

Audit Committee, 22 November 2016

Finance department strategy

Executive summary and recommendations

**Introduction**

The Finance department strategy will sit between the Strategic Intent and the department's annual workplans. The Finance department has not previously had a documented strategy, and the draft is intended to fill that gap. It describes the approach that the department has been following for the last 2-3 years and intends to continue with, rather than any significant change of direction.

The draft was developed with input from Grant Thornton and was approved by EMT in October.

**Decision**

Audit Committee are asked to discuss the draft Finance department strategy, and recommend it for approval by Council.

**Resource implications**

None

**Financial implications**

None

**Date of paper**

10 November 2016

## **Finance strategy**

[December 2016]

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## 1. Introduction

- 1.1. The HCPC Finance Department strategy sets out the broad aims of the Department's work. It covers how we aim to work with our internal and external stakeholders to contribute to the achievement of HCPC's overall strategy and objectives.
- 1.2. The Department's strategy is consistent with HCPC's values and the Strategic Intent 2016-2020<sup>1</sup>, and HCPC's code of corporate governance<sup>2</sup>. All five of HCPC's values are relevant (transparency, collaboration, responsiveness, value for money and high quality service). In relation to the Strategic Intent, Finance directly contributes to objectives 1, good governance, and 2, efficient business processes, but through Finance's role supporting other HCPC departments, Finance indirectly contributes to all six objectives.
- 1.3. The Finance Department strategy is also consistent with HCPC's status as a public body and the Treasury's guidance in Managing Public Money<sup>3</sup>.
- 1.4. The strategy was approved by Council in [December 2016] following discussion by the Executive Management Team and the Audit Committee. It will be formally reviewed by Council every three years or more frequently if circumstances change. The strategy will inform the annual workplans prepared by the Finance Department for presentation to Council in March each year.

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<sup>1</sup> See <http://www.hcpc-uk.org/aboutus/aimsandvision/>

<sup>2</sup> See <http://www.hcpc-uk.org/aboutus/council/codeofcorporategovernance/>

<sup>3</sup> See <https://www.gov.uk/government/publications/managing-public-money>

## 2. Summary

- 2.1. The work of a Finance function can be categorised under three headings: transaction processing, compliance and control, and business insight<sup>4</sup>. Transaction processing includes the core processes of collection of income and payment of employees and suppliers. Compliance and control includes the checks to ensure accuracy and prevent fraud, as well as management information and treasury. Business insight includes forward looking analysis, supporting planning and decision making.
- 2.2. Since the 1990s, accepted best practice in Finance has generally been to maximise the efficiency of transaction processing, and shift emphasis from the compliance and control function to the value adding business insight function. Finance is expected to develop from its traditional role of backward looking “scorekeeper” to forward looking strategic business partner.
- 2.3. Our strategy for the HCPC Finance Department is similar, although it also needs to reflect HCPC’s status as a public body funded by our registrants’ fees, our overall strategy and our risk appetite.
- 2.4. This strategy was first documented in October 2016, but it reflects a continuation of the approach the Finance Department has been taking for the past two to three years, rather than a major change of direction.
- 2.5. We aim to improve our culture of customer focus and business partnering, built on the HCPC values. We want to continue the shift in emphasis towards the business insight function, while also providing good customer service in our transaction processing. We aim to develop systems that drive efficiencies, meet rising stakeholder expectations and reduce risk. We need to provide controls that are effective and appropriate for HCPC’s low risk appetite, but do not get in the way of high quality service and value for money.

