Council

30 November 2023

Finance Report – October 2023

Executive Summary

Our financial position in October continues to show an improved position compared to the budget set at the start of the year, mainly the result of additional, unbudgeted income from international applications up to August and savings from exiting 33 Stannary Street just before the financial year.

However, our financial position has deteriorated significantly as at the end of October, compared to the first half of the year. This is the result of international applications reducing sharply from September, plus increased Fitness to Practice (FtP) legal costs, because of increased referrals and the need to exit an underperforming legal provider contract. Finance is working with FtP to strengthen financial control over the FtP budget, to ensure that FtP has the resources necessary to maintain performance against PSA standards while keeping track of the financial effect of case volumes and making accurate forecasts.

Our reserves have improved compared to the budget assumption but remain too low compared to good practice and in relation to our long-term liabilities. We are starting to receive additional income from the fee increase, but the main effect will be felt next year. Council agreed earlier in the year that additional, unbudgeted income (after allowing for associated direct costs) should be used to rebuild reserves and provide for future liabilities. The amount of additional international income in the year to date is £2.6m.

After ring-fencing £2.45m of the forecast year-end surplus to bolster reserves and address long-term liabilities, that provisionally leaves us with an opportunity to spend around £250k of the remaining surplus on opportunities to bring forward spend into Q4 that will generate benefits and avoid costs next year. The Executive Leadership Team (ELT) has approved one opportunity already (replacing our intranet functionality) and is reviewing others, including on data and technology that will help us modernise our operations. The evolution of the position over the year is summarised in the table below.

	Original budget	Q1: July forecast	Q2: October forecast
	£'000	£'000	£'000
Forecast full-year surplus (Income less expenditure)	123	4,100	2,700
Reserves (net assets less intangibles)[1]	(1,140)	2,520	1,120
Proportion of forecast surplus (resulting from additional international income) ring-fenced to cover long-term liabilities	-	-	2,450
Available for accelerated VFM opportunities in Q4	-	-	250

Related to Reserves Policy requiring Positive Realisable Net Assets, which is calculated by taking Net Assets (or Total Reserves) less Intangible Assets[1]

If further risks noted in the main report crystallise this year, that would reduce the forecast surplus of £2.7m.

Forward look to next year and beyond

It seems likely that the new trend for international applications is around 5,000 per year. On FtP we need to do more analysis, but going into next year our FtP costs may well remain higher than set in the original 2023-24 budget.

We also continue to face a number of long-term liabilities, including for regulatory reform and the NMC partners case; although we can now be confident those liabilities will not crystallise in 2023-24, they are likely to arise in the medium term. We also need to continue rebuilding our reserves to a more sustainable level.

What this means in financial terms is that after allowing for the drop in international income and increased FtP costs, as well as general pay and inflation pressures, just to continue with our current activities could leave us in a deficit position from next year of around £3.5m, before factoring in the fee increase. £3.5m is almost exactly the amount of additional income we expect to receive from the fee increase, meaning that it will essentially allow us to continue with our existing activities but not to undertake major new programmes or address our long-term liabilities. That in turn underscores the importance of moving to regular fee reviews in future, on which we will provide advice to Council in February.

2024-25: illustrative high-level scenario	**£'000**
Forecast full-year 2023-24 surplus	**2,700**
Loss of additional international income	(2,600)
FtP pressure	(1,600)
Pay and inflation	(2,000)
Additional income from fee increase	3,500
Potential overall position	**0**
Unbudgeted liabilities:	
Regulatory reform	(1,300)
NMC partners case	(700)
Partners operating model	(500)

Previous consideration	Previous finance report (August 2023 YTD) provided to Council in October 2023.
Decision	The Council is asked to note the report.

Next steps	Forecasting exercise due to take place for November 2023 YTD Finance Report.
Strategic priority	Financial sustainability.
Financial and resource implications	The implications are set out in the report.
EDI impact	No direct implications.
Author(s)	Alan Keshtmand, Head of Finance Alan.keshtmand@hcpc-uk.org Ife Ojo, Senior Finance Business Partner Ife.ojo@hcpc-uk.org
Sponsor	Alastair Bridges, Executive Director of Resources Alastair.bridges@hcpc-uk.org

Finance Report – October 2023

1. Executive Summary

1.1 This report presents the financial position as at the end of October 2023, with a commentary on the major variances, risks and opportunities.

