
Finance Report May 2022

Executive Summary

This report presents the HCPC's financial position as at the end of May 2022, with a commentary on the major variances, risks and opportunities.

The operating surplus for the year to date is £0.9m compared to a budgeted deficit of £0.7m. Although an improvement compared to the budget, there are a number of risks, opportunities and timing differences (mainly in regards to HEE income of circa £0.45m for Sep-22) 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 operating deficit for May 2022 year to date was £0.93m compared to a budgeted deficit of £2.28m and a forecast deficit of £1.55m.
Decision	The Council is asked to review the May 2022 Finance Report.
Next steps	The next report will be presented to Council at its September 2022 meeting.
Strategic priority	Financial Sustainability. Actual figures provide indication of expected financial performance for the current year, which will inform decisions to defer or bring forward key expenditure items. Accuracy of our budgeting and forecasting is another significant indication of the effectiveness of our reporting capabilities.
Financial and resource implications	The implications are set out in this report.
EDI impact	N/A
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1. Executive Summary

- 1.1 This report presents the financial position as at the end of May 2022, with a commentary on the major variances, risks and opportunities.
- 1.2 The operating surplus for the year to date is £0.9m compared to a budgeted deficit of £0.7m. It is worth noting that the budgeted deficit of £0.7m is attributed to additional grant income, e.g. HEE funding of circa £0.45m, not being recognised until later in the year. Although an improvement compared to the budget, there are a number of risks, opportunities and timing differences in cost allocation to manage over the financial year.

2. Headlines

- 2.1 The reported surplus of £0.9m for the year to date is favourable compared to the profiled budget deficit of £0.7m, which can be attributed to the significant increase in the international scrutiny fees income and departmental underspends across the organisation that are mostly related to timing of costs, although we have recognised some savings in recruitment fees through direct hires and lower property costs for Stannary Street.
- 2.2 The budgeted deficit is higher in the first quarter of the financial year due to the timing of HEE income that is budgeted for Sep-22, coupled with additional grant funding for temporary registers, totalling circa £100k, being recognised at the end of Q1 (Jun-22), Q2 (Sep-22) and Q3 (Dec-22).
- 2.3 Detailed reviews will be taking place, especially with regards to recognised income, for the next reporting period to ensure we have accurate figures on which to base our Q1 forecast. 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.
 - c. Depreciation costs as per the latest estates valuation and updating of the fixed asset register.

- 2.4 Year to date income is £1.0m favourable to budget. Based on the current rate of international applications that are being processed, it is very likely we will exceed the budgeted volumes for the financial year. We are already at 48% of the annual number of budgeted applications. 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).
- 2.5 Year to date operational expenditure (excluding turnaround and relocation project costs) is £0.49m favourable to budget, which is from an underspend in both pay-related costs of £0.28m and non-pay expenditure (including depreciation costs) of £0.21m.

3. Income and Expenditure

- 3.1 Table 1.1 below summarises the impact of the reported position on HCPC's Income & Expenditure. The year to date surplus of £0.9m represents a favourable variance compared to the budgeted deficit of £0.7m.
- 3.2 The budgeted outturn for the financial year is a deficit of £0.8m. The position will be managed actively over the next month to mitigate any further risks and maximise opportunities before the Q1 forecasting exercise.

Table 1.1 - Income & Expenditure Account

	May-22 YTD			Full Year
	Actual	Budget	Variance	Budget
	£'000	£'000	£'000	£'000
Registration Income	6,157	5,160	997	32,468
Other Income	33	29	4	177
Total Income	6,190	5,189	1,001	32,645
Pay Costs	2,256	2,531	275	15,061
Non-Pay Costs	2,827	3,045	218	17,204
Depreciation	177	177	0	1,027
Total Operating Expenditure	5,260	5,753	493	33,292
Corporation Tax	0	0	0	0
Turnaround Costs	18	25	7	147
HEE Funding Associated Costs	2	45	43	271
Contingency Costs	0	46	46	279
* HCPTS Relocation Project	12	0	-12	0
Total Expenditure	5,292	5,869	577	33,989
Grant Income	0	0	0	546
Total Surplus/(Deficit)	898	-680	1,578	-798

Table 1.2 - Registration Income by Category

	May-22 YTD			Full Year
	Actual	Budget	Variance	Budget
	£'000	£'000	£'000	£'000

Renewal & Graduate Reg Fees	4,256	4,411	-155	27,614
Readmission Fees	39	54	-15	183
International Scrutiny Fees	1,811	635	1,176	3,776
UK Scrutiny Fees	51	60	-9	895
Total Income	6,157	5,160	997	32,468

