

Management Accounts - December 2021

Executive Summary

This report presents the financial position as at the end of December 2021, with a commentary on the major variances, risks and opportunities. The operating deficit for the year to date (YTD) is (£1,440k) compared to a budgeted deficit of (£2,172k). Although an improvement compared to budget, there are a number of risks and opportunities to manage over the remainder of the financial year. We continue to project a year-end deficit, which will weaken our reserves and balance sheet.

| | |
|-------------------------------------|---|
| Previous consideration | The management accounts have been reviewed by the ELT in January 2022. |
| Decision | To note the: <ul style="list-style-type: none">• Latest Management Accounts• The financial risks and opportunities |
| Next steps | None |
| Strategic priority | Build a resilient, healthy, capable and sustainable organisation |
| Financial and resource implications | Set out in the report. |
| EDI impact | No direct implications |
| Author | Margaret Osibowale, Financial Planning and Analysis Manager Margaret.osibowale@hcpc-uk.org |

Summary

1. This report presents the financial position as at the end of December 2021, with a commentary on the major variances, risks and opportunities.
2. The operating deficit for the year to date (YTD) is (£1,440k) compared to a budgeted deficit of (£2,172k). Although an improvement compared to budget, there are a number of risks and opportunities to manage over the remainder of the financial year. We continue to project a year-end deficit, which will weaken our reserves and balance sheet.
3. **Income YTD is £1,000k favourable to budget. The forecast outturn is for a favourable variance of £1.3m.** There has been a significant improvement since September, driven mainly by an increase in international applications, and factoring in high-level accruals for deferred income. The processing of all applications has been on track since October and all income forecasts are on track to deliver apart from the readmissions income.
4. **On expenditure, the YTD position is £219k over budget, arising from pressures in** Fitness to practice (£620k), Registration (£365k) and IT (£388k) departments over budget, offset by underspends on Facilities Management (£375k), Policy (£164k), Business Change (£247k), Human Resources (£166k) and in other departments (£203k).
5. Pay is underspent YTD by £495k and non-pay operating expenditure is overspent by £219k, reflecting the variances summarised above.
6. ELT has authorised the additional Registration spend, to be funded from the additional income from international applications. The overspend in Fitness to Practice is driven by caseload volumes which have led to a shortfall on legal costs compared to budget assumptions.

Risk and opportunities

| Risks | Description | Probability | Area | Impact £'000 |
|--------|---|-------------|--------------|-----------------|
| Risk 1 | Financial impact of terminating the 405 lease and repurposing part of 184/186 to tribunal hearing suites. | High | Estates | 734k on Capital |
| Risk 2 | Aligning the FTP operational requirements to the £13k budget approved in July 21. | High | Payroll | 1,300 |
| Risk 3 | Financial implication of energy prices rising by over 50% | High | Property | 50 |
| Risk 4 | The rise in cost of International application assessors and registration staff in correlation with the income opportunity | High | Registration | 300 |

| Opportunities | Description | Probability | Area | Impact £'000 |
|---------------|--|-------------|--------------|--------------|
| Opportunity 1 | Increase in International Scrutiny fees income | High | Income | 750 |
| Opportunity 2 | HEE Partnership Funding | High | Other Income | 445 |
| Opportunity 3 | Temporary register grant funding from DHSC | High | Other Income | 202 |

Table 1: Income and Expenditure account

7. The table below summarises the impact of the reported position on HCPC's I&E account. The YTD bottom line deficit of £1.4m represents a favourable variance compared to the deficit budget of £2.2m.

ELT will actively monitor the position over Q4 to mitigate the risks and maximise the opportunities summarised above.