1.2 We have not amended the September 2023 forecast but the report does record further risks, including on FtP costs, that could reduce the forecast surplus if they crystallise. Please refer to Tables 5.1 and 5.2 - Risks and Opportunities schedule.

1.3 We are reporting an operating surplus for October year to date of £3.2m compared to our forecast surplus of £3.3m.

1.4 The full year forecast is set at a surplus of £2.7m compared to the original budget surplus of £123k. This favourable variance of £2.6m is mainly due to:

- An increase in international applications against the prudent assumptions in the original budget.
- Increase in registration and renewal fees attributed to additional through-put of international applicants from the prior year onto the non-graduate pathway (not factored into the original budget).
- This is offset by an increase in FtP legal costs reflecting higher case volumes, which is in addition to costs already identified in the Q1 forecast to enable exit from an underperforming contract.

1.5 The movements against the original budget are as follows:

Budget vs Forecast – Key Movements

Income & Expenditure	Full Year £'000	Comments
Budget	123	
Registration and Renewal Fees	1,908	Registration and Renewal fees attributed to additional international applicants from the prior year
International Scrutiny Fees	1,649	Increase in assumed numbers from 8,000 to 12,500
Facilities Management	782	Mainly as result of surrendering 33 Stannary Street on 31 March 2023
UK Scrutiny Fees	316	Increase in UK applicants
Investment Income	231	Investment income is favourable due to the increase in interest rates in our rolling deposit accounts
Fitness to Practise	(1,233)	FtP legal cost increase
Chief Executive cost centre	(624)	Removal of vacancy factor
Governance	(171)	Head of Governance roles and reclassification of executive assistant roles from Chief Executive Office to Governance
Depreciation	(153)	Inclusion of projects missed during the budget exercise
Corporation Tax	(108)	Increase in corporation tax is due to the increase in interest income.
Others	5	-
FY2023-24 Forecast surplus	2,725	As per the September 2023 Forecast
Variance to Budget	2,602	

1.6 We are currently reporting a forecast surplus of £2.7m, which includes the significant additional income from international scrutiny fees (£1.6m) and registration and renewal fees (£1.9m) highlighted above. Had income been at budgeted levels, our position, or underlying deficit, would have been c(£0.8m).

2. Income and Expenditure Account

2.1 Table 1.1 below summarises the impact of the reported position on HCPC's Income & Expenditure. As noted, the full-year forecast outturn is a surplus of c£2.7m.

Table 1.1 – Income & Expenditure Account

	Oct-23 YTD			Full Year			
	Actual	Forecast[1]	Variance	Forecast[1]	Budget	Variance	Note
	£'000	£'000	£'000	£'000	£'000	£'000	
Registration Income	24,014	24,033	(20)	38,844	34,008	4,836	
Grant Income	153	153	0	229	152	77	
Other Income	333	321	12	558	357	201	
Total Income	**24,500**	**24,508**	**(8)**	**39,631**	**34,517**	**5,114**	
Pay Costs	9,038	8,998	(39)	15,703	15,121	(582)	(a)
Non-Pay Costs	11,495	11,461	(34)	19,531	17,962	(1,569)	(b)
Depreciation	670	671	1	1,085	932	(153)	(c)
Total Operating Expenditure	**21,203**	**21,130**	**(73)**	**36,319**	**34,015**	**(2,304)**	
Transformation Costs	5	30	25	179	179	0	
Contingency Costs	0	0	0	300	200	(100)	
Corporation Tax	80	80	0	108	0	(108)	(d)
Total Expenditure	**21,288**	**21,240**	**(48)**	**36,906**	**34,394**	**(2,512)**	
Total Surplus/(Deficit)	**3,212**	**3,268**	**(56)**	**2,725**	**123**	**2,602**	

Forecast as at September 2023[1]

a) **Pay Costs:** (£582k) 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 in Registrations to manage the high volumes of international applications, which are now significantly reduced compared to the first half of the financial year.
- A number of senior vacant posts being filled earlier than budgeted at ELT and Head of Department level.

b) **Non-Pay Costs**: (£1,569k) increase compared to budget relating to international assessors' costs (Registrations) with the budget assuming 8,000 international applications compared to the latest forecast of c12,500 applications. Costs are covered by the associated income from international scrutiny fees. The other significant increase relates to FtP legal costs (see

Section 4 - Expenditure).

c) **Depreciation**: (£153k) increase due to projects that were previously classified as 'Assets Under Construction' subsequently going live and, therefore, capitalised and depreciated during the course of the year.

d) **Corporation Tax:** Increase in corporation tax is due to the increase in interest income.

