

Finance Report – July 2023

Executive Summary

As set out in the finance report, there has been an upsurge in the recent levels of demand from international applicants over and above the previous forecast projections, leading to c£1m of additional income. This is as a result of additional entry requirements coming into effect from the beginning of September 2023, which has caused a major influx of applications in recent months. Overall expenditure is slightly higher than the latest Jul-23 forecast with an adverse variance of (£0.2m). The latest Jul-23 forecast gives us a significantly improved position with a surplus of £4.1m, which is c£0.9m favourable compared to the Jun-23 forecast and £3.1m favourable compared to Budget (reflects decision to set prudent budget without assuming that current trends would continue).

We continue to face a number of significant risks and future liabilities (Regulatory Reform, Partners Target Operating Model, FtP Legal Costs and NMC Provision), alongside the need to rebuild our reserves to a more sustainable level. This could potentially reduce the current forecast surplus of £4.1m to a more modest surplus position of c£100k if they materialise.

Carryover of some capital expenditure from last year for Business Central and other projects, such as Online Applications and Data Excellence, has increased our capital spend portfolio. Our reserves remain low pending a fee increase and ARAC recently discussed an interim approach in relation to our reserves policy. A revised reserves policy has been produced with the key changes surrounding the target reserves position of at least three months of operating expenditure, which would be c£9m compared to the current target of Net Realisable Assets (Net Assets less Intangibles) of c£3.5m.

Previous consideration	Previous finance report (Jan-23 actuals) provided to PRC in early March 2023.
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Decision	The Committee is asked to note the report.
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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 Aug-23 YTD Finance Report.
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Strategic priority	Financial sustainability.
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Financial and resource implications	The implications are set out in the report.
EDI impact	No direct implications.
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Executive Summary

1. This report presents the financial position as at the end of July 2023, with a commentary on the major variances, risks and opportunities.
2. We are reporting an operating surplus for the year to date (YTD) of £1.6m compared to our forecast surplus figure of £1.7m.
3. The full year forecast surplus was previously set at £3.2m and the latest Jul-23 forecast gives us a significantly improved position with a surplus of £4.1m (£0.9m favourable variance). This improvement reflects the recent surge in international income exceeding previous forecast assumptions. This is likely due to additional entry requirements where updated standards of proficiency for each of our 15 professions will come into effect on 1st September 2023. The key movements against the previous forecast (as at Jun-23) are as follows.

Jun-23 vs Jul-23 Forecast – Key Movements

Income	Full Year £'000	Comments
2023-24 Forecast Surplus	3,239	As at June 2023
International Applications Contribution	939	12,500 forecasted applications increased to 15,500 applications.
Other	(83)	-
2023-24 Forecast Surplus	4,095	As at July 2023

4. We continue to face a number of significant risks and future liabilities, alongside the need to rebuild our reserves to a more sustainable level. The potential impact of these key risks and liabilities against the latest forecast surplus of £4.1m are as follows.

Jul-23 Forecast Surplus– Including Key Risks and Liabilities

Income	Full Year £'000	Comments
2023-24 Forecast Surplus	4,095	As at July 2023 – Excluding Key Risks & Liabilities
Regulatory Reform	(1,300)	Estimated Project Resourcing Costs.
Reserves Build-up	(1,000)	Ring-fenced amount to build up depleted reserves.
NMC Partners Case Provision	(700)	2022/23 Provision removed as per external auditors' advice. This is a lower amount to account for lack of claims thus far.
Partner Target Operating Model	(500)	Estimated Implementation and Operational Costs (Payroll, Systems, Pension, Contracts, Rates, etc.)
Legal Costs	(500)	Additional legal costs related to FtP in order to meet PSA standards
2023-24 Forecast Surplus	95	As at July 2023 – Including Key Risks & Liabilities

5. The reported surplus of £1.6m for the YTD compared to our latest Jul-23 forecast of £1.7m gives us an adverse variance of (£0.1m). This can be attributed to (£0.2m) of overspend related to FtP legal costs, which is partially offset by £0.1m of additional income related to reg & renewal fees.
6. We will carry out detailed reviews of key trends for the next reporting period to ensure we have accurate figures on which to base our reforecast, including:
 - a. Associated income and costs directly attributable to the continuing upward trend of processed international applications.
 - b. Review of FtP legal provider costs based on latest operational metrics and caseloads.

