
Finance Report - September 2022

Executive Summary

This report presents the financial position as at the end of September 2022, with a commentary on the major variances, risks and opportunities. The operating surplus for the year to date is £2.4m compared to a forecasted surplus of £1.9m. 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	This is a standing report presented at each meeting
Decision	The Committee 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	Financial Sustainability
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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1. This report presents the financial position as at the end of September 2022, with a commentary on the major variances, risks and opportunities.
2. The operating surplus for the year to date is £2.4m versus the adjusted forecasted surplus of £1.9m. **Note.** The current forecast is the latest position that captures key developments since the Q1 forecast was produced (key movements from the Q1 forecast are highlighted in Table 7 within the appendices section).

Headlines

3. The reported surplus of £2.4m for the year to date is above the adjusted forecast of £1.9m, giving us a favourable variance of £0.5m. This is driven by:
 - a. £0.2m of additional income from international scrutiny fees.
 - b. £0.2m of aggregate departmental underspend mostly related to timing of costs.
 - c. £0.1m of office services underspend on general property costs.
 4. Detailed reviews have taken place in relation to the adjusted forecast for the 6 months' worth of financial activity. The latest forecast captures updates for the following areas (refer to Table 7 within the appendices section):
 - a. Hearing panels and legal costs for FtP.
 - b. Registration PwC costs.
 - c. Additional phasing of posts not yet filled.
 - d. Increased bank charges due to the additional transactions related to international scrutiny fees.
 - e. Increase in case and presentation costs.
 - f. Reduction of dilapidations provision for Stannary Street.
 5. The above exercise has generated a reduction in the full year forecast deficit from the Q1 forecasted deficit position of £874k to the latest forecasted deficit position of £205k, which is a positive movement of £668k (refer to Table 7 within the appendices section).
 6. This reduction of £668k against the Q1 forecast comprises of £328k of genuine bankable and recurrent savings with the remaining amounts relating to a reduction in dilapidations (one-off saving) and panel hearing and payroll costs related to timing of costs (deferred to FY2023-24).
 7. Year to date income is £18.4m compared with the latest forecast of £18.2m, which gives us a favourable variance of £0.2m. This is largely due to international scrutiny fees which exceeds forecast expectations with 395 additional applications over and above the forecasted 7,787 applications for September year to date, which comes to a total of 8,182 (total volume of international applications have been forecasted at 12,500 for the full year).
- Note.** A deep-dive exercise has been carried out on the renewal and registration fees and the most accurate projections will be updated as part of the October 2022 report.
8. Year to date operating expenditure is £0.2m favourable compared to the latest forecast. Pay related expenditure is roughly in line with forecasted figures, with the majority of underspend relating to non-pay expenditure, specifically for property costs (£0.1m) and training, communication and professional fees (£0.1m).

9. We have applied weighting against the quantified risks and opportunities with a view on the net impact on the latest forecast. Based on risks and opportunities materialising, this would result in increasing the forecast deficit from £0.2m to £0.22m or £0.27m.
10. The first half of the financial year 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.

Income and Expenditure

11. Table 1.1 below summarises the impact of the reported position on HCPC's Income & Expenditure.
12. The most up to date forecast outturn for the financial year is a deficit of £0.2m. 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

	Sept - 22 YTD			Full Year Forecast
	Actuals	Forecast	Variance	
	£'000	£'000	£'000	
Income	18,461	18,227	234	35,259
Total Operating Expenditure	16,435	16,680	245	35,270
Operating surplus/(deficit)	2,026	1,548	479	(11)
Other exceptional expenditure	173	153	20	697
* HCPTS Relocation Project	(30)	(43)	(13)	(43)
Grant Income	525	525	0	546
Total Surplus/(Deficit)	2,347	1,877	471	(205)

Table 1.2 - Registration Income by Category

	Sep-22 YTD Actuals			Full Year
	Actual	Budget	Variance	Forecast
	£'000	£'000	£'000	£'000
Renewal & Graduate Reg Fees	13,207	13,269	(62)	27,192
Readmission Fees	123	105	17	178
International Scrutiny Fees	4,382	4,187	195	6,731
UK Scrutiny Fees	630	565	65	951
Total Registration Income	18,341	18,125	216	35,053

Income

13. Total registration income for the year to date is £18.3m versus the forecast of £18.1m, giving us a favourable variance of £0.1m. As Table 1.2 outlines, this is mainly due to international scrutiny fees exceeding the forecast.
14. There continues to be an upward trend in international applications with 8,182 applications having been processed to date for September 2022. The higher volumes have been driven by accelerated processing of paper applications to clear an overall backlog of applications.
15. The 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.
16. The renewal and registration fee income has been calculated based on the latest number of registrants as at the end of September 2022. A deep-dive exercise has been carried out on renewal and registration fees. At present, this shows that the actuals to date are understated mainly due to under reported registrant numbers as a result of CRM related system issues. The system errors are now resolved and updated figures will be captured as part of October reporting.
17. Interest rates have increased since the budget was set from 0.1% to 0.7%, which has contributed to the increase in investment income (£15k for the year to date).

