
Finance Report – August 2023

Executive Summary

As set out in the finance report, there has been an upsurge in the recent levels of international applicants over and above the previous forecast projections, leading to c.£1m of additional income.

Overall expenditure is slightly higher than the latest Jul-23 forecast with an adverse variance of (£0.3m). The latest Aug-23 forecast gives us a significantly improved position with a surplus of £4.3m, which is c.£0.2m favourable compared to the Jul-23 forecast and £4.1m favourable compared to budget which reflects the decision to set a prudent budget without assuming that current trends of international applicants would continue.

We have actively monitored this and used the data to make decisions in year about the resources required to manage the demand – as reflected by the additional costs also highlighted in this paper (e.g. Registration Assessor costs).

We continue to face a number of significant risks and future liabilities (Regulatory Reform, Partners Target Operating Model, and NMC case provision), alongside the need to rebuild our reserves to a more sustainable level. This could potentially reduce the current forecast surplus of £4.3m to a more modest surplus position of c.£300k 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 the fee increase and the Audit and Risk Assurance Committee (ARAC) recently discussed an interim approach in relation to our reserves policy.

Previous consideration	Previous finance report provided to Council in July 2023.
Decision	Council is asked to note this 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 Sep-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 – August 2023

1. Executive Summary

- 1.1 This report presents the financial position as at the end of August 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 £2.9m compared to our forecast surplus figure of £2.4m.
- 1.3 The full year forecast surplus was previously set at £4.1m and the latest Aug-23 forecast gives us an improved position with a surplus of £4.3m (£0.2m favourable variance). The key movements against the previous forecast (as at Jul-23) are as follows.

Jul-23 vs Aug-23 Forecast – Key Movements

Income	Full Year £'000	Comments
2023-24 Forecast Surplus	4,095	As at July 2023
Investment Income	265	Investment income is favourable due to the increase in interest rates in our rolling deposit accounts. Moreover, we have successfully negotiated an interest rate of 3% to be applied on our Lloyds current account.
Corporation Tax	(108)	Increase in corporation tax is due to the increase in interest income. (Table 1.1 Point a)
2023-24 Forecast Surplus	4,252	As at Aug 2023
Variance to Budget	157	

- 1.4 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 £4.3m are as follows.

Aug-23 Forecast Surplus– Including Key Risks and Liabilities

Income	Full Year £'000	Comments
2023-24 Forecast Surplus	4,252	As at August 2023 – Excluding Key Risks & Liabilities
Regulatory Reform	(1,300)	Estimated Project Resourcing Costs.
Reserves Build-up	(1,500)	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.)
Underlying Risk Adjusted position	252	As at August 2023 – Including Key Risks & Liabilities

1.5 The reported surplus of £2.9m for the YTD compared to our forecast of £2.4m gives us a favourable variance of £0.5m. This can be attributed £0.9m of income (of which £0.8 is attributable to international scrutiny fees), which is offset by (£0.5m) of overspend related to FtP Legal Costs and Registration (increase in associated costs for international applications).

1.6 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:

- Associated income and costs directly attributable to the continuing upward trend of processed international applications.
- Review of FtP legal provider costs based on latest operational metrics and caseloads.
- Accounting for the potential income fee rise that is anticipated from 9th November 2023, subject to Parliamentary approval.

1.7 Year to date operating expenditure of £15.3m is (£0.3m) adverse compared to the latest forecast of £15.0m for the year to date.

2. Income and Expenditure Account

2.1 Table 1.1 below summarises the impact of the reported position on HCPC's Income & Expenditure.

2.2 The forecast full-year outturn for the financial year is a surplus of c£4.3m. 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

	Aug-23 YTD			Full Year			Note
	Actual	Aug-23 Forecast	Variance	Aug-23 Forecast	Budget	Variance	
	£'000	£'000	£'000	£'000	£'000	£'000	
Registration Income	18,043	17,184	859	39,832	34,008	5,824	
Grant Income	140	140	0	229	152	77	
Other Income	189	189	0	578	357	221	
Total Income	18,372	17,513	859	40,639	34,517	6,122	
Pay Costs	6,356	6,406	50	15,904	15,121	(783)	(a)
Non-Pay Costs	8,553	8,155	(398)	18,798	17,862	(936)	(b)
Depreciation	404	404	0	1,098	932	(166)	
Total Operating Expenditure	15,313	14,965	(348)	35,800	33,915	(1,885)	
Transformation Costs	3	0	(3)	179	179	0	
Contingency Costs	0	0	0	300	300	0	
Corporation Tax	108	108	0	108	0	(108)	(c)
Total Expenditure	15,424	15,073	(351)	36,387	34,394	(1,993)	
Total Surplus/(Deficit)	2,948	2,440	508	4,252	123	4,129	

a) **Pay Costs: (£783k)** increase compared to budget as a result of:

