
Finance Report - Q1 Reforecast

Executive Summary

This report presents the financial position as at the end of July 2022, with a commentary on the major variances, risks and opportunities. The operating surplus for the year to date is £1.45m compared to a forecasted deficit of £1.15m. There are a number of risks, opportunities and timing differences (mainly in regards to HEE income of circa £0.45m for September 2022) 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	The Finance Report is part of regular management reporting
Decision	The Committee is invited to discuss the report
Next steps	Thorough review of balance sheet reconciliations, income recognition reviews and include additional figures for FTEs, Overtime, Balance Sheet and Major Projects to ensure all income and expenditure is accurately captured to report financial performance for the final draft of the report.
Strategic priority	The Finance Report supports the delivery of all of HCPC's strategic priorities and the corporate plan.
Financial and resource implications	The implications are set out in this report.
EDI impact	Procurement process will be querying suppliers' EDI policies as part of overall supplier management.
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Executive Summary

1. This report presents the financial position as at the end of July 2022, with a commentary on the major variances, risks and opportunities.
2. The operating surplus for the year to date is £1.5m versus the forecasted surplus of £1.2m.
3. Full year budgeted deficit was set at £0.8m and the latest forecast gives us a similar position with a deficit of £0.9m (£75k adverse variance). The key movements against the full year budget are as follows:

Budget vs Forecast – Key Movements

Income	Difference	Comments
International Applications Contribution	1,094,667	7,000 (budgeted applications) increased to 12,500 applications.
Chief Executive	-657,711	Removal of Vacancy Factor. Included £80k vacancy gap for Q1 forecast.
Fitness to Practise	-344,498	Additional costs from KN negotiations.
Major Projects: without COVID 19 Costs	-163,293	Change of capital policy.
Other	-4,404	
Variance to Budget	-75,239	

International Applications Contribution

Had international applications contributions remained as per the original budgeted, the 2022/23 deficit would have been significantly higher at **£2.3m**, an increase of £1.5m against the original budget deficit of £0.8m.

Headlines

4. The reported surplus of £1.5m for the year to date is above the forecast of £1.2m, giving us a favourable variance of £300k. Largely driven by £388k of expenditure underspend, which is partially off-set by lower income of £88k.
5. Detailed reviews have taken place, especially with regards to recognised income, similar to the year-end activities, expected movements include:
 - a. Accrued income, especially when we know with certainty the volume of international applications being processed compared to the prudent budgeted figures.
 - b. Associated costs directly attributable to the increased international applications processed.
6. Year to date income is £0.88m adverse to forecast. This is due to renewal and graduate registrant fees coming in lower than forecast. Volume of international applications have been forecasted at 12,500 for the full year. Grant income for maintaining the temporary registers has been phased in the budget for the end of Q1, Q2 and Q3 with HEE funding of circa £0.5m being recognised in Q2 (Sep-22).
7. Year to date operational expenditure (excluding turnaround and relocation project costs)

is £388k favourable to forecast, this is largely due to timing differences as we expect cost catch up in following months.

8. The favourable expenditure variance of £388k can be split into FtP lower case volumes that are expected to ramp up as we progress through the year in addition to the timing of Registration - PwC costs that are expected in Q2 and also Office Services costs.

Income and Expenditure

9. Table 1.1 below summarises the impact of the reported position on HCPC's Income & Expenditure.
10. The forecast outturn for the financial year is a deficit of £0.9m. 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

	Jul-22 YTD			Full Year
	Actual	Forecast	Variance	Forecast
	£'000	£'000	£'000	£'000
Registration Income	12,135	12,223	(89)	35,053
Other Income	68	67	1	207
Total Income	12,203	12,290	(88)	35,259
Pay Costs	4,694	4,713	18	15,061
Non-Pay Costs	5,656	6,026	370	19,878
Depreciation	330	330	1	999
Total Operating Expenditure	10,680	11,069	388	35,939
Operating surplus/(deficit)	1,523	1,221	301	(679)
Corporation Tax	0	0	0	0
Turnaround Costs	68	68	0	147
HEE Funding Associated Costs	2	2	0	271
Contingency Costs	0	0	0	279
Other exceptional expenditure	70	70	-0	697
* HCPTS Relocation Project	(43)	(43)	0	(43)
Grant Income	38	38	0	546
Total Surplus/(Deficit)	1,448	1,147	301	(873)

