
Finance report – January 2023

Executive Summary

This report covers the financial position as at the end of January 2023 and provides an updated full-year forecast as we approach year-end, with a commentary on major variances, risks and opportunities. The operating surplus for the year to date is £3.02m, which is in line with the trends underlying the end-December position of a £2.7m YTD surplus. As the Committee is aware from previous reports, the surplus position compared to original budget assumptions reflects a continuing trend of increased income from international application scrutiny fees, as well as some additional UK income, lower FTP caseload volumes than assumed in the original budget, and vacancies. The year-end forecast is for a deficit of £226k, compared to the previous forecast surplus of £447k, after factoring in provisions, year-end activity on estates downsizing, a review of the partners operating model and other adjustments. Details are in the report.

Previous consideration	Finance reports are a standing item and provided to the People and Resources Committee at each meeting. Monthly finance reports are provided to the Executive Leadership Team (ELT) for review with rolling forecasts to capture latest developments.
Decision	The Committee is asked to note the report.
Next steps	The Executive will keep the Committee Chair updated on developments as we approach year end. ELT will receive monthly finance reports covering the remainder of the year.
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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1. Headlines

- We are reporting an overall surplus position of £3.0m for Jan-23 year to date (YTD).
- Following the monthly reforecasting exercise, the forecast outturn for the full year is a deficit of (£226k) compared with the previous forecasted surplus of £447k.¹ The updated forecast compares to the original budget deficit of £798k, with the improvement arising from a combination of the in-year movements summarised below and described in previous reports, and the year-end adjustments set out below.
- The key movements from the previous forecast surplus of £447k to a deficit of (£226k) are increased expenditure related to provisions of circa £2m, which are partially offset by the additional contributions from international applications of circa £700k and lower payroll costs resulting from unfilled vacancies of roughly £630k (refer to 'Appendix A – Prior vs Current Forecast Movements').
- Movements against the original budget have been described in previous reports, with key factors contributing to the significant positive variance between the original budget and the YTD position being additional international income, some additional UK registration income, vacancies taking longer to fill than originally planned, and trends in FtP caseload throughput.

2. Income & Expenditure

Figure 1.0: Income & Expenditure – Summary by Category

	Full year budget	Jan YTD	Full-year
		Actual	Forecast
	£'000	£'000	£'000
Registration Income	32,468	30,545	36,584
Grant Income	546	574	580
Other Income	177	210	250
Total Income	33,191	31,329	37,414
Pay Costs	15,061	12,300	14,811
Non-Pay Costs, inc depreciation	18,231	15,552	19,972
Total Operating Expenditure	33,292	27,852	34,783

(a)

¹ The December report also included run rate projections for year-end, which showed a potential deficit of £710k (refer to Appendix C), based on a simple continuation of YTD trends and allowance for potential year-end adjustments and provisions. The current full-year forecast deficit of £226k is based on a bottom-up review of trends and assumptions with budget holders, which leads to a lower forecast deficit figure than the simple run rate projections and initial assumptions on year-end adjustments.

Turnaround Costs	147	323	357	
HEE Funding Associated Costs	271	137	271	
Contingency Costs	279	0	2,230	
Total Expenditure	33,989	28,311	37,641	(b)
Total Surplus/(Deficit)	(798)	3,017	(226)	

(a) Forecast income of £37.4m is closely aligned to the previous full-year run-rate projection.

(b) Forecast total expenditure of £37.6m is higher than the previous December projection of £36.6m as a result of increased provisions and additional legal costs within Fitness to Practise.

3. Prior vs Current Forecast

Figure 2.0: Income & Expenditure – Forecast Movements by Department

	Full Year			
	Prior Forecast	Current Forecast	Variance	
	£'000	£'000	£'000	
Registration Income	35,672	36,584	912	
Grant Income	546	580	35	
Other Income	207	250	43	
Income	36,424	37,414	990	(a)
Fitness to Practise	15,270	15,018	251	(b)
Projects Team	822	632	190	(b)
IT & Digital	3,201	3,077	124	(c)
Finance & Commercial	1,242	1,161	81	(b)
Chief Executive	584	790	(205)	(b)
Depreciation	999	1,148	(148)	(d)
*Other Departments	13,015	12,957	58	
Total Operating Expenditure	35,134	34,782	352	
Operating Surplus/(Deficit)	1,291	2,632	1,342	
Turnaround Costs	147	357	(209)	(e)
HEE Funding Associated Costs	271	271	0	
Contingency Fund	382	2,230	(1,848)	(f)
HCPTS Relocation Project	43	0	43	
Total Expenditure	35,977	37,640	(1,663)	
Total Surplus/(Deficit)	447	(226)	(673)	

- (a) £990k of additional forecast income for the year results from an increase in both the volume of international applications, from the previous forecast of 12,500 to 14,500 and also the number of additional registrants. **Note.** As mentioned, this is in line with the income projection in December.
- (b) **£205k** adverse variance relates to the vacancy gap that was captured as part of the previous Chief Executive departmental forecast. The vacancy gap has now been devolved to the specific departments, mainly Fitness to Practise, Finance & Commercial and Projects Team.
- (c) £124k underspend is mostly related to lower computer hardware, web and external specialist costs. Based on latest discussions with the Head of IT, this can be attributed to the shift away from hardware maintenance as we rely further on cloud environments.
- (d) **£148k** of additional depreciation charges relate to the 'Education 2020 Transformation' and 'CMS Phase 1' projects that went live as of 31st of March 2022.
- (e) Exceptional HR costs.
- (f) Please refer to 'Appendix B – Year-end Provisions'.