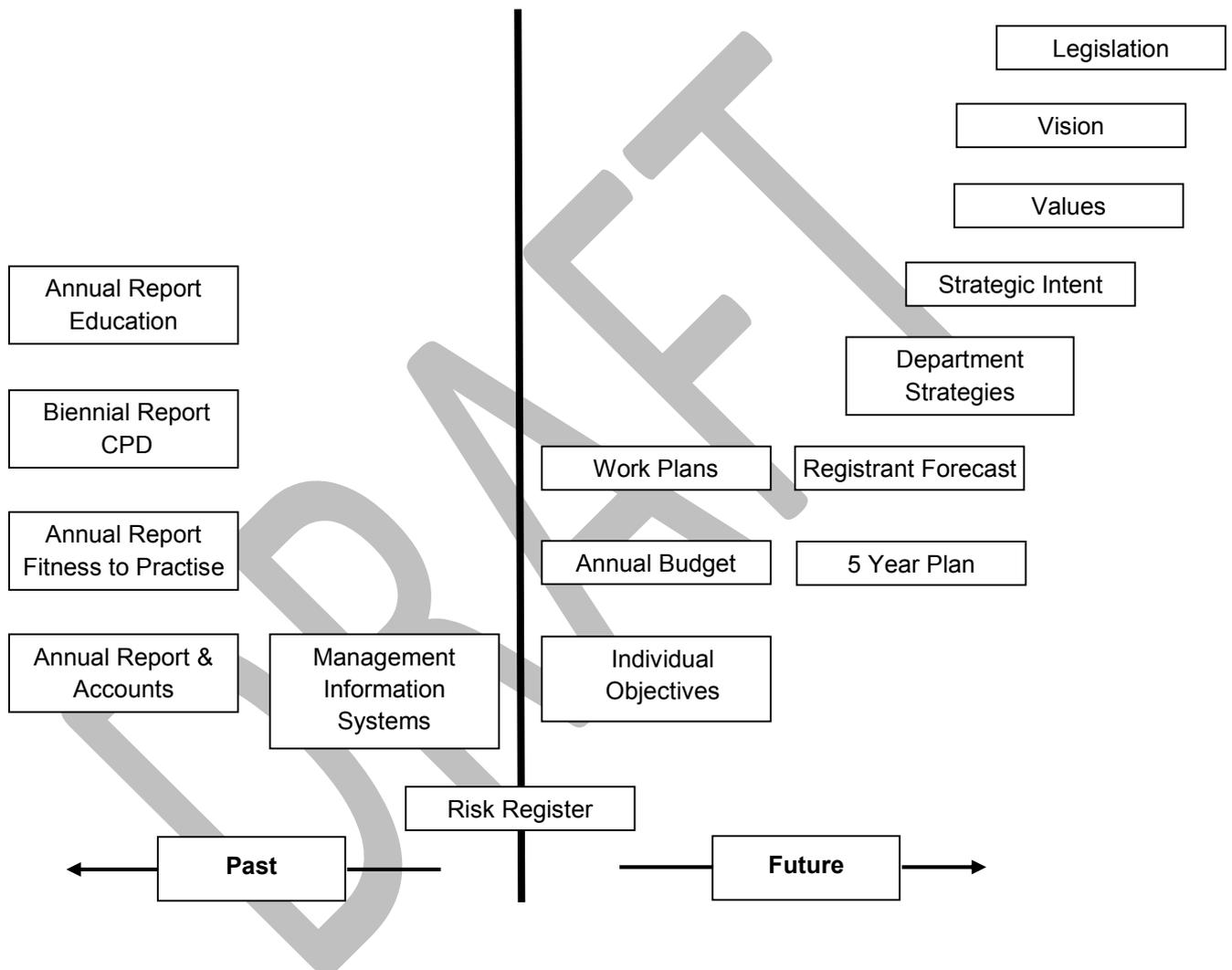
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<sup>4</sup> These categories are drawn from the PwC Global Finance Benchmark Report 2015 <http://www.pwc.co.uk/finance/finance-matters/insights/breaking-away-finance-effectiveness-benchmark-study-2015.html>. Other studies of finance best practice use similar categorisations

### 3. How the Finance Department strategy fits within HCPC's governance framework

3.1. The Finance Department strategy is part of a “golden thread” leading from our legislation and our values and the Strategic Intent to this and other departmental strategies, and then on to annual departmental work plans and employees’ objectives.

