

Finance Report

Executive Summary

This report presents the financial position as at the end of December 2021, with a commentary on the major variances, risks and opportunities. The operating deficit for the year to date (YTD) is (£1,440k) compared to a budgeted deficit of (£2,172k). Although an improvement compared to budget, there are a number of risks and opportunities to manage over the remainder of the financial year. We continue to project a year-end deficit, which will weaken our reserves and balance sheet.

Previous consideration	The management accounts have been reviewed by the ELT in January 2022.
Decision	Council is asked to note the: <ul style="list-style-type: none"> • Latest Management Accounts • The financial risks and opportunities
Next steps	The People and Resources Committee will discuss the report at its meeting of 4 February 2022. The budget for 2022-23 will be presented to the Council at its March 2022 meeting.
Strategic priority	Build a resilient, healthy, capable and sustainable organisation
Financial and resource implications	Set out in the report.
EDI impact	No direct implications
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Summary

1. This report presents the financial position as at the end of December 2021, with a commentary on the major variances, risks and opportunities.
2. The operating deficit for the year to date (YTD) is (£1,440k) compared to a budgeted deficit of (£2,172k). Although an improvement compared to budget, there are a number of risks and opportunities to manage over the remainder of the financial year. We continue to project a year-end deficit, which will weaken our reserves and balance sheet.
3. **Income YTD is £1,000k favourable to budget. The forecast outturn is for a favourable variance of £1.3m.** There has been a significant improvement since September, driven mainly by an increase in international applications, and factoring in high-level accruals for deferred income. The processing of all applications has been on track since October and all income forecasts are on track to deliver apart from the readmissions income.
4. **On expenditure, the YTD position is £219k over budget, arising from pressures in** Fitness to practice (£620k), Registration (£365k) and IT (£388k) departments over budget, offset by underspends on Facilities Management (£375k), Policy (£164k), Business Change (£247k), Human Resources (£166k) and in other departments (£203k).
5. Pay is underspent YTD by £495k and non-pay operating expenditure is overspent by £219k, reflecting the variances summarised above.
6. ELT has authorised the additional Registration spend, to be funded from the additional income from international applications. The overspend in Fitness to Practice is driven by caseload volumes which have led to a shortfall on legal costs compared to budget assumptions.

Risk and opportunities

Risks	Description	Probability	Area	Impact £'000
Risk 1	Financial impact of terminating the 405 lease and repurposing part of 184/186 to tribunal hearing suites.	High	Estates	734k on Capital
Risk 2	Aligning the FTP operational requirements to the £13k budget approved in July 21.	High	Payroll	1,300
Risk 3	Financial implication of energy prices rising by over 50%	High	Property	50
Risk 4	The rise in cost of International application assessors and registration staff in correlation with the income opportunity	High	Registration	300

Opportunities	Description	Probability	Area	Impact £'000
Opportunity 1	Increase in International Scrutiny fees income	High	Income	750
Opportunity 2	HEE Partnership Funding	High	Other Income	445
Opportunity 3	Temporary register grant funding from DHSC	High	Other Income	202

Table 1: Income and Expenditure account

7. The table below summarises the impact of the reported position on HCPC’s I&E account. The YTD bottom line deficit of £1.4m represents a favourable variance compared to the deficit budget of £2.2m.

ELT will actively monitor the position over Q4 to mitigate the risks and maximise the opportunities summarised above.

A run-rate forecast has been included; work on a full year forecasting will be taken forward as part of finance improvement activities.

