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## International Applications Income and Costings

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### Executive Summary

#### Overview of International Applications and Financial Performance

##### 1. Historical Context

Between 2018-2022, the HCPC received an average of 3,500 international applications annually, with a decline during the COVID-19 pandemic (2020-21).

Applications surged post-pandemic, with approximately 15,000 processed in 2022-23, far exceeding the budgeted 8,000.

##### 2. Current and Forecasted Trends

For 2023-24, around 13,500 applications were received, again surpassing the 8,000 budgeted figure.

The 2024-25 budget is set conservatively at 6,000 applications due to observed trends, but Q1 forecast suggests 8,000 applications by the end of the year, aligning with recent increases.

#### Financial Analysis

##### 1. Income and Cost Structure

- **Scrutiny Fee:** Each international application generates a fee income of £640.
- **Direct Costs:** Estimated at £393 per application, primarily related to resource costs such as International Assessors and the Registrations team.
- **Indirect Costs:** Estimated at £263 per application, covering legal, IT systems and external engagement costs.

##### 2. Contributions

- **Net Loss:** On a per-application basis, the total cost (£656) exceeds the fee income, leading to a net loss of £16 per application (around a 3% loss).
- At 8,000 applications, the HCPC is unable to cover both direct and indirect costs, resulting in a net loss. While economies of scale improve profitability up to 11,000 applications, beyond 12,000, additional indirect costs erode these gains.

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## Strategic Considerations

### 1. Scenario Planning

- An increase in applications initially benefits the HCPC due to economies of scale, but significant growth beyond 12,000 applications can lead to net losses due to rising indirect costs.

### 2. Key Actions

- **Stakeholder Engagement:** Continue working closely with key internal stakeholders to refine costings and financial forecasts.
- **Data-Driven Decision Making:** Use monthly data collection and analysis to inform ongoing financial planning.
- **System Enhancements:** Improve the financial system (Business Central) and integrate Power BI for more accurate and real-time reporting.

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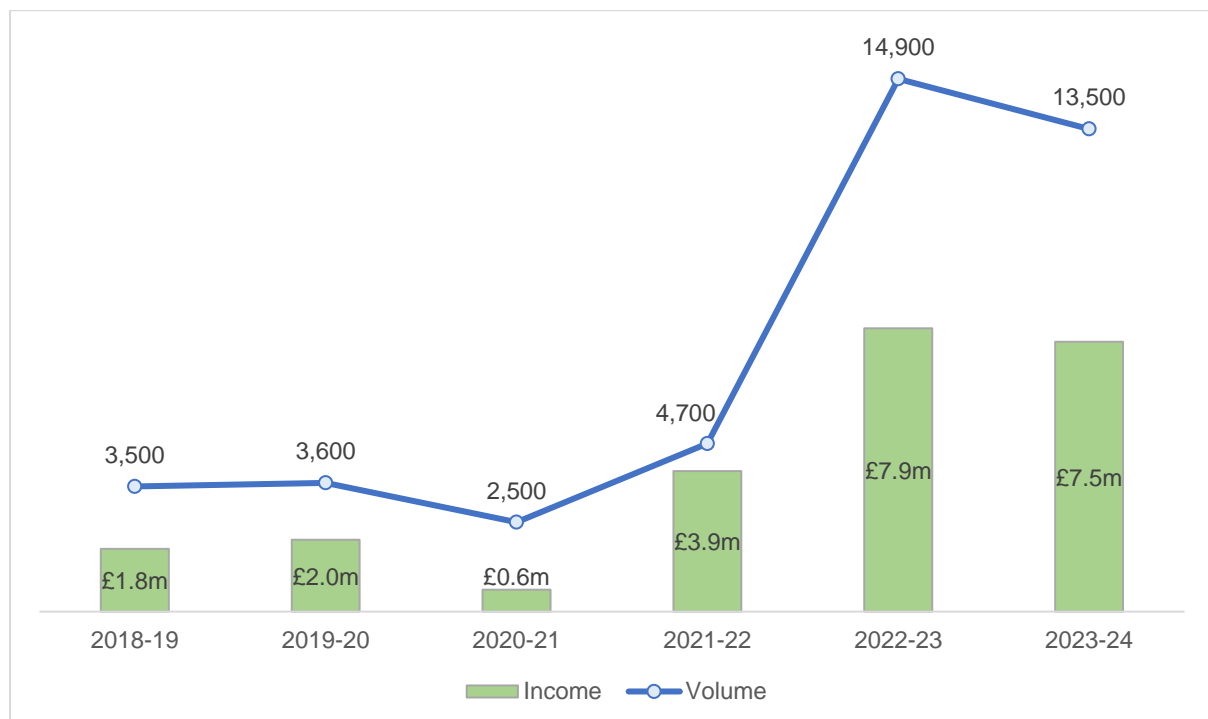
Previous consideration	This report was requested at the previous Committee meeting in June 2024, following a high-level discussion regarding the cost of international applications.
Decision	The Committee is asked to note the report.
Next steps	Gather further data and insight to validate indirect costs.
Strategic priority	Financial sustainability.
Financial and resource implications	As set out in the paper.
EDI impact and Welsh language standards	No direct implications.
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## International Applications – Income and Costings