4. Income

- 4.1 Total income for the year to date is £6.2m versus the budget of £5.2m, giving us a significant favourable variance of £1.0m. As Table 1.2 outlines, this is mainly due to the rapid increase in international applications.
- 4.2 There continues to be an upward trend in international applications with 3,381 applications having been processed to date. This is over 48% of the total budgeted number of applications for the whole year.
- 4.3 The higher volumes have been driven by the accelerated processing of paper applications during this time to clear an overall backlog of applications. We are projecting to continue to receive 800 - 1000 applications for the next three months, which will be incorporated in the Q1 forecast cycle.
- 4.4 The renewal and registration registrant income has been estimated based on current number of registrants as at end of May 22.
- 4.5 Interest rates have increased since the budget was set from 0.1% to 0.7%, which has contributed to the increase in investment income (£3.4k for the year to date) compared to the budget.

5. Expenditure

- 5.1 Total operating expenditure for the year to date is £5.3m versus budgeted expenditure of £5.8m, which is a favourable variance of £0.49m (refer to tables 3a & 3b). The variance relates to lower non-pay costs of £0.21m, which includes lower FtP and Facilities Management costs, which is partially off-set by the increase in associated costs for processing International Applications. The remaining £0.28m is associated with lower pay-related costs compared to budget due to unfilled vacancies.
- 5.2 Departmental variances are summarised below relating to the lower pay costs of £0.28m for the year to date compared to budget. This favourable variance will reduce, as recruitment campaigns progress for FtP and Business Change departments.

Note. Average FTE figures as at May 2022 were 304 versus budgeted FTE figures of 318. There are currently 47 positions covered by fixed term contractors and agency workers.

Table 2 - FTEs by Department

Department	FY22-23 Budget	May-22 FTEs			Variance
	Total	Permanent	FTC/Agency	Total	Total
Chief Executive	7	7	0	7	0
Governance	11	11	0	11	-0
Policy	9	10	1	11	2
Insight & Intelligence Analytics	2	2	0	2	0
Communication	6	6	0	6	0
Professional Liaison	8	5	1	6	-2
Fitness to Practise	135	102	23	125	-10
Registration	68	51	19	70	1
Education	12	11	0	11	-1
IT & Digital	15	13	1	14	-1
Business Change	13	8	1	9	-4
Finance	14	15	1	16	2
HR	10	10	0	10	0
Office Services	9	8	0	8	-1
Total FTEs	318	257	47	304	-14

5.3 Table 3a outlines the departmental variances for the year to date against the budget.

Table 3a - Year to Date Budget Variances by Department

Department	Year to Date Budget Variance	Type	Note
Fitness to Practise	405,000	Favourable	(a)
Facilities Management	158,000	Favourable	(b)
HR	92,000	Favourable	(c)
IT	89,000	Favourable	(d)
Business Change	58,000	Favourable	(e)
Registration	-301,000	Adverse	(f)
Other Departments	-9,000	Adverse	-
Total Operating Expenditure	492,000		

a) Fitness to Practise - £405k underspend. £206k is driven by timing issues with partner costs and professional fees relating to panel costs (mainly legal assessors), transcript writers, investigation costs and travel compared to the budget assumptions. There are fewer final hearings and face-to-face panels held for May-22 year to date than previously anticipated. The remaining underspend can be attributable to the timing of new staff joining.

b) Facilities Management - £158k underspend. £75k of the underspend is due

to associated costs budgeted for the Hybrid Working Project yet to be incurred. The position will be reviewed during the Q1 forecasting exercise. £32k relates to the delayed estate rationalisation costs. There is also an unfilled post contributing to the payroll cost variance.

- c) HR - £92k underspend related to lower training and recruitment costs, with fewer vacant posts being filled than expected. There is likely to be an increase in the rate of spend in these areas as the recruitment campaigns progress. There is also a timing difference associated with the cost of the reward scheme.
- d) IT - £89k underspend. £61k relates to the understating of some IT costs. The areas have been identified and discussed with the budget holder. There will be a catch-up of costs in the next month. The remaining variance relates to an unfilled vacancy in the team.
- e) Business Change - £58k underspend is mainly payroll related. 4 posts are still vacant.
- f) Registration - (£301k) overspend relates to the increase in associated costs of international applications. This is mainly the costs of International assessors and the PwC surge costs.

5.4 Table 3b outlines the Category of spend variances for the year to date against the budget.

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

Category of Spend	Year to Date Budget Variance	Type	Note
Pay	244,000	Favourable	(a)
Overheads & Specific Department	125,000	Favourable	(b)
Professional fees	115,000	Favourable	(c)
ICT & Computer	63,000	Favourable	(d)
Staff Recruitment	30,000	Favourable	(e)
Property	21,000	Favourable	(f)
Other Categories	9,000	Favourable	-
Major Projects	-10,000	Adverse	-
Partners	-105,000	Adverse	(g)
Total Operating Expenditure	492,000		

- a) Pay - £244k underspend is driven by having 14 vacancies, the majority of which are in FtP and Business Change.
- b) Overheads & Specific Department - £125k underspend. £75k relates to the hybrid working revenue costs not yet incurred and will be updated during the Q1 forecast. The remaining variance is due to reduced telephone,

catering and training costs.