7. Year to date operating expenditure of **£11.8m** is **(£0.2m)** adverse compared to the latest Jul-23 forecast of **£11.6m** for the year to date.

Income and Expenditure Account

8. Table 1.1 below summarises the impact of the reported position on HCPC's Income & Expenditure.
9. The forecast full-year outturn for the financial year is a surplus of £4.1m. The position will be managed actively to mitigate any further risks and maximise opportunities as part of the monthly rolling forecasts.

Table 1.1 – Income & Expenditure Account

	Jul-23 YTD			Full Year		
	Actual	Jul-23 Forecast	Variance	Jul-23 Forecast	Budget	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Registration Income	13,164	13,065	99	39,832	38,422	1,410
Grant Income	127	127	0	229	0	229
Other Income	132	105	27	313	543	(230)
Total Income	13,423	13,297	126	40,374	38,965	1,409
Pay Costs	5,012	5,051	39	15,904	15,994	90
Non-Pay Costs	6,473	6,208	(265)	18,798	18,321	(477)
Depreciation	333	366	33	1,098	932	(166)
Total Operating Expenditure	11,818	11,625	(193)	35,800	35,247	(553)
Transformation Costs	3	0	(3)	179	179	0
Contingency Costs	0	0	0	300	300	0
Total Expenditure	11,821	11,625	(196)	36,279	35,726	(553)
Total Surplus/(Deficit)	1,602	1,672	(70)	4,095	3,239	856

Table 1.2 – Registration Income by Category

	Jul-23 YTD			Full Year		
	Actual	Jul-23 Forecast	Variance	Jul-23 Forecast	Budget	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Reg & Renewal Fees	9,932	9,921	11	30,313	30,313	0
International Scrutiny Fees	2,798	2,797	1	8,356	6,946	1,410
UK Scrutiny Fees	377	287	90	969	969	0
Readmission Fees	57	60	(3)	194	194	0
Total Registration Income	13,164	13,065	99	39,832	38,422	1,410

Income

10. Total income for the year to date of £13.4m is £0.1m favourable compared to the Jul-23 forecast of £13.3m, mainly within Reg & Renewal fees attributed to additional international applicants from the prior year flowing through via the non-graduate pathway than previously anticipated. Further analysis based on input from the Insight and Analytics team indicates an incremental increase for the majority of professions on a monthly basis with the exception of the chiropodist/podiatrist profession, which indicates a slight decline.

11. The volume of international applications for the year to date is currently 5,199 (compared to 5,927 for the same period last year). It is possible that international applications could exceed c16,000 for the year if current trends continue. Based on latest figures and input from the Head of Registrations, we have projected an increase in the number of applications for the year to total 15,500 (we will continue to reassess as part of the rolling monthly forecasts). The recent upsurge in applications is likely as a result of updated standards of proficiency for each of our 15 professions that will come into effect on 1st September 2023, which will include revisions to reflect the extent of developments in practice within each of the professions.
12. Grant funding relates to the maintenance of the emergency temporary registers and includes 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.

Expenditure

13. As noted above, total operating expenditure for the year to date of **£11.8m** is **(£0.2m)** adverse compared to the latest Jul-23 forecast of **£11.6m**. Table 1.3 outlines the key variances for the year to date by department against the Jul-23 forecast.