Income and Expenditure Account	Actual	Year to date Budget	Variance	Full Year Original Budget	Estimated Year-end Forecast
YTD up to end of December 21	£'000	£'000	£'000	£'000	£'000
Income					
Registration Income	22,234	21,243	991	28,556	30,396
Other Income	132	134	(1)	120	177
Income	22,367	21,376	990	28,676	30,572
Expenditure					
Pay Costs	9,973	10,469	496	13,590	13,206
Non-Pay Costs	12,629	11,892	(737)	15,889	16,746
Depreciation	827	849	22	1,090	1,103
Total Operating Expenditure	23,429	23,211	(219)	30,570	31,055
Corporation Tax	0	0	0	0	34
Turnaround Costs	421	338	(84)	383	503
HCPTS Relocation Project	144	0	(144)	0	190
Total Expenditure	23,995	23,548	(447)	30,952	31,782
Grant Income	188	0	188	0	684
Total Surplus/(Deficit)	(1,440)	(2,172)	732	(2,277)	(526)

Table 2: Balance sheet

Statement of Financial Position Balance Sheet	9 Months YTD Actuals Dec-21	Estimated Year-end Forecast Mar-22
	£	£
Total Fixed Assets	9,982	9,935
Current Assets		
Other Current assets	939	1,758
Cash & cash equivalents	8,475	11,655
Total Assets	9,413	13,413
Current Liabilities		
Trade and other payables	249	249
Other Liabilities	1,741	1,741
Deferred Income	15,723	18,846
Total current liabilities	17,713	20,836
Liabilities greater than one year	85	0
Total Assets less liabilities	1,597	2,512
General Fund b/fwd	(2,369)	(2,369)
Rev Reserve - Land & Building	(669)	(669)
This Period's (surplus) /deficit	1,440	526
General Fund c/fwd	(1,597)	(2,512)

Cash flow

8. The cash balance as at 31 December was £8.5m. The cash management 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 financial year.

Reserves

9. 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 December reserves closing balance is £1.6m compared to a budgeted reserves of £1.1m.
10. With income forecast to exceed target, but some costs exceeding 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.

Background information

Registration Income by Activity

Income by Activity	Actual YTD	Budget YTD	Variance YTD	Variance YTD	Full Year Budget	Outturn Forecast
	£	£	£	%	£	£
Renewal & Graduate Reg Fees	19,017,750	18,914,760	102,990	1	25,402,377	25,902,377
Readmission Fees	124,830	176,325	(51,495)	(29)	210,659	210,659
International Scrutiny Fees	2,269,493	1,362,425	907,068	67	2,027,303	2,527,303
UK Scrutiny Fees	818,572	766,787	51,785	7	885,771	885,771
EPC Income	3,480	22,500	(19,020)	(85)	30,000	0
Total Income by Category	22,234,125	21,242,797	991,328	5	28,556,110	29,526,110

Staffing

Average staff numbers as at December were 7.1 below budgeted establishment, with 282 actual staff against 289 budgeted. There are 39 positions covered by agency staff (see agency staff table below), down slightly from 43 in September.

HCPC Latest Headcount						
Department	Original Budget			Dec 21 Position		
	Permanent	Super-numerary	Total	Permanent	Super-numerary	Total
Chief Executive	7.0	0.0	7.0	6.0	0.0	6.0
Governance	9.8	1.0	10.8	9.6	1.0	10.6
Policy & IIA	10.0	0.0	10.0	7.0	2.0	9.0
Communication	6.0	0.0	6.0	5.0		5.0
Professional Liaison	4.0	0.0	4.0	2.0	1.0	3.0
Fitness to Practise	107.0	17.0	124.0	110.9	13.0	123.9
Registration	53.0	3.0	56.0	47.2	14.0	61.2
Education	12.0		12.0	9.0		9.0
IT & Digital	15.5	1.0	16.5	12.5	2.0	14.5
Business Change	6.5	1.0	7.5	7.5	1.0	8.5
Finance	9.0	5.0	14.0	7.0	4.0	11.0
HR	9.8	1.0	10.8	9.8		9.8
Office Services	9.0	1.0	10.0	7.0	2.0	9.0
Total	258.6	30.0	288.6	240.5	40.0	280.5

The YTD favourable variance on staffing will reduce in Q4, following the appointment of new staff in policy, IT, Professional Liaison and Finance and recruitment under way in other departments.

