Council

6 July 2023

Finance Report – May 2023

Executive Summary

As set out in the finance report, at this early stage in the new financial year the recent trend of high levels of demand from international applicants has continued, leading to additional income.

Overall expenditure has been overall close to budget, though with some variances in individual areas, including FtP legal costs resulting from the phasing of workload and cashable efficiency savings from the 33 Stannary Street exit now flowing through to the bottom line. Carry-over of some capital expenditure from last year for Business Central and some other projects has increased the capital forecast - new will do a re-forecast at the end of Q1 to test realism and ensure budgetary control.

There are a number of risks and opportunities being actively managed. Our reserves remain low pending a fee increase and ARAC recently discussed an interim approach in relation to our reserves policy.

Previous consideration	Previous finance report provided to Council in May 2023.
Decision	The Committee is asked to note the report.
Next steps	Finalising our reserves position following audit review of our income reconciliations (particularly around deferred income adjustments). Forecasting exercise due to take place for Jun-23 YTD Finance Report.
Strategic priority	Financial sustainability.
Financial and resource implications	The implications are set out in the report.
EDI impact	No direct implications.
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Finance Report – May 2023

1. Executive Summary

1.1 This report presents the financial position as at the end of May 2023, with a commentary on the major variances, risks and opportunities.

1.2 We are reporting an operating surplus for the year to date of £0.5m compared to a budgeted deficit of (£0.3m). Although an improvement compared to the budget, we are only 2 months into the financial year with a number of risks, opportunities and timing differences in cost allocation to manage over the remaining periods.

2. Headlines

2.1 The reported surplus of £0.5m for the year to date is a favourable position compared to the profiled budget deficit of (£0.3m), which can be attributed to the significant increase in international scrutiny fees income, registration & renewal fees and departmental underspends across the organisation (mostly related to timing of costs). We also have an element of recognised savings in exiting the lease for 33 Stannary Street, which was originally captured as part of the budget because settlement negotiations were still ongoing during the budgeting cycle.

2.2 Detailed reviews will be taking place for the next reporting period to ensure we have accurate figures on which to base our Q1 forecast. Similar to the year-end activities, expected movements include:

a. Associated costs directly attributable to the continuing upward trend of processed international applications.

b. Removing the budgeted costs related to 33 Stannary Street following the exiting of the lease as at 31st March 2023.

c. Review of FtP legal provider costs based on latest operational metrics and caseloads.

2.3 Year to date income of £6.4m compared to the budget of £5.7m gives us a favourable variance of £0.6m. As mentioned, this is largely attributed to the volume of international applications significantly exceeding budgeted assumptions.

2.4 Year to date operating expenditure of £5.8m is roughly in line with budgeted expenditure of £5.9m with a favourable variance of £100k. This is comprised of an underspend of £206k against pay-related costs that is partially offset by an overspend of (£109k) for non-pay expenditure (including depreciation costs).

3. Income and Expenditure

3.1 Table 1.1 below summarises the impact of the reported position on HCPC's Income & Expenditure. The year-to-date surplus of £0.5m represents a favourable variance compared to the budgeted deficit of (£0.3m).

3.2 The budgeted outturn for the financial year is a surplus of £123k. The position will be managed actively each period to mitigate any further risks and maximise opportunities as part of the monthly rolling forecasts.

Table 1.1 – Income & Expenditure Account

	May-23 YTD			Full Year
	Actual	Budget	Variance	Budget
	£'000	£'000	£'000	£'000
Registration Income	6,213	5,642	570	34,008
Grant Income	102	25	76	152
Other Income	49	59	(10)	357
Total Income	**6,364**	**5,726**	**636**	**34,517**
Pay Costs	2,510	2,716	206	15,121
Non-Pay Costs	3,147	3,051	(96)	17,862
Depreciation	183	170	(13)	932
Total Operating Expenditure	**5,840**	**5,937**	**97**	**33,915**
Transformation Costs	0	30	30	179
Contingency Costs	0	33	33	300
Total Expenditure	**5,840**	**6,000**	**160**	**34,394**
Total Surplus/(Deficit)	**524**	**(274)**	**476**	**123**

Table 1.2 – Registration Income by Category

	May-23 YTD			Full Year
	Actual	Budget	Variance	Budget
	£'000	£'000	£'000	£'000
Reg & Renewal Fees	4,934	4,728	206	28,522
International Scrutiny Fees	1,190	720	470	4,317
UK Scrutiny Fees	60	161	(101)	969
Readmission Fees	29	33	(5)	200
Total Registration Income	**6,213**	**5,642**	**570**	**34,008**

4. Income

4.1 Total income for the year to date is £6.4m versus the budget of £5.7m, giving us a significant favourable variance of £0.6m. As Table 1.2 outlines, this is mainly due to the higher volumes of international applications and higher registrant numbers than initially budgeted (mostly as a result of international applicants from the prior year flowing through as non-graduates for the current financial year). **Note.** UK Scrutiny Fees appear to be under budget due to the straight-line basis of allocating the income within the budget. The profiling of UK Scrutiny Fees will be carried out as part of the forecasting exercise to reflect the fluctuating nature of applications, particularly between the months of June and September, which are peak periods for applications.