#### HCPC's Governance Framework

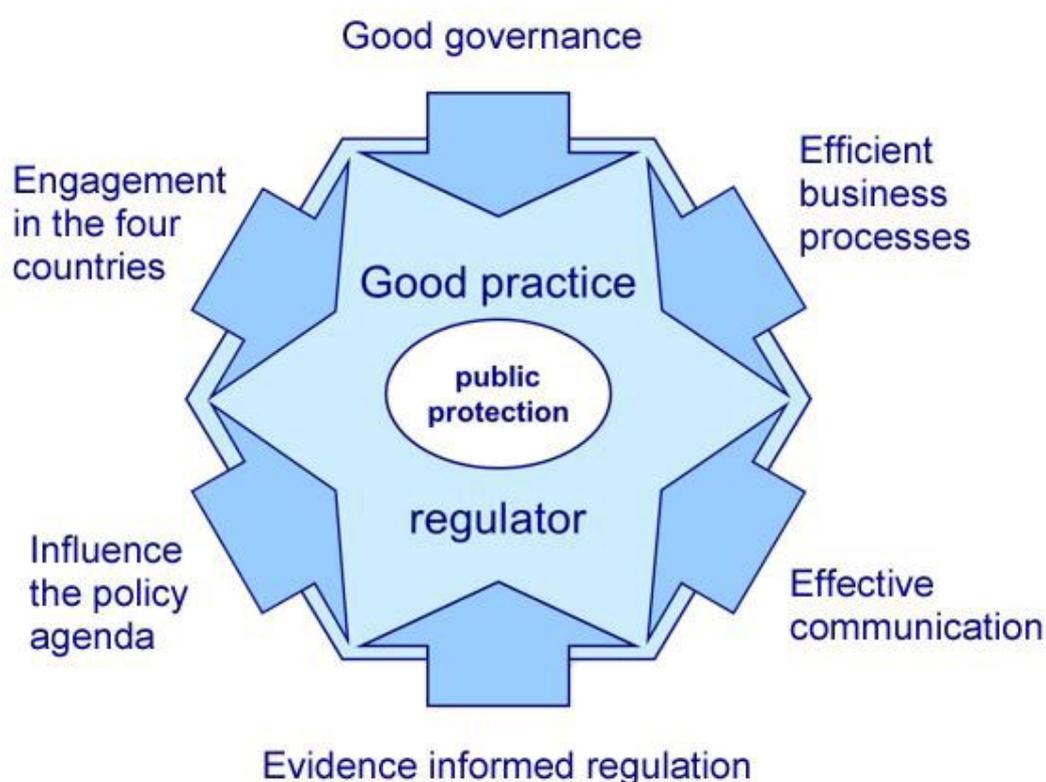


3.2. The over-arching objective of the HCPC as set out in Article 3 (4) of the Health and Social Work Professions Order 2001 is the protection of the public. To protect the public we:

- Set standards for entry to the Register and for continued registration;
- Approve education and training programmes that successfully deliver those standards;
- Maintain a register of individuals who successfully complete those programmes; and
- Take action if the standards may not have been met.

3.3. HCPC has an overall strategy for the achievement of our purpose, the Strategic Intent. This is reviewed and updated periodically by Council, most recently in December 2015, for the period 2016-20. HCPC has also set out five organisational values: transparency, collaboration, responsiveness, value for money and high quality service.

3.4. The Finance Department's strategy is consistent with HCPC's values and the Strategic Intent 2016-20. Finance directly contributes to strategic objectives 1, good governance, and 2, efficient business processes, but through Finance's role supporting other HCPC departments, Finance indirectly contributes to all six strategic objectives. Finance works in accordance with all five of the HCPC values.



3.5. Strategic objectives 1 and 2 are reproduced below.

#### **Objective 1: Good governance**

##### **To maintain, review and develop good corporate governance**

- To ensure continued financial probity and sustainability
- To ensure continued risk management
- To maintain regular monitoring of performance against objectives
- To invest in training of employees, partners and Council members to develop skills [not directly relevant to Finance]
- To operate the annual performance review of Council members and the Chair [not directly relevant to Finance]

## **Objective 2: Efficient business processes**

### **To maintain, review and develop efficient business processes throughout the organisation**

- To promote a culture of continuous quality improvement
- To maintain, review and develop standards and processes as required across all functions
- To ensure compliance with relevant external quality assurance frameworks
- To maintain, review and develop organisation-wide policies including equality and diversity and corporate social responsibility policies
- To build partnerships with suppliers to ensure value for money procurement
- To increase the benefit from, and manage effectively the cost of, regulation

3.6. HCPC's risk management strategy includes an annual review of our risk appetite. The risk appetite was last reviewed by the Audit Committee in September 2016. The Committee agreed that our risk appetite should be low. The Finance Department strategy is consistent with the low risk appetite.

3.7. The Finance Department's strategy informs the Reserves and Investment policies and the Procurement policy.

## 4. External drivers

### 4.1. Political

4.1.1. **Possible significant changes in the professions and the number of professionals regulated.** In the 2016-17 session of Parliament, the government is legislating to create a new regulator for Social Workers in England. The government intends that the new body will take over the regulation of Social Workers in England from the HCPC in [late 2018], and this will significantly impact HCPC's activities, income and operating costs. In [November 2016], the Department of Health published a consultation document on reform of healthcare regulation. The consultation may lead to legislation in the 2017-18 session of Parliament, and further changes in the scope and volume of HCPC's work taking effect over the following two or three years.