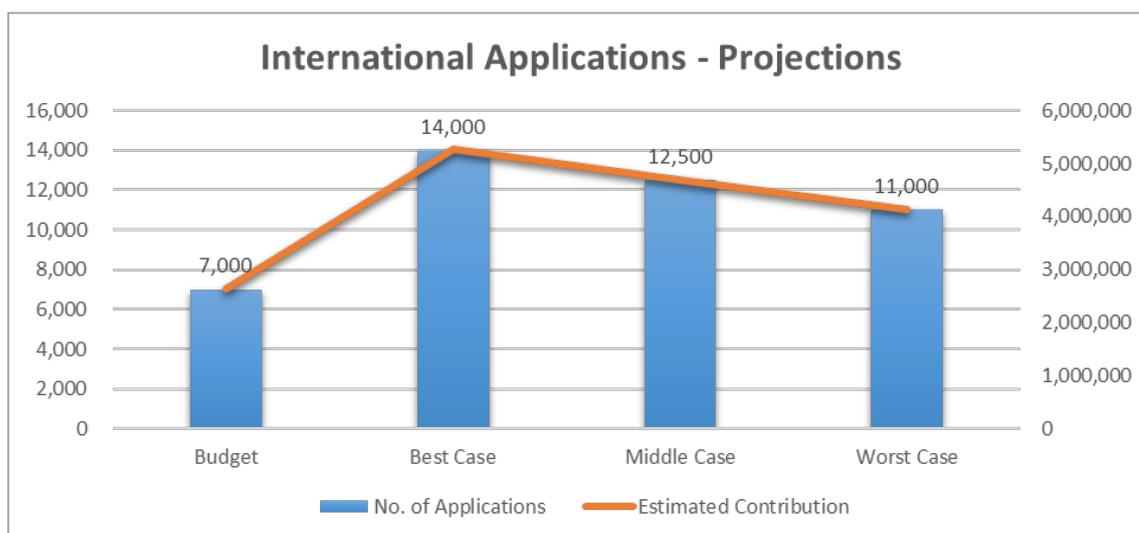
Table 1.2 - Registration Income by Category

Jul-22 YTD	Full Year
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	Actual	Forecast	Variance	Forecast
	£'000	£'000	£'000	£'000
Renewal & Graduate Reg Fees	8,611	8,687	(76)	27,192
Readmission Fees	78	75	3	178
International Scrutiny Fees	3,182	3,194	(12)	6,731
UK Scrutiny Fees	263	266	(3)	951
Total Registration Income	12,135	12,223	(89)	35,053

Income

- Total income for the year to date is £12.1m versus the forecast of £12.2m, giving us an adverse variance of £0.1m. As Table 1.2 outlines, this is mainly due to the decrease in Renewal and Graduate applications.
- There continues to be an upward trend in international applications with 5,927 applications having been processed to date. The higher volumes have been driven by accelerated processing of paper applications to clear an overall backlog of applications.
- We are projecting to continue to receive 800 – 1,000 applications for the next three months. Q1 forecast has been based on middle case estimations, resulting in a total of 12,500 international applications to be received by this financial year.



- The renewal and registration fee income has been calculated based on the latest number of registrants as at the end of July 2022. This is a change from the previous calculation that used a straight-line method of estimating income based on past trends. The current figures now provide a more accurate reflection of income for the first quarter of the financial year.
- Interest rates have increased since the budget was set from 0.1% to 0.7%, which has contributed to the increase in investment income (£9k for the year to date) compared to the budget.

Expenditure

- Total operating expenditure for the year to date is £10.7m versus forecasted expenditure

of £11.1m, which is a favourable variance of £388k (refer to tables 3a & 3b).

17. 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	Type	Note
Registration	126,000	Favourable	(a)
Fitness to Practise	122,000	Favourable	(b)
Other Departments	77,000	Favourable	-
Office Services	47,000	Favourable	(c)
Human Resources	16,000	Favourable	(d)
Total Operating Expenditure	388,000		

- a) Registration - £126k underspend relates to the increase in associated costs of international applications. This is mainly the costs of international assessors and the PwC surge costs timing differences.
- b) Fitness to Practise - £122k underspend. £120k is driven by timing issues with partner costs and professional fees relating to panel costs (mainly legal assessors), transcript writers, investigation costs and travel.
- c) Facilities Management - £47k underspend. £35k of underspend relates to overall maintenance. Costs are expected in Q2.
- d) HR - £16k underspend related to lower training and recruitment costs, with fewer vacant posts being filled than expected in staff recruitment.

18. Table 3b outlines the category of spend variances for the year to date against the budget.

Table 3b - Year to Date Forecast Variances by Category of Spend

Category of Spend	Year to Date Forecast Variance	Type	Note
Professional fees	229,000	Favourable	(a)
Overheads & Miscellaneous	82,000	Favourable	(b)
Pay	31,000	Favourable	(c)
Partners	24,000	Favourable	(d)
Other Categories	10,000	Favourable	
ICT & Computer	(4,000)	Adverse	
Staff Recruitment	(13,000)	Adverse	(e)
Total Operating Expenditure	388,000		

- a) Professional Fees - £229k underspend. 115K underspend with timing of PwC costs, in addition to professional fees relating to FtP hearing panel costs (transcript writing and investigation costs). There are a reduced number of final hearings held than budgeted as well as the timing of the reward scheme and estates rationalisation costs.
- b) Overheads & Specific Department - £82k underspend. £59k timing differences in general insurance finance. The remaining variance is due to departmental and organisational trainings costs expected in Q2, Q3 and Q4.
- c) Pay - £31k underspend is driven by vacancies.
- d) Partners – 24k underspend relates to FtP partner costs due to lower final hearings and less travel costs.
- e) Staff Recruitment - £13k overspent, costs came in a month earlier than forecasted.

