continue to project a year-end deficit of £1.5m as we anticipate a catch-up of costs for the year-end, which will come out of the deep-dive analysis of accruals, prepayments and projects' percentage of completion reports. There is an opportunity for us to further improve on the forecasted deficit of £1.5m, should the pace of international applications continue to grow above expectations.

2. Headlines

- 2.1 The reported deficit of £0.8m for the year to date is favourable compared to the profiled forecast deficit of £1.36m, which can be attributed to significant departmental underspends across the organisation and also the reclassification of facilities costs from operational expenditure to capital.
- 2.2 Detailed reviews are taking place during the final period of the financial year, which is expected to result in full-year actuals moving closer in line with the forecasted deficit. Expected movements include:
 - a. Accrued income, especially when we know with certainty the volume of international applications being processed compared to the prudent forecasted figures.
 - b. Accrued expenses in relation to late invoices, through reviewing outstanding purchase orders and contracts.
 - c. Deferred expenses pertaining to ongoing major projects.
 - d. Depreciation costs as per the latest estates valuation and updating of the fixed asset register.
- 2.3 Year to date income is £22k favourable to forecast. Based on the current rate of international applications that are being processed, it is likely we will exceed the forecasted volumes for the financial year.

- 2.4 Year to date operational expenditure (excluding turnaround and relocation project costs) is £0.42m favourable to forecast, which is from an underspend in both pay-related costs of £0.16m and non-pay expenditure (including depreciation costs) of £0.26m.

3. Income and Expenditure

- 3.1 Table 1 below summarises the impact of the reported position on HCPC's Income & Expenditure. The year to date deficit of £0.80m represents a favourable variance compared to the forecast deficit of £1.36m.
- 3.2 The forecast outturn for the financial year is a deficit of £1.55m. The position will be managed actively over the next month to mitigate any further risks and maximise opportunities.

Table 1.1: Income & Expenditure Account

	Feb-22 YTD Actual	Feb-22 YTD Forecast	Variance	Full Year Budget	Full Year Forecast	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Registration Income	27,505	27,483	21	28,556	30,007	1,451
Other Income	164	162	1	120	177	57
Total Income	27,669	27,645	22	28,676	30,184	1,508
Pay Costs	12,114	12,272	158	13,590	13,372	218
Non-Pay Costs	15,033	15,286	253	15,889	17,231	(1,342)
Depreciation	987	999	12	1,090	1,185	-95
Total Operating Expenditure	28,134	28,557	423	30,570	31,788	(1,218)
Corporation Tax	0	0	0	0	34	(34)
Turnaround Costs	496	489	(7)	383	528	(145)
* HCPTS Relocation Project	45	171	125	0	91	(91)
Total Expenditure	28,675	29,217	541	30,953	32,441	(1,488)
Grant Income	211	211	0	0	706	(706)
Total Surplus/(Deficit)	(795)	(1,361)	566	(2,277)	(1,551)	726

Table 1.2: Registration Income by Category

	Feb-22 YTD			Full Year
	Actual	Forecast	Variance	Forecast
	£'000	£'000	£'000	£'000
Renewal & Graduate Reg Fees	23,507	23,513	(6)	25,598
Readmission Fees	170	161	9	176
International Scrutiny Fees	2,923	2,945	(23)	3,295
UK Scrutiny Fees	898	860	38	938
EPC Income	7	4	3	0
Total Income by Category	27,505	27,483	21	30,007

4. Income

- 4.1 Total income for the year to date is £27.67m versus the forecast of £27.65m, which is close to forecast at a £22k favourable variance.
- 4.2 The forecast outturn for the full year is £30.18m compared to the original budget of £28.68m, which represents a £1.51m favourable variance. There is an upward trend in international applications with 5,141 applications having been received to date. An additional 800 applications are forecast to be processed in March 2022 with the help of PwC.
- 4.3 There is an opportunity for further applications above the forecast 800 in March to be processed, generating a net benefit of £200k in this financial year, in addition to the volumes assumed in the forecast.

5. Expenditure

- 5.1 Total operating expenditure for the year to date is £28.13m versus forecasted expenditure of £28.56m, which is a favourable variance of £0.42m. The majority of the variance relates to lower non-pay costs of £0.26m, which includes lower depreciation costs of £12k compared to forecast. The remaining £0.16m is associated with lower pay-related costs compared to forecast.
- 5.2 Departmental variances summarised below include lower pay costs of £158k for the year to date compared to forecast, arising as a result of turnover and unfilled vacancies. This favourable variance is forecast to reduce by year-end, as recruitment campaigns progress for FtP, Registration and Finance departments.

Note. Average FTE figures as at February 2022 were 283 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			Feb-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	111	13	124	0
Registration	53	3	56	49	14	63	7
Education	12	0	12	9	0	9	(3)
IT & Digital	16	1	17	13	2	15	(2)
Business Change	7	1	8	8	1	9	1
Finance	9	5	14	8	2	10	(4)
HR	10	1	11	10	0	10	(1)
Office Services	9	1	10	7	2	9	(1)
Total FTEs	259	30	289	246	37	283	(6)

- 5.3 Total non-pay costs are under forecast by £253k for the year to date, driven mainly by underspends across the majority of departments including FtP, IT, HR and Registration as reported below. Table 3 outlines the departmental variances for the year to date against the forecast.

