Council

15 February 2024

Finance Report – December 2023

Executive Summary

Our financial position in December continues to show an improved position compared to the budget set at the beginning of the year. This is mainly the result of additional, unbudgeted income from international applications up to August 2023 and savings from exiting 33 Stannary Street just before the financial year began.

However, our financial position has deteriorated significantly as at the end of December 2023, compared to the first half of the year. Our latest forecast gives us a significant reduction with a forecast of £1.3m compared to prior forecast of £2.7m which is c£1.4m adverse. This is the result of increased Fitness to Practise (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 Professional Standards Authority (PSA) standards whilst 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 continue to face a number of significant risks and future liabilities (regulatory reform, partners target operating model and Nursing and Midwifery Council case provision), alongside the need to rebuild our reserves to a more sustainable level. These could potentially reduce the current forecast surplus of £1.3m to a deficit position of c£2.2m if they materialise.

Previous consideration	Previous finance report (October 2023 YTD) provided to Council in November 2023.
Decision	The Council is asked to note the report.
Next steps	Q3 Forecasting exercise due to take place for January 2024 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 – December 2023

1. Executive Summary

1.1 This report presents the financial position as at the end of December 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 £2.8m compared to our forecast surplus figure of £3.4m.

1.3 The full year September 2023 forecast surplus was previously £2.7m and the latest December 2023 rolling forecast gives us a significantly reduced position with a surplus of £1.3m (£1.4m adverse variance against September 2023 forecast).

1.4 The movements against September 2023 are as follows:

September 2023 vs December 2023 – Key Movements

Income & Expenditure	Full Year £'000	Comments
2023-24 Forecast Surplus	2,725	As at September 2023
Fitness to Practise (FTP)	(1,400)	FTP legal cost increase*
FY2023-24 Forecast surplus	1,325	As at December 2023

*FTP increase based on projection run rate on current performance and subject to change.

1.5 We are currently undertaking Q3 forecast for all departments. This will be incorporated in the January 2024 Finance Report.

1.6 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 £1.3m are as follows.

December 2023 Underlying Position– Including Key Risks and Liabilities

	Full Year £'000	Comments
2023-24 Forecast Surplus	**1,325**	**As at September 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.)
Underlying Risk Adjusted position	**(2,175)**	***As at December 2023 – Including Key Risks and Liabilities**

*Reflects position if risk and liabilities are to crystallize; expectation is that these obligations will not crystallize this year.

2. Income and Expenditure Account

2.1 Table 1.1 below summarises the impact of the reported position on the HCPC's income and expenditure. As noted, the forecast full-year outturn for the financial year is a surplus of c£1.3m.

Table 1.1 – Income & Expenditure Account

	Dec-23 YTD			Full Year			
	Actual	Forecast[1]	Variance	Forecast[1]	Budget	Variance	Note
	£'000	£'000	£'000	£'000	£'000	£'000	
Registration Income	30,061	29,909	153	38,844	34,008	4,836	
Grant Income	191	191	0	229	152	77	
Other Income	490	421	69	558	357	201	
Total Income	**30,742**	**30,520**	**222**	**39,631**	**34,517**	**5,114**	
Pay Costs	11,887	11,716	(171)	15,703	15,121	(582)	(a)
Non-Pay Costs	15,129	14,360	(769)	20,931	17,962	(2,969)	(b)
Depreciation	843	837	(7)	1,085	932	(153)	(c)
Total Operating Expenditure	**27,859**	**26,913**	**(946)**	**37,719**	**34,015**	**(3,704)**	
Transformation Costs	5	89	84	179	179	0	
Contingency Costs	0	0	0	300	200	(100)	
Corporation Tax	118	81	(37)	108	0	(108)	(d)
Total Expenditure	**27,982**	**27,083**	**(899)**	**38,306**	**34,394**	**(3,912)**	
Total Surplus/(Deficit)	**2,761**	**3,437**	**(677)**	**1,325**	**123**	**1,202**	

[1]Forecast as at December 2023

a) **Pay Costs:** (£582k) increase compared to budget as a result of:

- Additional agency staff to cover unfilled vacancies particularly within FTP and Registration;
- Increase in full time equivalents (FTEs) due to extended fixed term contracts in Registration to manage the continuing high volumes of applications; and
- A number of senior vacant posts being filled earlier than budgeted at ELT and Head of Department level.

b) **Non-Pay Costs**: (£2,969k) increase compared to budget relating to international assessors' costs (Registration) 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 and Appendix 1).