- Additional agency staff to cover unfilled vacancies particularly within FtP and Registrations.
- Increase in full time equivalents (FTEs) due to extended fixed term contracts, e.g. Registrations - contract extensions granted to the international registration team to manage the continuing high volumes of applications.
- A number of senior vacant posts being filled earlier than budgeted at ELT and Head of Department level.

b) **Non-Pay Costs: (£936k)** increase compared to budget relating to international assessors' costs (Registrations) with the budget assuming 8,000 international

applications compared to the current forecast of 15,500 applications, which is covered by the associated income from international scrutiny fees. The other significant increase relates to the timing of FtP legal costs because of the follow-through of caseloads from the prior year as well as the transfer costs of cases between legal providers.

- c) **Corporation Tax:** This is currently overstated as it represents a full year estimate of corporation tax as opposed to an Aug-23 YTD position. We will reflect an apportioned figure for the September 2023 year to date position in the next round of reporting, which would be approximately (£55k).

Table 1.2 – Registration Income by Category

	Aug-23 YTD			Full Year		
	Actual	Aug-23 Forecast	Variance	Aug-23 Forecast	Budget	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Reg & Renewal Fees	12,454	12,424	30	30,313	28,522	1,791
International Scrutiny Fees	4,954	4,200	754	8,356	4,317	4,039
UK Scrutiny Fees	568	483	85	969	969	0
Readmission Fees	67	77	(10)	194	200	(6)
Total Registration Income	18,043	17,184	859	39,832	34,008	5,824

3. Income

- 3.1 As per Table 1.1, total income for the year to date of £18.4m is £0.9m favourable compared to our forecast of £17.5m, mainly attributed to the significant upsurge in the August in-month international applications where we forecasted c2,600 applications for the month of August and actual volumes were close to c4,000.
- 3.2 As per Table 1.2, the increase in international scrutiny fees for the year to date of £754k is as a result of higher volumes of international applications, which is currently 9,178 compared to 7,799 for the same period last year. Based on latest figures and input from the Head of Registrations, we have projected an increase in the number of applications for the full year to total 15,500 (we will continue to reassess this as part of the rolling monthly forecasts).
- 3.3 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 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.

4. Expenditure

4.1 As per Table 1.1, total operating expenditure for the year to date of **£15.3m** is **(£0.3m)** adverse compared to the latest forecast of **£15.0m**. Table 1.3 outlines the key variances for the year to date by department against the Aug-23 forecast.

Table 1.3 – Variance by Department

Department	Aug-23 Year to Date Actuals vs Forecast £'000	Comment	Note
Fitness to Practise	(289)	Adverse	(a)
Registration	(223)	Adverse	(b)
Finance	(26)	Adverse	(c)
Facilities Management	74	Favourable	(d)
Human Resources	40	Favourable	(e)
Partners	27	Favourable	(f)
Others	48	Favourable	-
Total Operating Expenditure	(349)		

- a) **Fitness to Practise: (£289k)** overspend related to timing of costs for investigations and hearings for follow-through caseloads from the prior year as well as the transfer costs of cases between legal providers.
- b) **Registration: (£223k)** overspend related to international assessors' costs associated with the increase in international applications (total volumes reached 9,178 versus forecasted volumes of 7,799) for which the costs are covered as part of the scrutiny fees.
- c) **Finance: (£26k)** overspend relating to World Pay bank charges associated with the increase of international applications. These costs are covered as part of the scrutiny fees.
- d) **Facilities Management: £74k** underspend related to timing of costs for electrical testing, lighting replacement, 'sky bridge' roof replacement and boiler replacement. The next reforecast will phase these costs going forward and also reflect some bankable savings for electricity and postage costs due to reduced consumption .
- e) **Human Resources: £40k** underspend related to the timing of departmental training costs and staff recruitment costs, which are expected to be incurred in the next few months. The next reforecast will phase these costs in line with the revised projections.
- f) **Partners: £27k** underspend related to the timing of training costs that were anticipated for earlier in the year, which will be phased according to updated timelines.

Table 2.0 – Full Time Equivalent (FTEs) by Department as at 31 August 2023

Department	Aug-23 Actuals	2023/24 Forecast	2023/24 Budget	Budget vs Forecast	Note
Business Change	9	11	11	0	
Chief Executive	5	8	9	(1)	(a)
Communications	6	6	6	0	
Education	13	11	11	0	
Facilities Management	7	9	9	0	
Finance	15	16	16	0	
Fitness to Practise	129	134	134	0	
Governance	13	12	11	1	(a)
Human Resources	12	13	10	3	(b)
Information Technology	16	16	16	0	
Insight & Analytics	4	5	5	0	
Partners	2	2	2	0	
Policy & Standards	9	11	11	0	
Professionalism & Upstream Regulation	6	6	6	0	
Registration	81	77	71	6	(c)
Total Full Time Equivalents	327	337	328	9	

4.2 FTE figures for the finance report are based on a snapshot of the last day of the reporting period, i.e. as at 31 August 2023 (data is verified with the HR Department).