A run-rate forecast has been included; work on a full year forecasting will be taken forward as part of finance improvement activities.

| Income and Expenditure Account | Actual | Year to date Budget | Variance | Full Year Original Budget | Estimated Year-end Forecast |
|------------------------------------|----------------|---------------------|--------------|---------------------------|-----------------------------|
| YTD up to end of December 21 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | |
| Registration Income | 22,234 | 21,243 | 991 | 28,556 | 30,396 |
| Other Income | 132 | 134 | (1) | 120 | 177 |
| Income | 22,367 | 21,376 | 990 | 28,676 | 30,572 |
| Expenditure | | | | | |
| Pay Costs | 9,973 | 10,469 | 496 | 13,590 | 13,206 |
| Non-Pay Costs | 12,629 | 11,892 | (737) | 15,889 | 16,746 |
| Depreciation | 827 | 849 | 22 | 1,090 | 1,103 |
| Total Operating Expenditure | 23,429 | 23,211 | (219) | 30,570 | 31,055 |
| Corporation Tax | 0 | 0 | 0 | 0 | 34 |
| Turnaround Costs | 421 | 338 | (84) | 383 | 503 |
| HCPTS Relocation Project | 144 | 0 | (144) | 0 | 190 |
| Total Expenditure | 23,995 | 23,548 | (447) | 30,952 | 31,782 |
| Grant Income | 188 | 0 | 188 | 0 | 684 |
| Total Surplus/(Deficit) | (1,440) | (2,172) | 732 | (2,277) | (526) |

Table 2: Balance sheet

| Statement of Financial Position Balance Sheet | 9 Months YTD Actuals Dec-21 | Estimated Year-end Forecast Mar-22 |
|--|--------------------------------|---------------------------------------|
| | £ | £ |
| Total Fixed Assets | 9,982 | 9,935 |
| Current Assets | | |
| Other Current assets | 939 | 1,758 |
| Cash & cash equivalents | 8,475 | 11,655 |
| Total Assets | 9,413 | 13,413 |
| Current Liabilities | | |
| Trade and other payables | 249 | 249 |
| Other Liabilities | 1,741 | 1,741 |
| Deferred Income | 15,723 | 18,846 |
| Total current liabilities | 17,713 | 20,836 |
| Liabilities greater than one year | 85 | 0 |
| Total Assets less liabilities | 1,597 | 2,512 |
| General Fund b/fwd | (2,369) | (2,369) |
| Rev Reserve - Land & Building | (669) | (669) |
| This Period's (surplus) /deficit | 1,440 | 526 |
| General Fund c/fwd | (1,597) | (2,512) |

Cash flow

8. The cash balance as at 31 December was £8.5m. The cash management policy is to maintain positive balances in all accounts. We are not, and do not forecast to be, in breach of this policy at any point during the financial year.

Reserves

9. HCPC general fund reserves opened in April at £2.90m. The budgeted deficit for the year is (£2.28m), which would give a closing reserves balance of £0.620m. The December reserves closing balance is £1.6m compared to a budgeted reserves of £1.1m.
10. With income forecast to exceed target, but some costs exceeding budget and uncertainty around the in-year costs associated with estates moves, there are both pressures and opportunities which will impact on the closing reserves.

Background information

Registration Income by Activity

| Income by Activity | Actual YTD | Budget YTD | Variance YTD | Variance YTD | Full Year Budget | Outturn Forecast |
|---------------------------------|-------------------|-------------------|----------------|--------------|-------------------|-------------------|
| | £ | £ | £ | % | £ | £ |
| Renewal & Graduate Reg Fees | 19,017,750 | 18,914,760 | 102,990 | 1 | 25,402,377 | 25,902,377 |
| Readmission Fees | 124,830 | 176,325 | (51,495) | (29) | 210,659 | 210,659 |
| International Scrutiny Fees | 2,269,493 | 1,362,425 | 907,068 | 67 | 2,027,303 | 2,527,303 |
| UK Scrutiny Fees | 818,572 | 766,787 | 51,785 | 7 | 885,771 | 885,771 |
| EPC Income | 3,480 | 22,500 | (19,020) | (85) | 30,000 | 0 |
| Total Income by Category | 22,234,125 | 21,242,797 | 991,328 | 5 | 28,556,110 | 29,526,110 |

Staffing

Average staff numbers as at December were 7.1 below budgeted establishment, with 282 actual staff against 289 budgeted. There are 39 positions covered by agency staff (see agency staff table below), down slightly from 43 in September.