### Background

1. Historically, between the years of 2018-19 to 2021-22, on average, the HCPC received around 3,500 international applications annually.
2. During 2020-21, there was a decline in applications due to the COVID-19 pandemic.
3. Applications began increasing significantly from 2021-22, leading to a backlog. PwC were hired to help manage the backlog and the surge in applications.
4. In 2022-23, the HCPC processed approximately 15,000 applications, exceeding the budgeted 8,000 applications.
5. For 2023-24, there were approximately 13,500 applications, surpassing again the budgeted 8,000 applications.

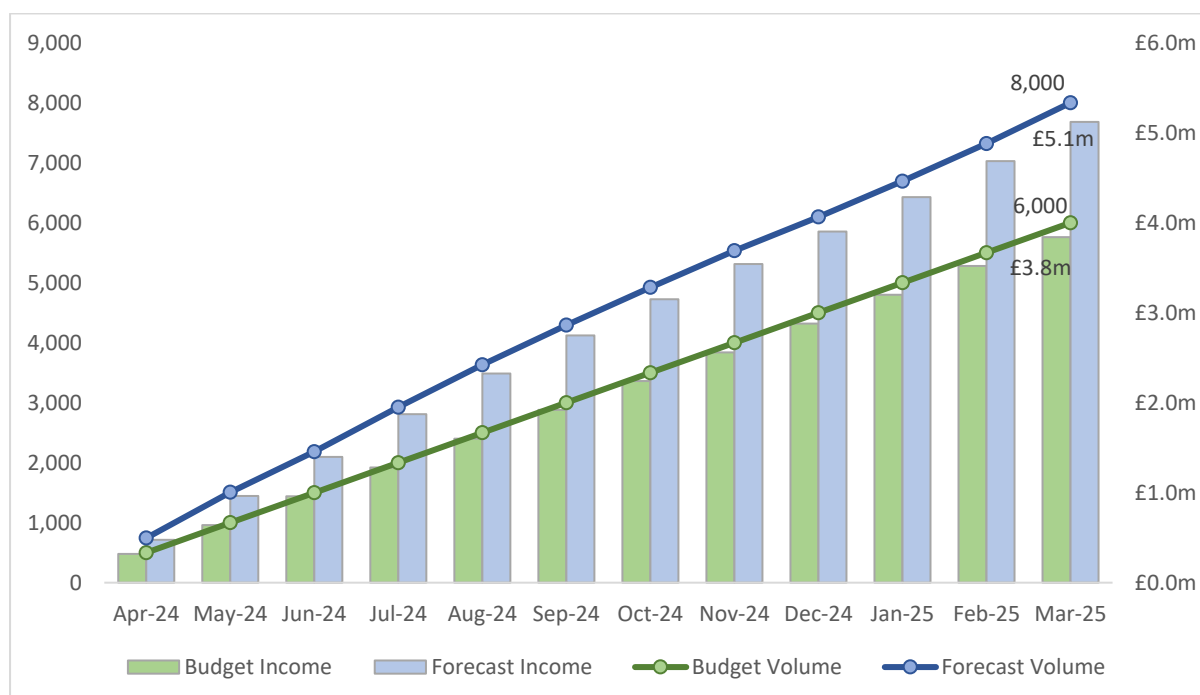
Figure 1: International applications – historic income and volumes