c) **Depreciation Costs**: (£153k) the increase in depreciation is 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

	Dec-23 YTD			Full Year		
	Actual	**Forecast[1]**	**Variance**	**Forecast[1]**	**Budget**	**Variance**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Reg and Renewal Fees	22,725	22,658	67	30,431	28,522	1,909
International Scrutiny Fees	6,187	6,037	150	6,935	4,317	2,618
UK Scrutiny Fees	1,024	1,080	(56)	1,285	969	316
Readmission Fees	125	134	(8)	193	200	(7)
Total Registration Income	**30,061**	**29,909**	**153**	**38,844**	**34,008**	**4,836**

[1]Forecast as at December 2023

3. Income

3.1 As per Table 1.1, total income for the year to date of £30.7m is £0.2m favourable compared to our forecast of £30.5m.

3.2 As previously reported, between April and August 2023 we saw a higher volume of international applications compared to budget, resulting in higher levels of international scrutiny fee income, however figures for September and October 2023 showed a significant decrease from the previous trend. November and December 2023 have followed a similar trend with a modest increase. The volume of international applications for the year to date is currently 11,360 compared to a forecast of 11,037. The January 2024 volume was 704.

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 £27.9m is (£1m) adverse compared to our September forecast of £26.9m. Table 1.3 outlines the key variances for the full year by department against the budget.

Table 1.3 – Variance by Department YTD (Dec-23 Actuals vs Sep-23 Forecast)

Department	Dec-23 YTD Actuals vs Sep Forecast £'000	Comment	Note
Fitness to Practise	(917)	Adverse	a
Registration	(123)	Adverse	b
Chief Executive	(26)	Adverse	c
Office Services	34	Favourable	d
Human Resources Partners	26	Favourable	e
Others	60	Favourable	-
Total	**(946)**		

[1]Forecast as at September 2023

a) **Fitness to Practise – variance against September forecast: (£917k)**

  a. (£170k) adverse: £140k unbudgeted PwC support work £30k agency and maternity cover.

  b. (£190k) adverse: relates to higher partner costs due to an increase in number of hearings versus forecast.

  c. (£557k) adverse: c£490k due to legal investigation costs in relation to transfer of cases.

b) **Registration: (£123k)** – £60k adverse variance relates higher than forecasted international applications (covered by the scrutiny fees). £30k relates to maternity cover, remaining relates to plagiarism software “Turn it In”.

c) **Chief Executive: (£26k)** – mainly related to legal advice.

d) **Office Services: £34k** favourable variance mainly as result of lower than expected property costs and payroll costs.

e) **Partners: £26k** favourable variance mainly as result of the timing of training costs that are due to occur later than forecast.

Table 2.0 – Full Time Equivalents (FTEs) by Department as at 31 December 2023

Department	Dec-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	5	6	6	0	
Education	11	11	11	0	
Facilities Management	7	9	9	0	
Finance & Commercial	15	16	16	0	
Fitness to Practise	137	134	134	0	
Governance	14	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	**335**	**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 December 2023 (data is verified with the HR Department).

4.3 Actual YTD FTEs are 335, of which 27 are agency staff (FTP – 22 FTEs and Other Departments - 5).

Notes

a) Chief Executive and Governance: Reallocation of the Head of Governance role from the Chief Executive department to the Governance department.

b) Human Resources: Additional roles include maternity leave cover, Learning and 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 (ten registration advisors and one team leader extended to March 2024 which will be reflected in January 2024 reforecast).

d) Fitness to Practise: Currently over-established due to cover for maternity and long-term sickness. January 2024 reforecast to reflect increase and additional increase as to address increase in number of FTP concerns received.

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-Dec-23 £'000	Forecast 31-Mar-24 £'000	Variance £'000	Note
Tangible Assets	6,065	6,074	10	
Intangible Assets	3,219	3,063	(156)	
Total Fixed Assets	**9,284**	**9,137**	**(146)**	
Current Assets				
Other Current Assets	3,458	7,894	4,435	5.5
Short Term Deposits	7,579	3,821	(3,758)	5.4
Cash & Cash Equivalents	12,327	13,958	1,631	5.4
Total Current Assets	**23,365**	**25,673**	**2,308**	
Total Assets	**32,648**	**34,810**	**2,162**	
Current Liabilities				
Current Liabilities	2,836	4,562	1,726	
Deferred Income	25,193	26,997	1,804	5.5
Total Current Liabilities	**28,029**	**31,559**	**3,530**	
Liabilities > 1 Year	35	35	0	
Total Liabilities	**28,064**	**31,594**	**3,530**	
NET ASSETS	**4,584**	**3,216**	**(1,368)**	
Free Reserves (Opening Reserves)	1,575	1,575	0	5.2
Revaluation Reserve (Land & Buildings)	249	316	67	
Surplus/(Deficit)	2,761	1,325	(1,435)	
GENERAL RESERVES	**4,584**	**3,216**	**(1,368)**	5.3
Realisable Net Assets	**1,366**	**153**	**(1,213)**	
Expenditure	**27,859**	**37,719**	**9,860**	
Months of Expenditure	**0.4**	**0.0**	**0**	