Expenditure

18. Total operating expenditure for the year to date is £16.4m versus forecasted expenditure of £16.6m, which is a favourable variance of £0.2m (refer to tables 3a & 3b).
19. 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	Favourable/Adverse	Note
Office Services	123,000	Favourable	(a)
Human Resources	51,000	Favourable	(b)
Other Departments	36,000	Favourable	(c)
Project Managers	34,000	Favourable	(d)
Total Operating Expenditure	245,000		

- a) **Office Services** - £123k underspend. £70k of the underspend relates to underutilised maintenance and professional fees. Another £18k of underspend against health & safety as well as £10k of postage costs, which we are expecting to incur in the next few periods.
- b) **Human Resources** - £51k underspend. £45k is driven by timing issues in relation to training spend. We are expecting a significant increase in spend in the next few months as individual development plans are completed as part of mid-

year reviews.

- c) **Other Departments** - £36k underspend. £24k underspend mainly related to the centralised legal spend, which will be utilised in the next few periods.
- d) **Project Managers** - £34k underspend. £28k is due to 4 unfilled vacancies. 2 new starters are expected in the next month and the remaining vacant posts should be filled by the end of the financial year.

20. 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
Overheads & Miscellaneous	97,000	Favourable	(a)
Property	47,000	Favourable	(b)
Professional fees	47,000	Favourable	(c)
Other Categories	47,000	Favourable	(-)
Pay	16,000	Favourable	
Staff Recruitment	(11,000)	Adverse	
Total Operating Expenditure	245,000		

- a) **Overheads & Miscellaneous** - £97k underspend. £45k is due to lower spend on training with expenditure expected to be incurred after development plans are finalised as part of mid-year reviews. Another £42k is related to underspend across other areas including postage, catering, appointments and health & safety.
- b) **Property** - £47k underspend. Related to overall building maintenance and refurbishments.
- c) **Professional fees** - £47k underspend. £35k mainly due to the underutilised professional fees that have been allocated for the sustainability strategy development.

21. Average FTE figures as at September 2022 were 320 versus forecast FTE figures of 339. There are currently 71 positions covered by fixed term contractors and agency workers.

Table 2: FTE by Department

	FY22-23 Forecast	Sept-22 FTEs			Variance
Department	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	3	1	4	1
Communication	6	6	0	6	0
Professional Liaison	6	3	1	4	(2)
Fitness to Practise	141	97	30	127	(14)
Registration	79	53	34	87	8
Education	12	10	2	12	0
IT & Digital	16	14	0	14	(2)
Business Change	15	6.5	1	7.5	(8)
Finance	15	12	1	13	(2)
HR	10	10	0	10	0
Office Services	9	8	0	8	(1)
Total FTEs	339	249	71	320	(19)

Risks and Opportunities

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

Risk Description	Probability	Full Year Impact	Weighting %	Weighted Impact	Weighting %	Weighted Impact
		£'000	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	1,000	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	Weighting %	Weighted Impact	Weighting %	Weighted Impact
		£'000	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
Additional Registration & Renewal income – system error of understated number of registrants	High	250	75%	188	75%	188
Further slippage in recruitment	Medium	180	25%	45	75%	135
Reduction in business rates and rent - Stannary Street basement and 184/186	Low	40	0%	0	25%	10
Total		2,170		1,508		1,608

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

Description	Weighted Impact	Weighted Impact
	Lower	Upper
Adjusted Forecast (excl. opps/risks)	(205)	(205)
Net Impact of opps/risks on Adjusted Forecast	(70)	(20)
Adjusted Forecast (incl. opps/risks)	(275)	(225)

Other Risks/Opportunities	Probability	Full Year Impact	Type
		£'000	
Increase in the total cost of laptops to be issued to employees	High	30	Risk
Cost of Extended Temporary Registers	High	TBC	Risk
NMC Case	Medium	TBC	Risk
Additional Partners travel and Accommodation costs savings	Medium	100	Opportunity
Extended Temporary Registers Income	High	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