### 4.2. Economic

4.2.1. **The need to achieve value for money and manage HCPC's finances on a sustainable basis, while keeping registration fees low.** HCPC's registration fee is currently the lowest of all nine statutory regulators of healthcare professionals in the UK, but all the regulators including HCPC will be expected to avoid or minimise any fee increases.

4.2.2. Collaboration and shared services between the regulators has been identified in government papers as one of the possible means of improving cost efficiency and keeping fees low across the nine regulators as a whole. The premise is that by combining functions such as Finance, HR and IT, which are now performed separately by each individual regulator, into a shared services provider, significant economies of scale will be generated.

4.2.3. Shared "back office" functions has been discussed by the nine regulators but there are significant obstacles to any progress. Successful shared services centres depend on all the customers of the provision accepting standardised systems and processes from the provider. The regulators all have different legislation and that is reflected in, for example, different processes for the charging and collection of registrant income. In areas where the legislation does not dictate processes, for instance desktop IT systems, HR or purchase to payment systems, existing processes vary and organisational culture would still be an obstacle to standardisation. The upfront investment in new, standardised systems and processes would be large, and the transfer of employees from the affected functions of the individual regulators to the shared service provider would be disruptive and costly. For these reasons shared services projects have often failed to generate the expected savings<sup>5</sup>.

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<sup>5</sup> See for example the NAO's 2016 report on the Cabinet Office's shared services programme for central government <https://www.nao.org.uk/report/shared-service-centres/>

- 4.2.4. The HCPC as a multi-professional regulator has clearly demonstrated that services can be successfully shared across the sixteen professions we regulate provided that the legislation and processes are common to all.
- 4.2.5. We will continue to communicate with the other regulators and will pursue opportunities for cost effective collaboration.
- 4.2.6. The budgeting process and the procurement policy<sup>6</sup> address the objective of value for money. Value for money in procurement includes quality and fitness for purpose as well as cost. The policy promotes the use of Government framework agreements where possible for the selection of suppliers.
- 4.2.7. The five year plan is a financial forecast which helps us to ensure that HCPC's finances are sustainable and to identify whether and when fee increases may be necessary. The plan is updated annually and presented to Council for approval.
- 4.2.8. **The need to maintain liquidity and business continuity.** Risks to these objectives include the risk of failure of one of our banks or key suppliers, and the UK's exit from the European Union may increase the level of risk. The reserves policy and the investment policy address the risks of liquidity and business continuity.
- 4.2.9. Since registrants are currently required to pay their fees in advance, HCPC has predictable cash inflows and holds relatively large cash balances. Therefore we do not currently need to borrow or hold large reserves in order to fund working capital. Our reserves – that is, our accumulated net surpluses since HCPC began operating in 2002 – are relatively low, £4.5m as at 31 March 2016, which represents less than 2 months of HCPC's operating costs, or £13 per registrant.
- 4.2.10. However we do need to hold an appropriate minimum level of liquidity or cash, in order to pay our costs as they fall due and to be able to absorb exceptional or unplanned costs without interruption to operations or recourse to government or registrants for additional funds. The reserves policy sets that minimum cash level at three months of budgeted operating expenditure.
- 4.2.11. The investment policy provides the framework for the management of funds that are surplus to immediate requirements. Funds may only be invested in sterling bank deposits, in line with HCPC's low risk appetite.
- 4.2.12. The procurement policy also addresses the objective of business continuity. The policy includes assessment of the stability and

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<sup>6</sup> See <http://www.hcpc-uk.org/assets/documents/100051DBHCPC-ProcurementPolicy.pdf>

capacity of key suppliers, and the management of the ongoing relationship with suppliers as well as the initial selection.

### **4.3. Social**

4.3.1. **External stakeholders' expectations for financial transactions with public service providers are changing.** HCPC's registration rules and systems no longer fully meet registrants' expectations in some areas. This is being addressed through the Registration Transformation project. The project began in late 2015-16 and has three planned phases, the last of which is expected to be completed in 2019-20.