Table 1.3 – Variance by Department

Department	Actuals vs Forecast £'000	Comment	Note
Fitness to Practise	(236)	Adverse	(a)
Business Change	(41)	Adverse	(b)
IT & Digital	(30)	Adverse	(c)
Facilities Management	40	Favourable	(d)
Human Resources	17	Favourable	(e)
Partners	15	Favourable	(f)
Others	42	Favourable	-
Total Operating Expenditure	(193)		

- a) **Fitness to Practise: (£236k)** Related to timing of costs of investigations and hearings for follow-through caseloads for the prior year as well as the transfer costs of cases between legal providers. We will continue to examine our projections of case volumes for our legal providers as part of our monthly reforecasts to account for anticipated developments through the financial year.
- b) **Business Change: (£41k)** Related to timing of costs for the Lean Sigma Consulting Services, which were incurred earlier than expected.
- c) **IT & Digital: (£30k)** Microsoft Enterprise renewal licences for general software and maintenance were received ahead of schedule. This will be reflected with regards to phasing in the next reforecast.
- d) **Facilities Management: £40k** Underspend mostly due to property costs such as refurbishing and cleaning supplies.
- e) **Human Resources: £17k** Underspend related to departmental training costs.
- f) **Partners: £15k:** Underspend related to training costs that were anticipated for the year to date.

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

Department	Actuals	Forecast	Budget	Budget vs Forecast	Note
Business Change	10	11	11	0	
Chief Executive	7	8	9	(1)	(a)
Communications	6	6	6	0	
Education	12	11	11	0	
Facilities Management	7	9	9	0	
Finance	13	16	16	0	
Fitness to Practise	131	134	134	0	
Governance	9	12	11	1	(a)
Human Resources	12	13	10	3	(b)
Information Technology	16	16	16	0	
Insight, Intelligence & Analytics	4	5	5	0	
Partners	2	2	2	0	
Policy & Standards	9	11	11	0	
Professionalism & Upstream Regulation	5	6	6	0	
Registration	81	77	71	6	(c)
Total Full Time Equivalents	324	337	328	9	

14. FTE figures for the finance report are based on a snapshot of the last day of the reporting period, ie as at 31st July 2023 (data is verified with the HR Department).

15. Actual Year to Date FTEs of 324 (of which 32 are agency).

Note.

- a) Chief Executive & Governance: Reallocation of the Head of Governance role from the Chief Executive department to Governance department.
- b) Human Resources: Additional roles include Maternity Leave cover, Learning & Development Specialist and HR Administrator, which are covered through the reduction of costs in recruitment fees.
- c) Registration: Increase resulting from the extension granted to team of international assessors originally budgeted to June 2023 (10 registration advisors and 1 team leader extended to December 2023).

Balance Sheet and Reserves

16. The impact of the reported position on the balance sheet is shown in the table below. **Note.** Due to ongoing year-end external audit reconciliations, figures for deferred income and other current assets (mainly accounts receivables) are estimates.

Table 3 - Balance Sheet

	Actuals	Budget
	as at 31-Jul-2023	as at 31-Mar-2024
	£'000	£'000
Total Fixed Assets	9,750	9,652
Current Assets		
Other Current Assets	1,070	14,027
Cash & Cash Equivalents	15,824	13,479
Total Current Assets	16,894	27,506
Total Assets	22,719	37,158
Current Liabilities		
Current Liabilities	6,371	3,822
Deferred Income	17,552	30,838
Total Current Liabilities	23,923	34,660
Liabilities > 1 Year	0	142
Total Liabilities	19,998	34,802
NET ASSETS	2,721	2,356
Free Reserves (Opening Reserves)	870	1,750
Revaluation Reserve (Land & Buildings)	249	483
Surplus/(Deficit)	1,602	123
GENERAL RESERVES	2,721	2,356

17. HCPC opening reserves balance as of 1st April 2023 was £1.1m (subject to audit adjustments - Please refer to Appendix 1 – Reserves Note). The forecast surplus for the year is £1.6m, which would give a closing reserves balance of £2.7m as of 31st March 2024. An updated balance sheet forecast will be produced for Aug-23 year to date actuals.
18. As of 31st July 2023, our reserves closing balance is £2.7m. **Note.** HCPC's reserves policy is to hold positive net assets (less intangible assets) with the aim of building reserves to c£9m.
19. The cash balance as of 31st July 2023 was £15.8m. The cash management policy is to maintain positive balances in all accounts. **Note.** We do not anticipate being in breach of this policy at any point during the financial year.
20. 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 15 above).