Table 1.2 – Registration Income by Category

	Oct-23 YTD			Full Year		
	Actual	**Forecast[1]**	**Variance**	**Forecast[1]**	**Budget**	**Variance**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Registration and Renewal Fees	17,576	17,552	24	30,431	28,522	1,909
International Scrutiny Fees	5,431	5,454	(23)	6,935	4,317	2,618
UK Scrutiny Fees	910	930	(20)	1,285	969	316
Readmission Fees	96	97	(1)	193	200	(7)
Total Registration Income	**24,014**	**24,033**	**(20)**	**38,844**	**34,008**	**4,836**

Forecast as at September 2023[1]

3. Income

3.1 As per Table 1.1, total income for the year to date of £24.5m is in line with our forecast of £24.5m with a slight adverse variance of (£8k).

3.2 As previously reported, over the YTD we have seen a higher volume of international applications compared to budget, resulting in higher levels of international scrutiny fee income.

3.3 Recent figures for international applications for the last two months (September – 415 applications and October – 477 applications) and also November (currently 536 applications) show a sharp decrease from the previous trend. We have therefore decreased the forecast number of international applications for the full year from 15,000 in the prior month's forecast to 12,500. The decrease would equate to a c(£1.4m) reduction in international scrutiny fees compared to the prior month forecast.

3.4 Although we are still forecasting a higher level of international income than was assumed in the budget, the recent decrease in volumes confirms that it was right to budget on a prudent basis and not assume that volumes would continue indefinitely at such high levels. We will keep the position under close review, including the impact on related costs.

3.5 Registration and renewal fees are also significantly higher, which is due to international applicants from the prior year flowing through via the non-graduate pathway. Analysis by 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.

3.6 The income fee rise of 18.6% had been approved by Parliament and came into effect from 9 November 2023. The forecast includes a £314k positive impact of the forthcoming fee rise (mainly impacting international applications with fees increasing by £100 per application). **Note.** The first profession to pay the new fees will be Radiographers with the start of the renewal window being 1 December.

3.7 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 £21.2m is roughly in line with our latest forecast of £21.1m. Table 1.3 outlines the key variances for the full year forecast versus the budget by department.

Table 1.3 – Variance by Department

Department	Forecast[1] vs Budget £'000	Comment	Note
Facilities Management	782	Favourable	(a)
Fitness to Practise	(1,233)	Adverse	(b)
Registration	(785)	Adverse	(c)
Chief Executive	(624)	Adverse	(d)
Finance & Commercial	(183)	Adverse	(e)
Governance	(171)	Adverse	(f)
Depreciation	(153)	Adverse	(g)
Corporation Tax	(108)	Adverse	(h)
Others	(36)	Adverse	-
Total	**(2,512)**		

Forecast as at September 2023[1]

a) **Facilities Management: £782k** underspend comprising of:

- c£540k underspend mainly as a result of savings associated with exiting the lease for 33 Stannary Street as of 31 March 2023. Costs for the 33 Stannary Street office were still included in the budget as negotiations had not concluded during the budgeting process for 2023-24.

- c£150k underspend relates to business rates being over budgeted by £100k. The initial budget was based on the previous bill with a slight increase applied. However, this year we received a significant credit related to the previous year of c£50k. The forecast now captures this credit and also discounts the previously applied cost increase related to the prior year.