| HCPC Latest Headcount | | | | | | |
|-----------------------|-----------------|----------------|--------------|-----------------|----------------|--------------|
| Department | Original Budget | | | Dec 21 Position | | |
| | Permanent | Super-numerary | Total | Permanent | Super-numerary | Total |
| Chief Executive | 7.0 | 0.0 | 7.0 | 6.0 | 0.0 | 6.0 |
| Governance | 9.8 | 1.0 | 10.8 | 9.6 | 1.0 | 10.6 |
| Policy & IIA | 10.0 | 0.0 | 10.0 | 7.0 | 2.0 | 9.0 |
| Communication | 6.0 | 0.0 | 6.0 | 5.0 | | 5.0 |
| Professional Liaison | 4.0 | 0.0 | 4.0 | 2.0 | 1.0 | 3.0 |
| Fitness to Practise | 107.0 | 17.0 | 124.0 | 110.9 | 13.0 | 123.9 |
| Registration | 53.0 | 3.0 | 56.0 | 47.2 | 14.0 | 61.2 |
| Education | 12.0 | | 12.0 | 9.0 | | 9.0 |
| IT & Digital | 15.5 | 1.0 | 16.5 | 12.5 | 2.0 | 14.5 |
| Business Change | 6.5 | 1.0 | 7.5 | 7.5 | 1.0 | 8.5 |
| Finance | 9.0 | 5.0 | 14.0 | 7.0 | 4.0 | 11.0 |
| HR | 9.8 | 1.0 | 10.8 | 9.8 | | 9.8 |
| Office Services | 9.0 | 1.0 | 10.0 | 7.0 | 2.0 | 9.0 |
| Total | 258.6 | 30.0 | 288.6 | 240.5 | 40.0 | 280.5 |

The YTD favourable variance on staffing will reduce in Q4, following the appointment of new staff in policy, IT, Professional Liaison and Finance and recruitment under way in other departments.

| Agency Table | | |
|-----------------------|--------------------|--|
| Department | No of Agency staff | Comments |
| Registration | 14 | 12 Agency staff approved by ELT and 6 covering vacancies |
| FTP | 13 | Covering vacancies |
| Corporate Departments | 9 | Finance, IT, Business Change and HR - covering vacancies |
| PPID | 3 | Covering vacancies |
| Total | 39 | |

Training is £51k underspent; there is likely to be a spike in the cost in the final quarter of the financial year as we undertake performance appraisals. Recruitment costs are £114k underspent, which is partly a timing difference; most departments have been recruiting over the past quarter

Overheads (non-staff)

IT non-pay expenditure is (£339k) adverse to profile. This relates to software support.

Office running/property costs are £349k underspent, with permanent savings of £118k in the 405 Kennington property/utilities costs. Some of these costs in 184/186 and Stannary Street will increase as the organisation moves to hybrid working and also because of the rise in energy prices

Research costs

Research costs are currently under spent by £104k; there are existing plans to spend at least 50% of the £150k budget in the remaining months of this financial year.

Partner Costs

Registration partner costs are (£166k) overspent due to the increased requirement for international scrutiny partners which correlates with the additional income. There is a further £43k underspend on other non-pay registration budgets; mainly on CPD Assessments.

Hearing costs are under budget by £142k; there has been less reviews in the third quarter of the financial year. Also, the room hire costs should be linked to the 405 exit savings.

Legal and professional

FTP professional and legal costs are reported as (£695k) overspent. Contracts with Kingsley Napley, Blake Morgan and Capsticks comprise the bulk of this spend. Other professional costs relating to hearings – Investigating and transcript costs are over budget by (£234k); mainly due to the 21/22 budget setting shortfall.

There are concerns about the run-rate of the cost of FTP. The current indication is showing that the forecast outturn including the unbilled work from Kingsley Napley will be £14.4m; which reflects the draft budget that went to PRC in February 21 to deliver the FTP Improvement plan.