## 2024-25 Budget vs Forecast

6. The 2024-25 budget assumed 6,000 international applications for the full year, which took into consideration the drop in applications compared to the first half of the prior financial year for 2023-24 (averaging less than 600 applications from September 2023 onwards).
7. A point of clarification: the 2024-25 budget was deliberately set at a conservative level, acknowledging the potential for higher volumes with our flexible resourcing model being designed to accommodate any increase in demand. We did not assume that the post-September rate of 600 applications per month would necessarily persist; rather, we adopted this figure as a cautious budgeting assumption while recognising the potential for upside.
8. Between April and July 2024, volumes have been consistently above budget assumptions of 500 applications per month (average). The Q1 forecast has factored this trend, which results in an increase of 2,000 applications to give a total for 2024-25 of 8,000 (refer to 'Figure 2: International applications – 2024-25 budget vs forecast').

Figure 2: International applications – 2024-25 budget vs forecast (running total)



## Unit Costings

9. The scrutiny fee (fee income) charged per applicant is £640.
10. Estimated direct costs<sup>1</sup> are approximately £393 per application, resulting in a margin of about 40% or a contribution of around £247 per application.

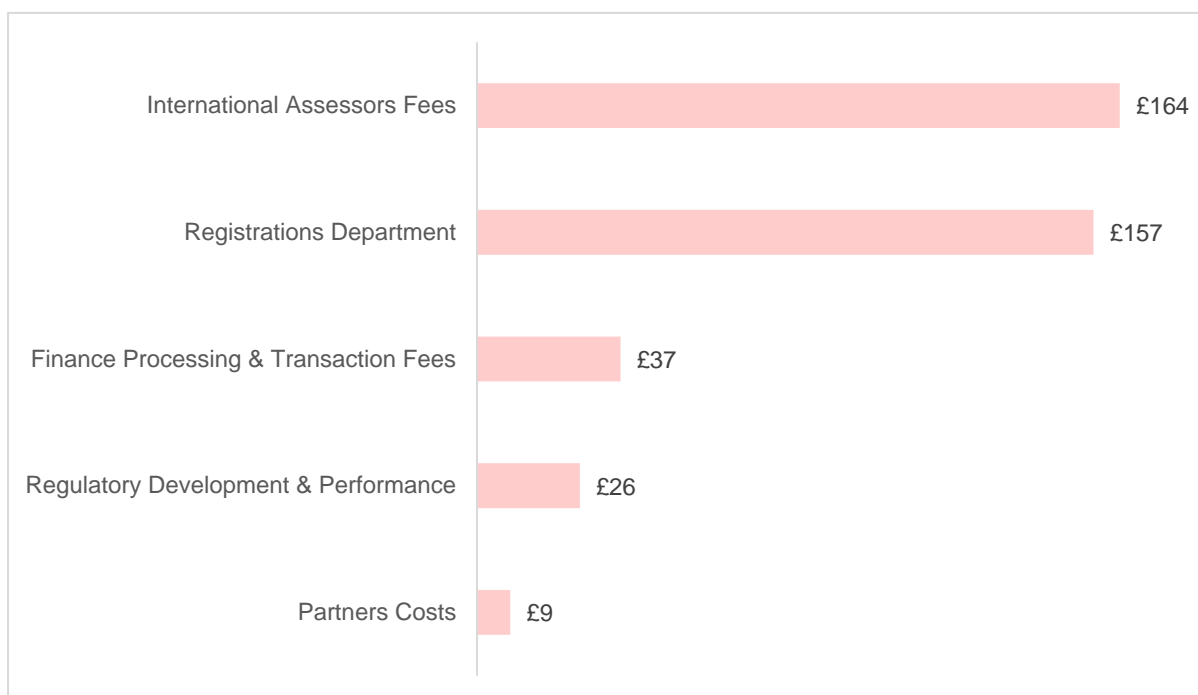
<sup>1</sup> Direct costs include application processing, verification and direct staff costs.