Capital Expenditure

21. Year to date capital expenditure related to Major Projects is £257k compared to the budget of £316k, giving us a £59k favourable variance (refer to 'Table 4 - Capital Spend').
22. We have deferred costs from 2022-23 of £424k for Major Projects in addition to the 2023-24 budget of £475k, which gives us a current forecast of £899k. The deferred costs are 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 (£86k)** – related to approved deferred capital expenditure.
 - c. **Online Applications/FtP CMS Product Development (£62K)** – related to approved deferred capital expenditure of (£96k), recognised project savings of £43k for Online Applications, which is slightly offset by unbudgeted costs of (£9k) for the FtP CMS project.
 - d. **Data Excellence (£60k)** – related to approved deferred capital expenditure.
23. 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.
24. 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

	Description	Jul-23 YTD	Jul-23 YTD	Approved	Approved	Opex to Capex	Full Year		
		Actual	Budget	B/F Capex	FY23-24	FY23-24	Jul-23 Forecast	Budget	Variance
Non-Project		£	£	£	£	£	£	£	£
Information Technology	Software upgrades and Systems Maintenance	0	0	0	0	0	25,000	25,000	0
Office Equipment	Replacement for Obsolete Laptops and Desktop PC	75,000	75,000	0	0	0	75,000	75,000	0
Non-Project Costs		75,000	75,000	0	0	0	100,000	100,000	0
Major Projects		£	£	£	£	£	£	£	£
Business Central	Microsoft Dynamics Business Central Re-implementation (Finance System)	128,164	178,199	116,362	34,000	66,000	446,362	230,000	(216,362)
Hybrid-Working	Purchase of equipment to enable and implement hybrid working in the organisation	86,181	86,181	86,181	0	0	86,181	0	(86,181)
FtP Front Loading	Implement workflow changes with FtP Case Management System to support new frontloading of investigation processes.	31,836	31,836	0	0	0	50,000	50,000	0
FtP CMS Product Development	New Case Management System Product Development - Phase 2	0	0	0	8,544	0	8,544	0	(8,544)
Online Applications Phase 1	Enhancements to Online Applications experience for UK and International applications and implementation of Online Concerns portal for capture of EDI.	0	0	95,907	0	0	95,907		(95,907)
Online Applications Phase 2		0	0	0	(42,544)	0	107,456	150,000	42,544
Welsh Language Standards	Implement the directives from the Welsh Language commission to ensure systems and process are compliant.	0	0	0	0	0	20,000	20,000	0
Data Excellence	Build a new data platform with standard data sets and reporting for consistent and rapid organisational use.	10,944	20,000	60,000	0	0	60,000	0	(60,000)
HR Recruitment Model	Replace the legacy recruitment module with the CoreHR system with a new customer focused approach	0	0	0	0	0	25,000	25,000	0
Total Major Projects		257,125	316,216	358,450	0	66,000	899,450	475,000	(424,450)
Total Capital Spend		332,125	391,216	358,450	0	66,000	999,450	575,000	(424,450)

Table 5.1 – Weighted Risks and Opportunities

Risk Description	Probability	Full Year Impact	Weighting	Weighted Impact
		£'000	%	£'000
Additional FtP legal costs – case volumes and transfer costs between legal providers	Medium	300	50%	150
Facilities - front glazing issue at 186 Kennington Park Road building	High	40	90%	36
Partners – deferred training costs from 2022-23	Low	36	25%	9
Total		376		195