Table 3: Year to Date Forecast Variances by Department

Department	Year to Date Forecast Variance	Favourable/Adverse	Note
FtP	136,000	Favourable	(a)
IT	111,000	Favourable	(b)
HR	79,000	Favourable	(c)
Registration	73,000	Favourable	(d)
Major Projects	58,000	Favourable	(e)
Other Departments	12,000	Favourable	(f)
Facilities Management	(46,000)	Adverse	(g)
Total Operating Expenditure	423,000		

- a) FtP - £136k underspend driven by timing issues with legal and agency costs compared to the forecast assumptions, which includes fewer final hearings held in Feb-22 than previously anticipated.
- b) IT - £111k underspend relates to understated software support costs of circa £44k, which will be reflected in Mar-22 actuals as a prior period adjustment. The remainder of the underspend relates to lower total costs from ongoing projects.
- c) HR - £79k underspend related to lower training and recruitment costs, with fewer vacant posts being filled than expected. There is likely to be an increase in the rate of spend in these areas as we approach year-end, as recruitment campaigns progress.
- d) Registration - £73k underspend relates to delays in recognising the cost of international assessors' fees compared to the forecast assumption. There will be a catch-up of costs in the Mar-22 reporting period with the processing of applications, which will also generate additional associated income.
- e) Major Projects - £58k underspend is associated with the delays in the implementation of non-capital projects, particularly for Cloud Telephony.
- f) Other Departments - £12k underspend mainly due to unfilled vacancies, lower communications spend and partner interview and training costs.
- g) Facilities Management - (£46k) overspend relates to costs being slightly overstated for the year to date with regards to business rates and rent. This will be corrected in the Mar-22 reporting period.

* **Note.** HCPTS Relocation Project – underspend of £125k versus forecast relates to the reclassification of operational expenditure to capital as a result of reviewing current costs. Additionally, the moving costs from Office 405 is significantly less than previously anticipated.

6. Risks and Opportunities

6.1 The forecast outturn deficit of £1.55m for this financial year is subject to potential year-end adjustments arising from the audit, not included in the risks and opportunities table below. There is a risk of slippage on some projects due to unfilled staff vacancies, which would result in a reduction in project costs this year that will be carried forward into the next financial year.

6.2 The table below summarises the remaining risks and opportunities as we approach year-end.

Risk Description	Probability	Area	Impact £'000
Financial implication of energy prices rising by over 50%	High	Property	50
Increase in the dilapidations provision for Stannary Street based on the valuation from the landlord	High	Property	106
Software maintenance costs for Microsoft invoices	High	Information Technology	44
Impairment of the current Finance System – Business Central	Medium	Write off/Fixed Assets	TBC

Opportunity Description	Probability	Area	Impact £'000
* Net increase in international scrutiny fees income if additional backlog applications are processed	High	Income	200
Reduction in the total cost of laptops to be issued to employees	High	Computer Capital Cost	40
Reduction in business rates and rent - Stannary Street basement	High	Property Costs	40

*** Note.** The net opportunity of £200k from international applications takes into account the costs of resourcing the additional workload through the surge capacity we have recently procured from PwC.

7. Balance Sheet and Reserves

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

Table 4: Balance Sheet

	Actual 28-Feb-22 £'000	Budget 28-Feb-22 £'000	Forecast 31-Mar-22 £'000
Total Fixed Assets	10,288	10,467	10,743
Current Assets			
Other Current Assets	1,693	1,463	1,761
Cash & Cash Equivalents	11,284	8,233	9,186
Total Current Assets	12,977	9,696	10,947
Total Assets	23,265	20,163	21,690
Current Liabilities			
Current Liabilities	3,518	2,453	1,769
Deferred Income	17,420	16,220	18,433
Total Current Liabilities	20,938	18,673	20,202
Liabilities > 1 Year	85	360	0
Total Liabilities	21,023	19,033	20,202
NET ASSETS	2,242	1,130	1,488
Reserves	3,039	3,396	3,039
Surplus/(Deficit)	(797)	(2,266)	(1,551)
GENERAL FUND	2,242	1,130	1,488

7.2 HCPC opening reserves balance as at 1st April 2021 was £3.04m. The forecasted deficit for the year is £1.55m, which would give a closing reserves balance of £1.49m as at 31st March 2022.

Note. this balance does not include any movements anticipated from the revaluation of the 184/186 property or the impact of any system software impairments.

7.3 As at 28th February 2022, our reserves closing balance is £2.24m compared to budgeted reserves of £1.13m for the same period.

7.4 The cash balance as at 28th February 2022 was £11.28m. 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.

8. Capital Expenditure

- 8.1 Year to date capital expenditure related to Major Projects is £431k, which is roughly in line with the forecast at an £8k favourable variance.
- 8.2 The forecast outturn for the full financial year on project related capital spend is £648k and £87k for IT and office equipment (non-project related), compared to the budgeted spend of £758k.
- 8.3 The forecast outturn for the full financial year for the new tribunal suites is £734k with £459k having been spent to date.

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

Table 5: Capital Report

	Full Year	Year to Date		
	Latest Forecast	Previous Forecast	Actual	Forecast Variance
	£	£	£	£
Information Technology	87,359	87,359	87,359	0
Office Equipment	0	0	0	0
Non-Project Costs	87,359	87,359	87,359	0
Reg Transformation & Improvement	47,857	47,857	47,857	0
Education Dynamic 365	73,424	30,000	27,973	2,027
FTP CMS Replacement P1	211,023	211,023	211,023	0
Hybrid Working	155,000	0	0	0
Data Platform	2,551	2551	2,551	0
Online Experience	10,000	0	0	0
Landline Mobility	50,268	0	0	0
Reg Phase 3	97,698	60,000	54,221	5,779
Total Major Projects	647,821	351,431	343,625	7,806
Total Capital	735,180	438,790	430,984	7,806
HCPTS Relocation Project	734,000	672,833	458,943	213,890