4. Staffing numbers

The latest position is set out in Figure 3.0 below [Note: subject to further review]

Figure 3.0: Full Time Equivalent staff numbers as at 31-Jan-23

Department	FY22-23 Forecast	Jan-23 FTEs		Variance	
	Total	Permanent	FTC/Agency	Total	
Chief Executive	7	6	0	6	-1
Governance	11	10	0	10	-1
Policy & Standards	9	6	4	10	1
Insight, Intelligence & Analytics	3	4	1	5	2
Communications	6	4	0	4	-2
Professionalism & Upstream Regulation	6	4	3	7	1
Partners	2	2	0	2	0
Fitness to Practise	133	106	23	129	-4
Registration	79	60	19	79	0
Education	12	10	2	12	0
IT & Digital	16	15	3	18	2
Business Change	15	9	1	10	-5
Finance	15	10	2	12	-3
Human Resources	10	10	0	10	0
Office Services	9	8	0	8	-1
Total FTEs	333	264	58	322	-11

Note: the small variance of two FTEs between the total of 322 in Figure 3 above and the figure of 324 (excluding 17 vacancies) quoted in the HR Q3 KPIs report is the result of a timing difference: the 322 figure is the number of FTEs as at 31 January 2023, aligned with the end-January financial figures provided in the report; the HR report shows the average number of FTEs over the period October to December 2022, to give a better reflection of the underlying position for the period covered by the HR report.

5. Balance Sheet and Reserves

Figure 4.0: Balance Sheet as at 31-Jan-23

	Jan-23 Actuals	FY22-23 Forecast	FY23-24 Budget
	£'000	£'000	£'000
Total Fixed Assets	9,713	9,941	9,652
Current Assets			
Other Current Assets	11,586	11,586	14,027
Cash & Cash Equivalents	14,297	10,826	13,479
Total Current Assets	25,883	22,412	27,506
Total Assets	35,596	32,353	37,158
Current Liabilities			
Current Liabilities	2,651	2,651	3,822
Deferred Income	28,263	28,262	30,838
Total Current Liabilities	30,914	30,913	34,660
Liabilities > 1 Year	142	142	142
Total Liabilities	31,056	31,055	34,802
NET ASSETS	4,540	1,297	2,356
General Fund b/f	1,041	1,041	1,751
Revaluation Reserve (Land & Buildings)	483	483	483
*Operating Surplus/(Deficit)	3,016	(226)	123
GENERAL FUND c/f	4,540	1,297	2,356

- The opening reserves balance as at 1st April 2022 was £1.04m. As at 31st January 2023, our reserves closing balance was £4.54m.
- The projected deficit for the year is (£226k), which would give a closing reserves balance of £1.3m as at 31st March 2023.
- HCPC's reserves policy is to hold positive net assets, less intangible assets, which would require us to have reserves of around £9m.
- The cash balance as at 31st January 2023 was £14.3m. 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. Capital Expenditure

- YTD total capital expenditure is £435k with the majority of spend against the FtP CMS Product Development (£199k).
- The current forecast for the full financial year on project related capital spend is £588k and £180k for IT and office equipment (non-project related), totalling forecasted capital spend for the year of £768k.

Figure 5.0: Capital Spend

		Jan YTD	Full-year
		Actual	Forecast
		£	£
Non-Projects	Description		
Information Technology	Includes infrastructure, software licences and IT equipment costs.	75,780	174,280
Office Equipment	Furniture and fixtures (including cost of furniture that is treated as single unit, such as a group of desks)	5,265	5,265
Total Non-Project Costs		81,045	179,545
Major Projects	Description	£	£
Business Central	Microsoft Dynamics Business Central Re-implementation (Finance System)	60,000	128,000
Education Dynamic 365	Annual development of the Education system	1,187	1,187
Hybrid Working	Purchase of equipment to enable and implement hybrid working in the organisation	24,261	80,000
Data Excellence	Build a new data platform	0	40,000
FtP CMS Product Development	New CMS system Product Development - Phase 2	198,503	230,747
Landline Mobility	Implement the landline system in the cloud	27,920	27,920
Online Applications	Registration system Product Development - Phase 3	41,841	80,000
Major Projects Costs		353,712	587,854
Total Capital Spend		434,757	767,399
HCPTS Relocation Project		29,469	29,469

APPENDICES

Appendix A – Prior vs Current Forecast Movements

Details	Department	£'000	Notes
Prior Forecast Surplus		447	
Increased contribution from international applications	Income	700	Increased application volumes from 12,500 to 14,500.
Lower payroll costs due to unfilled vacancies	Various Departments	630	Mostly related to vacant posts within Fitness to Practise and Projects Team departments.
Year-end provisions	Contingency	(1,900)	See Appendix B
Increased depreciation charges (partially offset by reduction in other costs)	Depreciation	(103)	'Education 2020 Transformation' and 'CMS Phase 1' projects that went live as of 31st of March 2022.
Current Forecast (Deficit)		(226)	

Appendix B – Year-end Provisions

Description	Amount (£)	Notes
Provision for potential future liabilities	1,350,000	Under review
33 Stannary Street - Renovation	500,000	Provision (on-going discussions with landlord)
Additional Legal Costs	300,000	Negotiations underway regarding commercial contracts for ongoing case-loads with legal provider.
Consultancy Fees	80,000	PwC review of the HCPC Partners Operating Model
Total	2,230,000	

Note. There are additional costs related to Regulatory Reform, which have not been included due to uncertainty around the timing of when work will be required to commence. We are awaiting further updates from the Department of Health and Social Care before making any provisions for the current financial year. The 2023-24 Budget has referenced an estimated amount of £600k, which is subject to change depending on developments.