- Utilities were over budgeted by £60k as budget assumptions were based on real-time information for Climate Change Levy rates that attempted to predict costs over the coming months. Our forecast is now based on invoices received over the past few months and applies anticipated seasonal variations such as an increase in the winter months.

b) **Fitness to Practise:** **(£1,233k)** over budget based on the updated assessment following the Q2 review of pressure on legal costs, reflecting exit costs from a contract (£500k) and higher case volumes than assumed in the budget, partially offset by lower in-house operational and partner costs (£723k). Much of this pressure has been covered by our updated forecasts over the YTD. The remaining FtP pressure, after taking account of the various adjustments made to the forecast and the allocation of corporate contingency, is £444k; this further expenditure is required to ensure that we hit PSA targets. (Please refer to Tables 5.1 and 5.2 - Risks and Opportunities schedule. There is a risk that costs could be higher than the £1.2m reported above, subject to a review with the Executive Director of FtP following this report).

c) **Registration:** **(£785k)** over budget with 80% of costs attributable to the rise in international applications, which is covered by the scrutiny fees and also includes the cost of extending the fixed term team processing international applications to December 2023 (originally budgeted up to June 2023). The next reforecast will account for the fixed term team recently being extended further to March 2024 in order to process the higher levels of international applications and to ensure we have capacity to manage further increases if they arise.

d) **Chief Executive:** **(£624k)** adverse variance with £800k relating to the budgeted 5% vacancy factor that was included within the Chief Executive departmental budget, while actuals for phasing of unfilled vacancies were devolved to individual departments. The vacancy factor has now been removed and devolved to individual departments for the phasing of roles, following reviews by Finance with budget holders. This is partially offset by a **c£200k** payroll reclassification with roles originally budgeted within the Chief Executive department transferring to the Governance Team.

e) **Finance:** **(£183k)** over budget largely related to costs associated with Worldpay fees incurred as a result of the increase in international applications.

f) **Governance:** **(£171k)** adverse variance related to the transfer of roles from the Chief Executive department as per note (d).

g) **Depreciation:** **(£153k)** over budget due to a number of projects that had gone live since the production of the budget for 2023-24. Projects include Registration Transformation Improvement, Hybrid Working, Online applications and FtP Phase 2.

h) **Corporation Tax:** **(£108k)** increase in corporation tax is due to the increase in interest income.

Table 1.4 – Variance by Department YTD (October 2023 Actuals vs September 2023 Forecast)

Department	Oct-23 YTD Actuals vs Forecast[1] £'000	Comment	Note
Policy	33	Favourable	a
Fitness to Practise	(100)	Adverse	b
Others	(6)	Adverse	-
Total	**(73)**		

Forecast as at September 2023[1]

a) **Policy: £33k** underspend related to timing difference as result of service user engagement project that was projected for Q3.

b) **Fitness to Practise: (£100k)** overspend resulting from more new cases attributed to legal providers than September 2023 forecast.

Table 2.0 – Full Time Equivalents (FTEs) by Department as at 31 October 2023 (Budget vs Forecast)

Department	Oct-23 Actuals	2023-24 Forecast	2023-24 Budget	Budget vs Forecast	Note
Business Change	11	11	11	0	
Chief Executive	5	6	9	(3)	(a)
Communications	6	6	6	0	
Education	12	11	11	0	
Facilities Management	7	9	9	0	
Finance & Commercial	14	16	16	0	
Fitness to Practise	140	134	134	0	
Governance	13	14	11	3	(a)
Human Resources	12	13	10	3	(b)
Information Technology	17	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	80	77	71	6	(c)
Total Full Time Equivalents	**338**	**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 October 2023 (data is verified with the HR Department).

4.3 Actual year to date FTEs are 338 of which 33 are agency staff (FtP – 25 FTEs and Other Departments - 8).

Notes

a) Chief Executive and 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 originally budgeted up to June 2023 (10 registration advisors and 1 team leader) and then extended to December 2023. As mentioned previously, the fixed term team have now been extended further to March 2024.