Non-operating expenditure

Transformation costs are overspent by £84k. This is mainly due to the additional Estates adviser and business transformation costs currently being allocated to the budget.

Savings and efficiencies

| Summary of Savings | Budgeted Savings & Efficiencies | | | Actual Savings & Efficiencies achieved | | | Comments |
|---|---------------------------------|------------------|------------------|--|----------------|------------------|---|
| | Permanent £ | One-off £ | Total £ | Permanent £ | One-off £ | Total £ | |
| Office Services without exit of 405 | - | (103,233) | (103,233) | (1,000) | (6,900) | (7,900) | Lease negotiations conducted in house and proceeds from sale of equipment from 405 |
| Exit of 405 | (62,450) | | (62,450) | (68,000) | | (68,000) | Reduction in 405 Costs due to exit beginning of December 21 less room hire costs in FTP |
| Training and Staff Recruitment | (250,000) | | (250,000) | (187,500) | | (187,500) | Both budgets still underspent even after reduction in budget |
| Corporate Directorate Savings | (11,000) | (54,000) | (65,000) | 0 | 0 | 0 | |
| Regulation Directorate one-off savings | | (17,252) | (17,252) | | 0 | 0 | |
| Registration Costs | (309,750) | | (309,750) | 0 | | 0 | |
| Professional Practice and Insight Directorate Savings | (10,397) | | (10,397) | 0 | | 0 | |
| Depreciation | (14,868) | | (14,868) | 0 | | 0 | |
| Total Expenditure Savings | (658,465) | (174,485) | (832,950) | (256,500) | (6,900) | (263,400) | |
| Additional Income | 1,485,311 | 344,798 | 1,830,109 | 200,954 | 868,613 | 1,069,567 | Based on the new increased fees from July 21 and additional International scrutiny fees |

Any savings linked to an empty Stannary street can no longer be realised because it's now being occupied and used as a storage space. Also a fraction of the bankable utilities savings from exiting 405 will be reduced by the potential increase in energy prices across the organisation.

The budget included £1.83m for additional income, reflecting the increased registrant base, the additional income due to a fee increase effective for professions whose renewal window opened in or after July, and additional scrutiny fees, especially from international applicants.

Capital

Capital spend up to end of Dec 21 was £425k, which is £39k favourable to budget: £338k on Capital projects and £87k on non-project capital items.

Most of the underspend is due to the non-project capital items delayed spend. No planned spend on office equipment until after the re-modelling of 186 for additional tribunal rooms.

The over-spend on Reg Transformation and improvement is mainly due to 20/21 capital costs moving into 21/22.

| Capital Report | | | | | | |
|------------------------------------|---------------------|----------------|-----------------|----------------|-----------------|-----------------|
| | 2021-22 | | | | | |
| | YTD Original Budget | YTD Actual | Original Budget | New Forecast | Budget Variance | Budget Variance |
| | £ | £ | £ | £ | £ | % |
| Information Technology | 112,500 | 87,359 | 150,000 | 150,000 | 25,141 | 22 |
| Office Equipment | 52,500 | 0 | 70,000 | 70,000 | 52,500 | 100 |
| Non Project Capital Costs | 165,000 | 87,359 | 220,000 | 220,000 | 77,641 | 47 |
| Reg Transformation and Improvement | | 47,857 | | | (47,857) | 0 |
| Education Dynamic 365 | 37,500 | 27,406 | 50,000 | 50,000 | 10,094 | 27 |
| FTP CMS Replacement Phase 1 | 126,645 | 211,023 | 31,000 | 126,645 | (84,378) | (67) |
| FTP CMS Product Development | 85,000 | | 177,000 | 177,000 | 85,000 | 100 |
| Data Platform | | 2,551 | | | (2,551) | 0 |
| Reg Phase 3 | 50,000 | 49,188 | 500,000 | 215,233 | 812 | 2 |
| Total Major Projects | 299,145 | 338,025 | 758,000 | 568,878 | (38,880) | (13) |
| Total Capital | 464,145 | 425,385 | 978,000 | 788,878 | 38,760 | 8 |