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

Table 4 - Balance Sheet

	Actual 30-Sept-22 £'000	Forecast 30-Sept-22 £'000	Budget 31-Mar-23 £'000
Total Fixed Assets	10,104	10,380	11,162
Current Assets			
Other Current Assets	1,236	1,573	1,761
Cash & Cash Equivalents	18,302	17,770	6,088
Total Current Assets	19,538	19,343	7,849
Total Assets	29,642	29,723	19,011
Current Liabilities			
Current Liabilities	5,204	6,850	1,769
Deferred Income	20,495	14,417	16,552
Total Current Liabilities	18,140	21,266	18,322
Liabilities > 1 Year	85	85	0
Total Liabilities	18,225	21,352	18,322
NET ASSETS	3,858	8,371	689
Reserves	1,511	6,882	1,487
Surplus/(Deficit)	2,347	1,489	(798)
GENERAL FUND	3,858	8,371	689

24. HCPC opening reserves balance as at 1st April 2022 was £1.5m. The budgeted deficit for the year is £0.2m, which would give a closing reserves balance of £1.3m as at 31st March 2023.

25. As at 30th September 2022, our reserves closing balance is £3.9m compared to forecast YTD reserves of £8.4m for the same period. **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.

26. The cash balance as at 30th September 2022 was £18.3m. 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 cash-flow forecast by period once we verify the final figures for the current year, which should be ready for the Oct-22 finance report (refer to Table 8 Cash-Flow Projection in

appendices section)

Capital Expenditure

27. Year to date capital expenditure is £174k compared to a forecast of £378k, giving us an £203k favourable variance. This is mainly due to the timing of projects and invoices.
28. 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).
29. The capital forecast will be re-profiled again for the Q2 forecasting exercise basing it mainly on the timing of the project duration.

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	25,473	17,280	(8,193)
Major Projects	Description	£	£	£	£
Business Central	Business central re-implementation	489,220	0	42,852	42,852
Education Dynamic 365	Annual development of the Education system	40,000	1,187	6,732	5,545
Hybrid Working	Purchase of equipment to enable and implement hybrid working in the organisation	135,876	29,526	52,021	22,495
Data Excellence	Build a new data platform	90,831	0	12,976	12,976
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	44,056	82,353	38,297
Landline Mobility	Implement the landline system in the cloud	24,000	27,920	24,000	-3,920
Reg Phase 3	Registration system Product Development - Phase 3	315,345	46,094	139,420	93,327
Major Projects Costs		1,385,788	148,782	360,354	211,572
Total Capital Spend		1,560,068	174,254	377,634	203,380
HCPTS Relocation Project		29,469	31,623	29,469	11,166

Appendices

Table 7 - Q1 to Adjusted Forecast Movements

Details	Department	£	Notes
Q1 Forecast Deficit		(873,021)	
Reduction in panel hearing costs	Fitness to Practise	417,774	Based on actual trend of final hearings. Actual costs for Sep-22 YTD 35% lower than Q1 forecast due to lower case completion rates.
Correction of PwC forecasted costs	Registration	327,901	Over-forecasted costs in Q1 forecast amended.
Additional phasing of vacant roles	All Payroll	105,850	Additional phasing of 9 roles for months of Nov-22 and Dec-22.
Reduction in dilapidations provision	Facilities	142,725	Overprovision of dilapidations for Stannary Street.
Increase in case and presentation costs	Fitness to Practise	(222,192)	Proposed increase as a result of renegotiation of historic contracts.
Increase in Bank Charges	Finance	(103,785)	Increase in bank charges as a direct result of additional international applications.
Adjusted Forecast Deficit		(204,748)	

Table 8 Cash-Flow Projection

Cash Flow Projects	2022-23
Inflow	£'000
Opening Bal	8,240
Registration, Scrutiny fee & readmission fee	32,309
Rental Income GCC	175
Investment Income	2
HEE Funding	445
Temporary Register Income	101
Projected cash Inflow	33,032
Outflow	
Total cash outflow due to operating expenditure	(32,266)
Capital Expenditure	(419)
HEE Funding Associated Cost	(271)
Contingency	(168)
Projected cash outflow	(33,124)
Cash Surplus / (deficit) for the Financial Year	(92)
Closing Cash Bal	8,148

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