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 3.0 - Balance Sheet

	Actuals 31-Oct-23 £'000	Budget 31-Mar-24 £'000	Variance £'000	Note
Total Fixed Assets	**9,503**	**9,652**	**(149)**	
Current Assets				
Other Current Assets	2,527	14,027	(11,500)	5.5
Cash & Cash Equivalents	22,333	13,479	8,854	5.4
Total Current Assets	**24,860**	**27,506**	**(2,646)**	
Total Assets	**34,363**	**37,158**	**(2,795)**	
Current Liabilities				
Current Liabilities	4,111	3,822	289	
Deferred Income	25,178	30,838	(5,660)	5.5
Total Current Liabilities	**29,289**	**34,660**	**(5,371)**	
Liabilities > 1 Year	35	142	(107)	
Total Liabilities	**29,324**	**34,802**	**(5,478)**	

NET ASSETS	**5,039**	**2,356**	**2,683**	
Free Reserves (Opening Reserves)	1,578	1,750	(172)	5.2
Revaluation Reserve (Land & Buildings)	249	483	(234)	
Surplus/(Deficit)	3,212	123	3,089	
GENERAL RESERVES	**5,039**	**2,356**	**2,683**	5.3

5.2 HCPC opening reserves balance as of 1 April 2023 was £1.6m (subject to audit adjustments - please refer to the Appendix – Reserves Note). The forecast surplus for the year is £2.7m, which would give a closing reserves balance of £5.0m as of 31 March 2024.

5.3 As at 31 October 2023, our reserves closing balance is £5.0m, which puts us within our reserves policy. Our current forecast year end position surplus of £2.7m also keeps us within our reserves policy at year end. **Note.** HCPC's reserves policy is to hold positive net assets (less intangible assets).

5.4 The cash balance as of 31 October 2023 was £22.3m. The increase in cash and cash equivalents is mainly driven by the increase in international applications and stronger working capital. 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 The variance in 'Other Current Assets' and 'Deferred Income' is driven by a change in our interpretation of the relevant accounting standard (IFRS 15), at the request of our auditors. The effect is that under the new approach, deferred income is not recognised where the registrant has not paid the balance as at the period end date.

6. Capital Expenditure

6.1 Year to date capital expenditure related to Major Projects is £462k compared to the budget of £483k, giving us a £21k 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 £475k, which gives us a current forecast of £899k. The additional costs of £424k 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 (£53)** – 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.

e. **FtP CMS Product** – **(£8.5k)** – Relates to case management for FtP CMS.

6.3 Capital spend projections are subject to regular reviews as part of monthly forecasting to help us profile expenditure accurately 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 4.0 - Capital Spend

		Oct-23 YTD	Oct-23 YTD	Approved	Approved	Opex to Capex	Full Year		
		Actual	Budget	B/F Capex	FY23-24	FY23-24	Sep-23 Forecast	Budget	Variance
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)	301,641	311,849	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.	49,476	49,476	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.	23,879	35,000	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		**461,177**	**482,506**	**358,450**	**0**	**66,000**	**899,450**	**475,000**	**(424,450)**
Total Capital Spend		**536,177**	**557,506**	**358,450**	**0**	**66,000**	**999,450**	**575,000**	**(424,450)**

Table 5.1 – Weighted Risks

Risk Description	Probability	Full Year Impact	Weighting	Weighted Impact
		£'000	%	£'000
FtP Legal Cost	High	350	100%	350
Extension of 10 Registration Advisors and 1 Team Leader from December 2023 to March 2024	High	100	100%	100
Facilities - front glazing issue at 186 Kennington Park Road building	High	40	90%	36
Information Technology: 10 New Laptops and 8 repairs as a result of new staff	High	12	100%	12
Partners – deferred training costs from 2022-23	Low	36	25%	9
DMARC Software: Email security protocol software	High	3	100%	3
Total		**541**		**510**

Note. Due to timing constraints, items with 100% weighting will be included in the next reforecast.

Table 5.2 – Unquantified Risks and Opportunities

Description	Type	Probability
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
FtP- Payroll cost increase as a result 10 additional staff on the basis of over programming, in addition to the 6 FTEs mentioned previously. Costs will be quantified and captured as part of November 2023 reporting.	Risk	High
Business Central Specialist: External contractor to help implement core functionalities and provide guidance to finance. Costs will be quantified and captured as part of November 2023 reporting.	Risk	High
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

Appendix – Reserves Note (Revised as per 2022-23 Accounts)

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 (£1,576k). This year-end position is impacted by several one-off factors, including FtP legal costs brought forward into 2022-23. But even after allowing for these factors we are still around £0.5m to £1m 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 March 2024, taking account of recent developments. An updated reserves policy will be brought to Council for discussion and approval in due course.