19. Average FTE figures as at July 2022 were 308 versus forecast FTE figures of 339. There are currently 59 positions covered by fixed term contractors and agency workers. Main increase registrations (10 Registration advisors 1 Team Leader) and

Fitness to Practice (Maternity covers and long term sicknesses)

Table 2 - FTEs by Department

Department	FY22-23 Forecast	Jul-22 FTEs			Variance
	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	2	0	2	(1)
Communication	6	6	0	6	0
Professional Liaison	6	5	1	6	0
Fitness to Practise	141	94	32	126	(15)
Registration	79	51	21	72	(7)
Education	12	10	2	12	0
IT & Digital	16	14	0	14	(2)
Business Change	15	6.5	1	7.5	(8)
Finance	15	15	1	16	1
HR	10	10	0	10	0
Office Services	9	8	0	8	(1)
Total FTEs	339	249	59	308	(31)

Risks and Opportunities

20. The table below summarises the risks and opportunities as we approach the end of

the first quarter of the financial year.

Risk Description	Probability	Area	Full year Impact £'000
Financial implication of rising prices in energy and other property costs due to cost-of-living increases	High	Property	90
33 Stannary Street basement remedial works	High	Property	150
Increase in international assessors' costs	High	Registration/Partners	400
Increase in the total cost of laptops to be issued to employees	High	Computer Capital Cost	30
Kingsley Napley additional legal costs	High	FTP	300
Increase in recruitment and facilities costs relating to increased headcount and operational demands	High	Recruitment/Facilities	TBC

Opportunity Description	Probability	Area	Impact £'000
*Increase in international scrutiny fees income as per current trend	High	Income	700
Reduction in business rates and rent - Stannary Street basement and 184/186	Low	Property Costs	40
NHSEI Grant Income	High	Income (TBC)	1,000

* **Note.** The opportunity is based on 3,000 applications being received in the next 3 months. The average no. of applications processed in the last four months is 1,482.

Balance Sheet and Reserves

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

Table 4 - Balance Sheet

	Actual	Forecast	Budget
	30-Jul-22	30-Jul-22	31-Mar-23
	£'000	£'000	£'000
Total Fixed Assets	10,244	10,244	11,162
Current Assets			
Other Current Assets	1,572	2,367	1,761
Cash & Cash Equivalents	16,387	14,006	6,088
Total Current Assets	17,960	16,373	7,849
Total Assets	28,204	26,617	19,011
Current Liabilities			
Current Liabilities	4,850	5,531	1,769
Deferred Income	14,940	16,915	16,552
Total Current Liabilities	19,789	22,446	18,322
Liabilities > 1 Year	85	85	0
Total Liabilities	19,874	22,531	18,322
NET ASSETS	8,330	4,086	689
Reserves	6,882	2,940	1,487
Surplus/(Deficit)	1,448	1,147	(798)
GENERAL FUND	8,330	4,086	689

22. HCPC opening reserves balance as at 1st April 2022 was £1.5m. The budgeted deficit for the year is £0.8m, which would give a closing reserves balance of £0.7m as at 31st March 2023.

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.

23. As at 31th July 2022, our reserves closing balance is £8.3m compared to forecast YTD reserves of £4.1m for the same period.

24. The cash balance as at 31th July 2022 was £16.3m. 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.

Capital Expenditure

25. Year to date capital expenditure is £138k compared to a forecast of £176k, giving us a £38k favourable variance
26. 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).
27. The capital forecast has been re-profiled during the Q1 forecasting exercise and the split between operational and capital spend is aligned to the new capital policy.
- 28 The major projects operational costs forecast has increased by £163k due to point 3 above.

Table 5 - Capital Report

	Description	Full Year	Year to Date		
		Forecast	Actual	Forecast	Variance
		£	£	£	£
Non-Projects					
Information Technology	Includes infrastructure, property, software licenses and IT equipment costs.	174,280	17,280	17,280	0
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	17,280	17,280	0
Major Projects					
Business Central	Business central re-implementation	489,220	0	0	0
Education Dynamic 365	Annual development of the Education system	40,000	1,187	1,187	0
Hybrid Working	Purchase of equipment to enable and implement hybrid working in the organisation	135,876	24,069	24,069	-0
Data Excellence	Build a new data platform	90,831	0	0	0
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	32,401	40,915	8,514
Landline Mobility	Implement the landline system in the cloud	24000	12,000	12,000	0
Reg Phase 3	Reimplementation of the Finance System - Microsoft Dynamics Business Central.	315,345	51,458	80,779	29,322
Major Projects Costs		1,385,788	121,114	158,950	37,836
Total Capital Spend		735,180	138,394	176,230	37,836
HCPTS Relocation Project		0	29,469	0	(29,469)