11. When including indirect costs<sup>2</sup> of around £263, the total cost per application increases to about £656, resulting in a net loss of approximately £16 per application or around 3%.

Figure 3.1: International applications – unit costings (summary)

Description	Amount (£)	Notes
Scrutiny Fee	£640	Income per application
Direct Costs	(£393)	Around 90% related to resource costs (refer to Figure 3.2: Direct Costs)
Contribution	£247	Approximately 40% gross margin
Indirect Costs	(£263)	Mostly legal, IT systems and external engagement costs (refer to Figure 3.3: Indirect Costs)
Total Costs	(£656)	Direct and indirect costs
<b>Net Profit/(Loss)</b>	<b>(£16)</b>	<b>Around 3% net loss</b>

Figure 3.2: Direct costs – unit costings (breakdown)



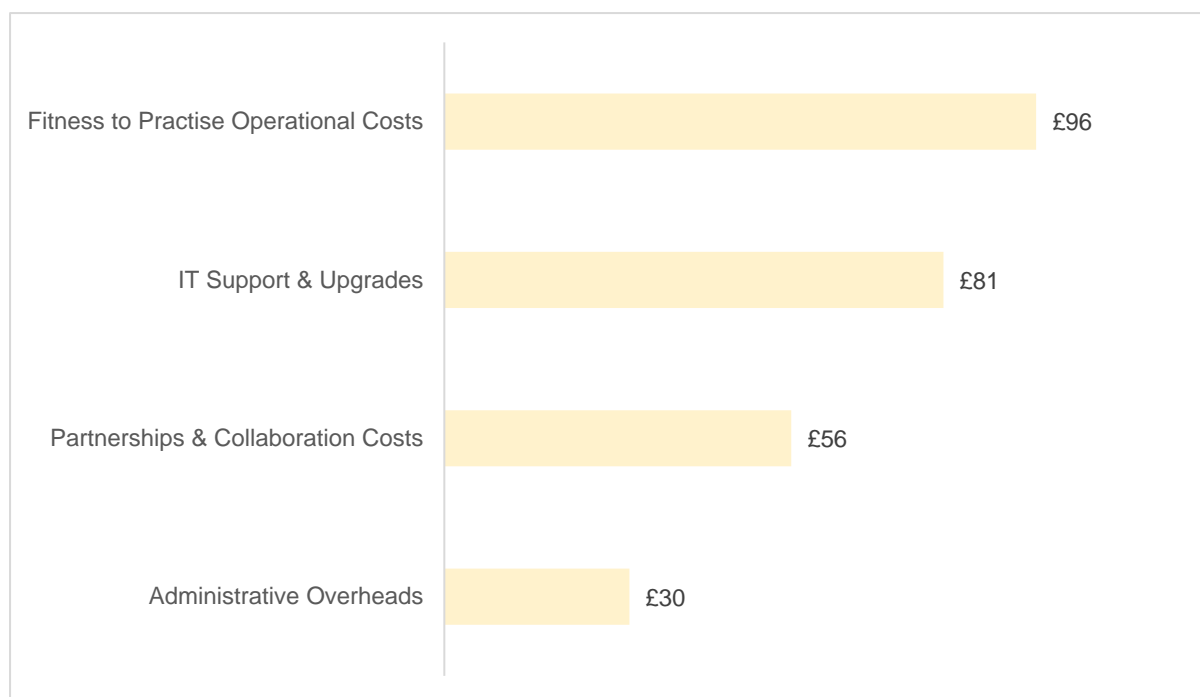
12. The majority of the £393 of direct costs per application relate to:

- a. International assessors, who look at applications and, based on the evidence provided, make a recommendation as to whether the applicant meets our standards of proficiency.

<sup>2</sup> Indirect costs are allocated based on the percentage of international registrants making up our total registrant base against relevant budget expenditure.

- b. International Registrations team, which consists of dedicated staff that manage international registrations for both applications and assessments.