4.3 Actual year to date FTEs are 327 of which 29 are agency staff (FtP – 16 FTEs, Registration – 7 FTEs and Other Departments - 6).

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 contract extension granted to the additional members of staff recruited into the international registration team to manage the continued high volumes of international applications with the team originally budgeted up to June 2023 (10 registration advisors and 1 team leader extended to December 2023)

5. Balance Sheet and Reserves

- 5.1 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-Aug-2023	as at 31-Mar-2024
	£'000	£'000
Total Fixed Assets	9,703	9,652
Current Assets		
Other Current Assets	11,130	14,027
Cash & Cash Equivalents	18,153	13,479
Total Current Assets	29,283	27,506
Total Assets	38,986	37,158
Current Liabilities		
Current Liabilities	6,267	3,822
Deferred Income	28,621	30,838
Total Current Liabilities	34,918	34,660
Liabilities > 1 Year	0	142
Total Liabilities	34,918	34,802
NET ASSETS	4,068	2,356
Free Reserves (Opening Reserves)	870	1,750
Revaluation Reserve (Land & Buildings)	249	483
Surplus/(Deficit)	2,948	123
GENERAL RESERVES	4,068	2,356

- 5.2 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 £2.9m, which would give a closing reserves balance of £4.1m as of 31st March 2024.
- 5.3 As at 31st Aug 2023, our reserves closing balance is £4.1m. **Note.** HCPC's reserves policy is to hold positive net assets (less intangible assets).
- 5.4 The cash balance as of 31st Aug 2023 was £18.2m. Increase in cash compared to the budgeted position for the year-end is primarily due to the increase in international scrutiny fees. 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.

- 5.5 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 16 above).

6. Capital Expenditure

- 6.1 Year to date capital expenditure related to Major Projects is £288k compared to the budget of £381k, giving us a £93k favourable variance (refer to 'Table 4 - Capital Spend').
- 6.2 We have deferred costs from 2022-23 of £358k as well as reclassification of costs of £66k for Major Projects in addition to the 2023-24 budget of £424k, which gives us a current forecast of £899k. The additional costs of £475k 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 (£62K)** – mostly related to approved deferred capital expenditure of (£96k), which is partially offset by recognised project savings of £43k for Online Applications.
 - d. **Data Excellence (£60k)** – related to approved deferred capital expenditure.
- 6.3 Capital spend projections is subject to regular reviews as part of monthly forecasting to accurately re-profile expenditure and monitor the split between operational and capital costs.
- 6.4 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

		Aug-23	Aug-23	Approved	Approved	Opex to	Full Year		
		YTD	YTD			Capex	Aug-23	Budget	Variance
		Actual	Budget	B/F Capex	FY23-24	FY23-24	Forecast		
Non-Project	Description	£	£	£	£	£	£	£	£
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	Description	£	£	£	£	£	£	£	£
Business Central	Microsoft Dynamics Business Central Re-implementation (Finance System)	136,733	227,499	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.	47,712	47,712	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.	17,615	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		288,240	381,392	358,450	0	66,000	899,450	475,000	(424,450)
Total Capital Spend		363,240	456,392	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 prioritisation to ensure PSA standards are met	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
Total		376		282

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

Table 5.2 – Unquantified Risks and Opportunities

Description	Type	Probability
*Additional income from 18.6% income fee rise for registration and renewal related income.	Opportunity	High
Additional Phasing of Vacant Posts	Opportunity	Medium
Information and Technology – Potential savings arising from Software Maintenance and Support	Opportunity	Medium
Regulatory Reform – Project Initiation Costs	Risk	Medium
Partners Target Operating Model – Implementation and Operational Costs (Payroll, Systems, Pension, Contracts, Rates, etc.)	Risk	Medium
Potential wind-down of international applicants following the updated proficiency standards as well as the significant increase in scrutiny fees as part of the income fees increase of 18.6%.	Risk	Medium

7. Overtime

- 7.1 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).

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. An updated reserves policy will be brought to Council for discussion and approval in due course.

Appendix 2 – New and Current Tenders

Contract Renewals:

Area	Description of Service	Expected Contract Value	Expiry Date	Incumbent Supplier(s)	Procurement Route
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
Information Technology	Reg system support & development	£191,000	31/01/2024	IBM	CCS - eMarketplace TS3
Information Technology	Website hosting and CMS, support	£93,000	31/01/2024	Episerver	Direct Award - SSR 00000
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
Policy & Standards	Registrants Preparedness for Practise Research	£52,593	30/09/2023	University of Plymouth	Public Tender

New Tenders:

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