4.2 There continues to be an upward trend in international applications with 2,219 applications having been registered to date compared with the budgeted volume of c1,333. This is already c28% of the 8,000 budgeted international applications for the entire financial year.

4.3 We also have additional grant funding income for the maintenance of the emergency temporary registers, which relates to back-dated income to account for the period of October 2022 to March 2023. Subject to potential audit adjustments based on the advice of our external auditors, the additional income could be recognised as part of the 2022-23 final accounts. **Note.** Due to the contract extension with the Department of Health and Social Care being signed this financial year, this income was not recognised during 2022-23.

5. Expenditure

5.1 Total operating expenditure for the year to date of £5.8m is roughly in line with budgeted expenditure of £5.9m, which is a favourable variance of £100k. Table 1.3 outlines the departmental variances against the 2023-24 budget.

Table 1.3 – Variance by Department

Department	Full Year Actuals vs Budget	Comment	Note
Fitness to Practise	(228,195)	Adverse	(a)
Chief Executive (Inc Vacancy Factor)	(123,473)	Adverse	(b)
Registration	(82,670)	Adverse	(c)
Facilities Management	370,944	Favourable	(d)
IT Department	66,610	Favourable	(e)
Human Resources	62,922	Favourable	(f)
Other Departments	36,886	Favourable	-
Total Operating Expenditure	103,024		

a) **Fitness to Practise:** **(£228k)** overspend due to timing of costs related to investigations and hearings for follow-through caseloads for the prior year (c£555k). This is partially offset by underspend in Partner and Payroll related costs (c£327k). As part of our usual forecast exercise, we will review our assumptions of projected case volumes for our external legal providers to reflect expected developments for the financial year. **Note.** Our signed contracts with legal providers are based on a fixed fee pricing arrangement, which ensures that we can accurately forecast costs going forward and maintain cost control with legal fees.

b) **Chief Executive:** **(£123k)** overspend relates to the budgeted 5% vacancy factor sitting within the Chief Executive area, whilst actuals for any phasing of unfilled vacancies were devolved to individual departments, i.e. any payroll savings as a result of unfilled vacancies for the organisation were captured for the specific departments they related to and not against the Chief Executive department. The vacancy factor will be removed as part of the Q1 forecast and devolved against individual departments for the phasing of roles. **Note.** If we exclude the vacancy factor, the Chief Executive department is under budget by c£11k (mainly payroll related).

c) **Registration:** **(£83k)** overspend relating to international assessors' costs associated with the increase in international applications (total volumes reached 2,219 versus budgeted volumes of 1,333) for which the costs are covered as part of the scrutiny fees.

d) **Facilities Management:** **£370k** underspend mainly comprising of:

   a. £299k underspend mainly as a result of savings associated with exiting the lease for 33 Stannary Street as of 31st March 2023. Costs for the 33 Stannary Street office were still included in the budget as negotiations had not concluded during the budgeting process for 2023-24. **Note.** This also includes a significant rebate (c£112k) issued by our legal firm (BDB Pitmans) for the favourable settlement agreement that was brokered with the landlord.
   b. £71k underspend for 184-186 Kennington Park Road (Main Office) mainly relating to a significant council tax rebate (£47k) as well as lower utilities costs compared to budget (£24k).

e) **Information Technology:** **£66k** underspend mostly around software maintenance and support costs. A high-level budgeted figure was agreed to ensure that any unanticipated costs were captured and actual spend will be monitored with a more detailed breakdown of expenditure items for the upcoming forecast.

f) **Human Resources:** **£63k** underspend mostly related to the timing of training & development costs and also lower recruitment fees than initially budgeted. The phasing of costs will be reviewed as part of the forecasting cycle.