Opportunity Description	Probability	Full Year Impact	Weighting	Weighted Impact
		£'000	%	£'000
*Increase in contribution from international applications as per current trend	Medium/High	376	75%	282
FtP – lower Panel Member costs	Medium/High	106	75%	80
Total		482		362

* Assuming forecast of 15,500 applications increases to 17,000

Table 5.2 – Unquantified Risks and Opportunities

Description	Type	Probability
Underutilisation/Removal of NMC Provision for Partners (historic costs relating to holiday pay from 2015)	Opportunity	High
Additional Phasing of Vacant Posts	Opportunity	Medium
Information and Technology – Potential savings arising from Software Maintenance and Support	Opportunity	Medium
Income Fee Rise – In effect before Winter renewal cycle for Radiographers (not in public domain)	Opportunity	Medium
Fitness to Practise – Potential savings arising from Partners and Panel costs	Opportunity	Low
Regulatory Reform – Project Initiation Costs	Risk	Medium
Partners Target Operating Model – Implementation and Operational Costs (Payroll, Systems, Pension, Contracts, Rates, etc.)	Risk	Medium

Overtime

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).

Appendix 1 – Reserves Note

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

We are not currently compliant with our reserves policy: as of 31 March 2023, net assets less intangibles were **-£3,739k**. This year-end position is impacted by several 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 to 1.5m** adrift against the policy; this gap is fundamentally a product of our fee income shortfall.

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 several mitigating factors for the risks created by this non-compliance:

- HCPC's significant cash balance, relating to the fees renewal cycle 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.

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.

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.

Appendix 2 – New and Current Tenders

Contract Renewals:

Area	Description of Service	Expected Contract Value	Expiry Date	Incumbent Supplier(s)	Procurement Route	Notes & Comments
Fitness to Practise	Provision of Case Management Services	£5,760,000	31/03/2024	Blake Morgan	CCS Framework Agreement RM3788	
Fitness to Practise	Provision of Case Management Services	£5,760,000	31/03/2024	Capsticks LPP	CCS Framework Agreement RM3788	
Communications	Provision of Communication Services	£320,400	31/03/2023	Luther Pendragon	CCS Framework Agreement RM6124	Contract has been extended to 31 st March 2024.
Information Technology	Reg system support & development	£191,000	31/01/2024	IBM	CCS - eMarketplace TS3	After Crown Commercial Services reviewed our current contract, they advised to go via eMarketplace-TS3. Direct Award is the best option to continue with IBM services.
Information Technology	Website hosting and CMS, support	£93,000	31/01/2024	Episerver	Direct Award - SSR 00000	Business Case, Obtaining the new quotation and Single Source Request are under preparation.
Information Technology	Website hosting and CMS, support	£23,000	31/01/2024	Twentysix	Direct Award - SSR 00000	
Information Technology	E-learning & employee performance	£40,000	31/03/2024	Kallidus	Direct Award - SSR 00000	
Fitness to Practise	Registrant Emotional Support Service	£26,400	31/01/2024	CIC	Direct Award - SSR 00000	
Information Technology	Business as usual support for the Education System	£21,600	31/03/2024	Syncronicity	Direct Award / SSR 042-22	Contract has been extended to 31 st March 2024.
Policy & Standards	Registrants Preparedness for Practise Research	£52,593	30/09/2023	University of Plymouth	Public Tender	Contract has been extended to 31 st March 2024.

New Tenders:

Area	Description of Service	Expected Contract Value	Expiry Date	Incumbent Supplier(s)	Procurement Route	Notes & Comments
Fitness to Practise	Printing & Digital Services	£60,000	To be Advised	To be Advised	Public Tender	Invitation to Tender document is under preparation.
Human Resources	Mandatory Sexual Harassment	£5,120	30/06/2023	Marshall ACM Ltd	Mini Tender	Tender Awarded.
Human Resources	Management Training for Fitness to Practise Department	£10,000	To be Advised	To be Advised	Mini Tender	On Hold.