Figure 3.3: Indirect costs – unit costings (breakdown)



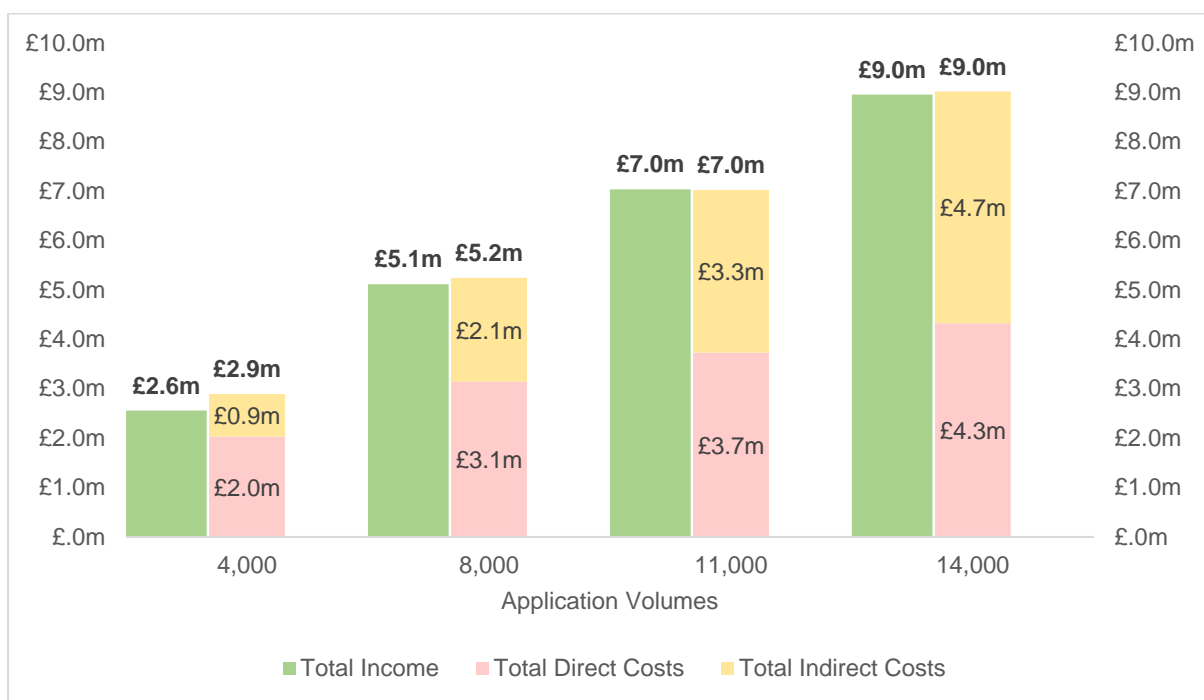
13. The majority of the £263 of indirect costs per application relate to:

- a. Fitness to practise operational costs, apportioned based on 15% of the scrutiny fee income of £640 per application. The percentage relates to the proportion of international registrants making up the total registrant base.
- b. IT support and upgrades, investing in technology to maintain and enhance the application process, improve user experience and ensure security and compliance.
- c. Partnerships and collaboration costs, engaging with international institutions, regulatory bodies and professional organisations to facilitate application processes and maintain standards.

14. At 8,000 applications, the income generated would not be sufficient to cover both the direct and indirect costs, leading to a net loss. As application volumes increase to 11,000, the HCPC initially benefits from economies of scale. However, beyond 12,000 applications, the net profit diminishes, resulting in a return to net loss.

15. This is because some indirect costs, such as those associated with the operational costs of managing legal cases, are apportioned based on income. As income increases, these costs also rise, offsetting the financial gains from higher application volumes (refer to 'Figure 4: International applications – scenario analysis').

Figure 4: International applications – scenario analysis



### Key Next Steps

16. Engage key stakeholders: continue to gather insights from Heads of Registration, Education, Data and Analytics and Finance, through established monthly income forecasting working group meetings to refine unit costings and understand the full financial impact of international applications.

17. Data collection and analysis: collate additional data as part of monthly-rolling forecasts, using this to inform future reporting and financial planning.

18. System enhancements: enhance the Business Central finance system to better capture accurate data on international applications, with an integrated approach using Power BI for comprehensive and real-time reporting.