Table 2 – Full Time Equivalents (FTEs) by Department as at 31st May 2023

Department	Actuals	Budget	Actuals vs Budget
Business Change	10	11	(1)
Chief Executive	6	9	(3)
Communications	6	6	0
Education	12	11	1
Facilities Management	7	9	(2)
Finance	14	16	(2)
Fitness to Practise	130	134	(4)
Governance	8	11	(3)
Human Resources	15	10	5
Information Technology	17	16	1
Insight & Analytics	4	5	(1)
Partners	2	2	0
Policy & Standards	9	11	(2)
Professionalism & Upstream Regulation	5	6	(1)
Registration	75	71	4
Total FTEs	**320**	**328**	**(8)**

Note.

a) FTEs of 320 (of which 29 are agency) represents 324 of headcount as per HR KPI Reports.

b) Figures represent a monthly snapshot in time and would include overlapping of starters/leavers.

i. Human Resources: reported figure of 15 includes 2 leavers in the month of May, 2 additional approved resources and 1 maternity cover.

ii. Registration: reported figure of 75 figure includes 2 leavers and 2 agency staff to backfill the positions. Budgeted and reported figures include the extension of international assessors.

6. Balance Sheet and Reserves

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

Table 3 - Balance Sheet

	Actuals as at 31-May-2023 £'000	Budget as at 31-Mar-2024 £'000
Total Fixed Assets	**9,736**	**9,652**
Current Assets		
Other Current Assets	2,669	14,027
Cash & Cash Equivalents	13,773	13,479
Total Current Assets	**16,442**	**27,506**
Total Assets	**26,178**	**37,158**
Current Liabilities		
Current Liabilities	5,969	3,822
Deferred Income	18,567	30,838
Total Current Liabilities	**24,536**	**34,660**
Liabilities > 1 Year	0	142
Total Liabilities	**24,536**	**34,802**
NET ASSETS	**1,642**	**2,356**
General Fund	(870)	(1,750)
Rev-Res Land & Building	(249)	(483)
Surplus/(Deficit)	(523)	(123)
GENERAL FUND	**(1,642)**	**(2,356)**

6.2 HCPC opening reserves balance as at 1st April 2023 was £1.1m (subject to audit adjustments - Please refer to Appendix 1 – Reserves Note). The budgeted surplus for the year is £123k, which would give a closing reserves balance of £2.4m as at 31st March 2024.

6.3 As at 31st May 2023, our reserves closing balance is £1.6m. **Note.** HCPC's reserves policy is to hold positive net assets, less intangible assets, which would require us to have reserves of around £9m.

6.4 The cash balance as at 31st May 2023 was £13.8m. The cash management policy is to maintain positive balances in all accounts. **Note.** We do not budget to be in breach of this policy at any point during the financial year.

6.5 Deferred Income is subject to change as detailed reconciliation exercises will be taking place on a quarterly basis. **Note.** The outcome of the final income reconciliations for 2022-23 will have a direct impact on our 2023-24 reserves position as the opening reserves balance of £1.1m will be subject to change which could result in a negative reserves position (as per point 6.2 above).

7. Capital Expenditure

7.1 Year to date capital expenditure related to Major Projects is £168k compared to the budget of £284k, giving us a £116k favourable variance (refer to 'Table 4 - Capital Spend').

7.2 We have deferred costs from 2022-23 of £315k for Major Projects in addition to the 2023-24 budget of £475k, which gives us a current forecast of £790k. The deferred costs are mainly for the following projects:

a. **Business Central (£216k)** – deferral of costs for the requirements gathering phase (£116k), reclassification of costs from Opex to Capex (£66k) and additional workshops and project time (£34k).

b. **Hybrid-Working (£132k)** – related to approved deferred capital expenditure.

c. **Online Applications/FtP CMS Product Development £34k** – recognised project savings of £43k for Online Applications, which is slightly offset by unbudgeted costs of (£9k) for the FtP CMS project.

7.3 Capital spend projections will go through regular reviews as part of monthly forecasting to accurately re-profile expenditure and reassess the split between operational and capital costs.

7.4 Unused approved Capex from the previous year will only be deferred for one year. Over a year, only exceptional proposals will be taken into consideration.