5.2 HCPC opening reserves balance as of 1 April 2023 was £1.6m (please refer to Appendix 2 – Reserves Note). The forecast surplus for the year is £1.3m, which would give a closing reserves balance of £3.2m as of 31 March 2024.

5.3 As at 31 December 2023, our reserves closing balance is £4.6m, which puts us within our reserves policy. **Note:** The HCPC's reserves policy is to hold positive net assets (less intangible assets).

5.4 The cash balance and short-term deposit balance as of 31 December 2023 was £19.9m. 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 £535k compared to the budget of £586k, giving us a £51k favourable variance (refer to 'Table 4.0 - 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; and

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

		Dec-23 YTD	Dec-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)	374,411	417,140	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.	26,448	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		**534,928**	**586,209**	**358,450**	**0**	**66,000**	**899,450**	**475,000**	**(424,450)**
Total Capital Spend		**609,928**	**661,209**	**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
Facilities - front glazing issue at 186 Kennington Park Road building	High	40	100%	40
ITT Intranet (Modern Architecture and UI in SharePoint 'Softcat')	High	40	90%	36
Partners – deferred training costs from 2022-23	Low	36	25%	9
DMARC Software: email security protocol software	High	3	100%	3
Total		**119**		**88**

Note. 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
Business central expertise: To help implement core functionalities and provide guidance to finance	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 1 – Fitness to Practise Costs

Following the December 2023 review FTP costs are forecast to be overspent by £2.6m for the full year. This expenditure is necessary to maintain the rate of progress in dealing with FTP cases and avoid a backlog developing that would put at risk our ability to hit PSA targets and lead to reputational damage.

We have been tracking a number of pressures and risks against budget and the latest forecast provides an updated view from the Q2 position previously reported. The main factor for the overspend relates to legal costs, with the main change since in the previous forecast being continued increase in external demand.

Description	Budget	Q1 Forecast	Q2 Forecast	Dec-23 Forecast
	£'000	£'000	£'000	£'000
Original FTP Budget 2023	(15,388)	(15,388)	(15,388)	(15,388)
Legal Costs Pressure			(2,100)	(3,004)
Reduction: in-house and partner costs			868	372
Revised Position	(15,388)	(15,388)	(16,620)	(18,020)
Variance to original budget		(500)	(1,232)	(2,632)

Legal Costs: the increase in legal costs compared to budget results from a higher volume of new case instructions to our legal providers. Key drivers are:

- External demand in the form of higher volumes of new cases than assumed in the budget: new cases are running at 22 cases per month compared to a budget assumption of 10 per month and 16 at Q2. This is the main driver of the increase in costs over the year;
- The costs of case preparation for cases transferred between providers earlier in the year; and one-off, legacy costs associated with those new legal supplier arrangements. Although there is an additional cost, we will secure value for money over the longer term in the form of improved timeliness and quality, as well as an improvement in financial management and control, as the new contractual arrangements are on a fixed fee basis;
- Updated budget assumptions: some of the assumptions used in the budget assumptions were based on learning from a frontloading pilot, but the YTD experience has shown that those assumptions were too optimistic for this financial year;
- A higher volume of demand-led activity by partners in the second half of the year than assumed in the original budget, reflecting a higher throughput of cases; and
- In addition, we have been supported by our legal providers in some off contract work in relation to improvements to our allegation approvals process and the implementation of our new frontloaded investigations process.

Appendix 2 – Reserves Note (Revised as per 2022-23 Accounts)

The 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 2023, the Audit and Risk Assurance Committee (ARAC) discussed an interim approach to our reserves in view of the current non-compliance with the policy. The ARAC noted several mitigating factors for the risks created by this non-compliance:

- the HCPC's significant cash balance, relating to the fees renewal cycle for individual professions;
- the 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 the 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; and
- 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 the 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 the 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.