Agency Table		
Department	No of Agency staff	Comments
Registration	14	12 Agency staff approved by ELT and 6 covering vacancies
FTP	13	Covering vacancies
Corporate Departments	9	Finance, IT, Business Change and HR - covering vacancies
PPID	3	Covering vacancies
Total	39	

Training is £51k underspent; there is likely to be a spike in the cost in the final quarter of the financial year as we undertake performance appraisals. Recruitment costs are £114k underspent, which is partly a timing difference; most departments have been recruiting over the past quarter

Overheads (non-staff)

IT non-pay expenditure is (£339k) adverse to profile. This relates to software support.

Office running/property costs are £349k underspent, with permanent savings of £118k in the 405 Kennington property/utilities costs. Some of these costs in 184/186 and Stannary Street will increase as the organisation moves to hybrid working and also because of the rise in energy prices

Research costs

Research costs are currently under spent by £104k; there are existing plans to spend at least 50% of the £150k budget in the remaining months of this financial year.

Partner Costs

Registration partner costs are (£166k) overspent due to the increased requirement for international scrutiny partners which correlates with the additional income. There is a further £43k underspend on other non-pay registration budgets; mainly on CPD Assessments.

Hearing costs are under budget by £142k; there has been less reviews in the third quarter of the financial year. Also, the room hire costs should be linked to the 405 exit savings.

Legal and professional

FTP professional and legal costs are reported as (£695k) overspent. Contracts with Kingsley Napley, Blake Morgan and Capsticks comprise the bulk of this spend. Other professional costs relating to hearings – Investigating and transcript costs are over budget by (£234k); mainly due to the 21/22 budget setting 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 £14.4m; which reflects the draft budget that went to PRC in February 21 to deliver the FTP Improvement plan.

Non-operating expenditure

Transformation costs are overspent by £84k. This is mainly due to the additional Estates adviser and business transformation costs currently being allocated to the budget.

Savings and efficiencies

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)	(68,000)		(68,000)	Reduction in 405 Costs due to exit beginning of December 21 less room hire costs in FTP
Training and Staff Recruitment	(250,000)		(250,000)	(187,500)		(187,500)	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)	(256,500)	(6,900)	(263,400)	
Additional Income	1,485,311	344,798	1,830,109	200,954	868,613	1,069,567	Based on the new increased fees from July 21 and additional International scrutiny fees

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 a fraction of the bankable utilities savings from exiting 405 will be reduced by the potential increase in energy prices across the organisation.

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.

Capital

Capital spend up to end of Dec 21 was £425k, which is £39k favourable to budget: £338k on Capital projects and £87k on non-project capital items.

Most of the underspend is 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.

The over-spend on Reg Transformation and improvement is mainly due to 20/21 capital costs moving into 21/22.

Capital Report						
	2021-22					
	YTD Original Budget	YTD Actual	Original Budget	New Forecast	Budget Variance	Budget Variance
	£	£	£	£	£	%
Information Technology	112,500	87,359	150,000	150,000	25,141	22
Office Equipment	52,500	0	70,000	70,000	52,500	100
Non Project Capital Costs	165,000	87,359	220,000	220,000	77,641	47
Reg Transformation and Improvement		47,857			(47,857)	0
Education Dynamic 365	37,500	27,406	50,000	50,000	10,094	27
FTP CMS Replacement Phase 1	126,645	211,023	31,000	126,645	(84,378)	(67)
FTP CMS Product Development	85,000		177,000	177,000	85,000	100
Data Platform		2,551			(2,551)	0
Reg Phase 3	50,000	49,188	500,000	215,233	812	2
Total Major Projects	299,145	338,025	758,000	568,878	(38,880)	(13)
Total Capital	464,145	425,385	978,000	788,878	38,760	8