Table 4 - Capital Spend

		May-23 YTD	May-23 YTD	Approved	Approved	Opex to Capex	Full Year	
		Actual	Budget	B/F Capex	FY23-24	FY23-24	Jun-23 Forecast	Budget
Non-Project	**Description**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Information Technology	Software upgrades and System Maintenance	75,000	75,000	0	0	0	25,000	25,000
Office Equipment	Replacement for Obsolete Laptops and Desktop PC	25,000	25,000	0	0	0	75,000	75,000
Non-Project Costs		**100,000**	**100,000**	**0**	**0**	**0**	**100,000**	**100,000**
Major Projects	**Description**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Business Central	Microsoft Dynamics Business Central Re-implementation (Finance System)	35,919	89,100	116,362	34,000	66,000	446,362	230,000
Hybrid-Working	Purchase of equipment to enable and implement hybrid working in the organisation	132,151	132,151	132,151	0	0	132,151	0
FtP Front Loading	Implement workflow changes with FtP Case Management System to support new frontloading of investigation processes.	0	0	0	0	0	50,000	50,000
FtP CMS Product Development	New Case Management System Product Development - Phase 2	0	0	0	8,544	0	8,544	0
Online Applications	Enhancements to Online Applications experience for UK and International applications and implementation of Online Concerns portal for capture of EDI.	0	17,909	0	(42,544)	0	107,000	150,000
Welsh Language Standards	Implement the directives from the Welsh Language commission to ensure systems and process are compliant.	0	20,000	0	0	0	20,000	20,000
HR Recruitment Model	Replace the legacy recruitment module with the CoreHR system with a new customer focused approach	0	25,000	0	0	0	25,000	25,000
Total Major Projects		**168,070**	**284,160**	**248,513**	**0**	**66,000**	**789,513**	**475,000**
Total Capital Spend		**268,070**	**384,160**	**248,513**	**0**	**66,000**	**889,513**	**575,000**

Table 5.1 – Weighted Risks and Opportunities

Risk Description	Probability	Full Year Impact	Weighting	Weighted Impact
		£'000	%	£'000
Extension of Registration Assessors to manage upward trend of international applications.	High	500	75%	375
Additional FtP legal costs – case volumes and transfer costs between legal providers	Medium	300	50%	150
Facilities – cost of replacing boilers (x4)	Medium	80	50%	40
Facilities - front glazing issue at 186 Kennington Park Road building	High	70	90%	63
Partners – deferred training costs from 2022-23	Low	36	25%	9
Total		**986**		**637**

Risk Description	Probability	Full Year Impact	Weighting	Weighted Impact
		£'000	%	£'000
*Increase in contribution from international applications as per current trend	Medium	1,128	75%	846
Total		**1,128**		**846**

* Assuming original budget of 8,000 applications increases to 12,000

Table 5.2 – Unquantified Risks and Opportunities

Description	Type	Probability
Underutilisation of NMC Provision for Partners	Opportunity	High
Additional Phasing of Vacant Posts	Opportunity	Medium
Regulatory Reform – Project Initiation Costs	Risk	Medium
Partners Employment Status (NMC Case) – Increase in Operational Costs (Payroll, Systems, Pension, Contracts, Rates, etc.)	Risk	Medium

8. Overtime

8.1 Regular monthly reports are produced to ensure that costs are monitored and controlled with senior management overview. Additional systems controls have been implemented to transfer final approvals for booked overtime to Head of Department level (previously at line manager level).

9. Appendix 1 – Reserves Note

9.1 HCPC's reserves policy is to maintain positive realisable net assets, calculated as total reserves less intangible assets (mainly computer software). The policy aims to ensure that the organisation has sufficient working capital to meet day-to-day running costs after taking into account long-term commitments and potential risks.

9.2 We are not currently compliant with our reserves policy: as at 31 March 2023 net assets less intangibles were -£3,739k. This year-end position is impacted by a number of one-off factors, including a provision for potential legal liabilities, and FtP legal costs brought forward into 2022/23. But even after allowing for these factors we are still around £1-1.5m adrift against the policy; this gap is fundamentally a product of our fee income shortfall.

9.3 At its meeting on 14 June the Audit and Risk Assurance Committee (ARAC) discussed an interim approach to our reserves in view of the current non-compliance with the policy. ARAC noted a number of mitigating factors for the risks created by this non-compliance:

- HCPC's significant cash balance, relating to the renewal cycle fees for individual professions.
- HCPC's statutory status, which creates an ongoing requirement for HCPC as an organisation to provide the regulatory functions for which we are statutorily responsible.
- The continuing high-level of demand from international applicants, giving a contribution to corporate overheads and the bottom line after direct costs.
- The improvements in financial management that HCPC has recently made, including setting a balanced budget for 2023/24
- The development of a financial sustainability strategy, including the current fees review; establishing medium-term projections as a framework for financial planning; the potential to move to more regular fee reviews in future; and the expectation that regulatory reform will in future enable us to secure changes to our fee-setting powers.
- A continued programme of cash-generating efficiencies, including giving up leased estate and investment in further system and process improvements, subject to capital affordability.

9.4 These mitigations give assurance that HCPC remains financially viable and a going concern, while highlighting the importance of continued strong financial management and the fees review to address our funding gap.

9.5 Alongside this interim approach, the current reserves policy is currently under review and ARAC will discuss an updated draft in September, taking account of recent developments.