- c) Professional Fees - £115k underspend due to professional fees relating to FtP hearing panel costs, which are related to 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.
- d) ICT & Computer - £63k underspend mainly due to reduced web/internet, specialist external support and hardware costs, which is likely due to a combination of timing issues and genuine budget savings.
- e) Staff Recruitment - £30k underspend as fewer vacant posts have been filled than budget as well as a reduction in the use of agency services to fill posts.
- f) Property - £21k underspend due to the lower rent and service charges for Stannary Street.
- g) Partners – (£105k) overspend relates to the increase in international assessors' costs due to the increase in the number of international applications processed. This is partially offset by the favourable variance in the FtP partner costs due to lower final hearings and less travel costs.

6. Risks and Opportunities

6.1 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	50
Increase in international assessors and PwC costs	High	Registration/Partners	400
Increase in the total cost of laptops to be issued to employees	High	Computer Capital Cost	30
Increase in recruitment and facilities costs relating to increased headcount and operational demands	High	Recruitment/Facilities	TBC
Opportunity Description	Probability	Area	Full Year Impact £'000
*Increase in international scrutiny fees income as per current trend	High	Income	700
Reduction in business rates and rent - Stannary Street basement	Low	Property Costs	40

* **Note.** The opportunity is based on 3,000 applications being received in the next 3 months; that generates 1,250 applications over the 1,750 already in the budget. The average monthly processed in the last three months is 1,500.

7. Balance Sheet and Reserves

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

Table 4 - Balance Sheet

	Actual 31-May-22 £'000	Budget 31-May-22 £'000	Budget 31-Mar-23 £'000
Total Fixed Assets	10,367	10,864	11,162
Current Assets			
Other Current Assets	2,187	3,744	1,761
Cash & Cash Equivalents	14,596	13,055	6,088
Total Current Assets	16,783	16,799	7,849
Total Assets	27,150	27,663	19,011
Current Liabilities			
Current Liabilities	3,837	4,453	1,769
Deferred Income	20,196	22,269	16,552
Total Current Liabilities	24,033	26,722	18,321
Liabilities > 1 Year	85	85	0
Total Liabilities	24,118	26,807	18,321
NET ASSETS	3,032	856	690
Reserves	2,134	1,534	1,487
Surplus/(Deficit)	898	-680	-798
GENERAL FUND	3,032	854	689

7.2 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 Q1 forecasting exercise.

7.3 As at 31st May 2022, our reserves closing balance is £3.0m compared to budgeted reserves of £0.85m for the same period.

7.4 The cash balance as at 31st May 2022 was £14.6m. 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.

7.5 We are working on producing the cashflow forecast as part of the Q1 forecast as actuals are captured for the first 3 periods with the aim of providing regular cashflow reports from Jul-22 onwards.

8. Capital Expenditure

8.1 Year to date capital expenditure related to Major Projects is £92k compared to a budget of £143k, giving us a £51k favourable variance.

8.2 The budget for the full financial year on project related capital spend is £1.34m and £107k for IT and office equipment (non-project related).

8.3 The capital budget will go through the Q1 forecasting exercise in July with spend to be reprofiled and split between operational and capital more accurately as per the new policy.

Table 5 - Capital Report

		Full Year	Year to Date		
		Original Budget	Actual	Budget	Variance
Non-Projects	Description	£	£	£	£
Information Technology	Includes infrastructure, property, software licenses and IT equipment costs.	107,000	17,280	17,833	553
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		107,000	17,280	17,833	553
Major Projects	Description	£	£	£	£
Reg Transformation & Improvement	Registration system Product Development - Phase 3	315,345	27,338	52,558	25,220
Education Dynamic 365	Annual development of the Education system	40,000	1,187	6,667	5,480
Hybrid Working	Purchase of equipment to enable and implement hybrid working in the organisation	270,000	18,804	45,000	26,196
Data Platform	Build a new data platform	120,000	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	38,419	6,019
Landline Mobility	Implement the landline system in the cloud	0	12,000	0	-12,000
BC Reimplementation	Reimplementation of the Finance System - Microsoft Dynamics Business Central.	300,000	0	0	0
Major Projects Costs		1,335,861	91,730	142,644	50,915
Total Capital Spend		1,442,861	109,010	160,477	51,468
HCPTS Relocation Project		0	29,469	0	-29,469