### **4.4. Technological**

4.4.1. **Technology relevant to Finance departments has evolved significantly over the past decade.** For example, transactions are now normally paperless, so the time spent keying in data has been greatly reduced. The finance systems of large organisations are normally integrated with the systems used in other parts of the business. Systems tend to determine processes which are employees' touchpoints with the department, so the choice of system has a key impact on employees' overall experience of the service. Section 7 describes our strategy for development of our finance systems.

### **4.5. Legal**

4.5.1. **HCPC must comply with relevant law and regulation,** including procurement law, the Freedom of Information Act, and accounting and financial management rules for the public sector made by HM Treasury. Our procurement policy ensures compliance with the Public Contracts Regulations for contracts above the relevant threshold values, while also enabling a decentralised, lighter touch approach at lower values.

### **4.6. Environmental**

4.6.1. Environmental factors are not a major driver for the Finance Department, although our shift to paperless transactions has an environmental benefit.

## 5. Internal drivers

### 5.1. Employee needs and expectations

- 5.1.1. Employees' touchpoints with Finance include travel bookings, expenses claims and the WAP<sup>7</sup> purchase ordering system. Employees expect clear and simple processes that enable them (for example) to travel on HCPC business and be promptly reimbursed for expenses.
- 5.1.2. We will gather feedback on HCPC employees' experience and opinions of the department through surveys, and use the results in the development of our processes and guidance. We conducted the first survey in November 2015, and we will repeat the survey every two years.
- 5.1.3. We aim to make our processes as simple and easy to use for employees as possible, subject to the requirements of compliance and control.

### 5.2. Budget holder needs and expectations

- 5.2.1. Budget holders need financial information, advice and support to help them manage their budgets effectively and prepare business cases for significant investments, so ensuring that HCPC achieves value for money.
- 5.2.2. Financial information needs to be relevant and reliable. For HCPC budget holders, relevance means the information needs to be up to date and needs to analyse costs consistently with how the activity is managed, and to the right level of detail. The accounting system should be the "single version of the truth" on expenditure, removing the need for budget holders to maintain their own off line records. Reliability essentially means accuracy.
- 5.2.3. There is a potential conflict between relevance and reliability. Management accounts can be made more accurate by making adjustments to deal with timing differences: costs that have been incurred in the period but not yet billed, and costs that have been paid in advance of the activity. But those adjustments take time and mean that management accounts may not be available until 3-4 weeks after the month end, and that much of the Finance team's resource is consumed in making the adjustments, rather than analysing the numbers. Our approach is to prioritise relevance, closing the books within one week of the month end so that management information of sufficient reliability is available quickly, and Finance have more time to analyse it with budget holders.
- 5.2.4. Budget holders expect finance processes such as budget setting and forecasting to be supported by clear guidance, templates and timetables.

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<sup>7</sup> WAP is a Sage application developed by Sicon <https://www.sicon.co.uk/>

5.2.5. Budget holders expect that financial controls are proportionate to the risks being managed and do not unnecessarily inhibit the conduct of HCPC business.

5.2.6. Budget holders expect that the support from Finance is delivered in accordance with the HCPC values, particularly collaboration.

### **5.3. Council and the Audit Committee needs and expectations**

5.3.1. Council and the Audit Committee have similar needs in relation to financial information, except that Council and the Audit Committee consider HCPC as a whole, so the amounts which are material to them are higher than for budget holders, and the required level of detail is lower.

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## 6. Culture and values

6.1 We aim to develop a culture of customer focus and business partnering, built on the HCPC values:

- Transparency. We communicate in a way that is open, fair and honest, to build understanding and encourage two-way dialogue
- Collaboration. We work with our colleagues and stakeholders in a spirit of cooperation and partnership to achieve our overall aims. In our work with suppliers, this means building equal relationships with a fair allocation of risk and benefit, rather than over-reliance on our power as the customer. In our work with internal stakeholders, it includes trust and decentralisation subject always to the threshold level of financial control<sup>8</sup>
- Responsiveness. We respond to events with energy and enthusiasm, taking ownership and responsibility to see things through
- Value for money. We ensure that our resources are used effectively and efficiently in the delivery of our aims, vision, strategic intent and goals. We aim to keep Finance's processes as simple and efficient for our stakeholders as possible, subject to the threshold level of financial control. Finance's controls test and demonstrate that HCPC does in fact achieve value for money
- High quality service. We strive for excellence in everything we do; encouraging innovation, maximising opportunities and exploring fresh ideas in order to see continuous improvement

6.2 A customer focused culture should apply throughout our work and means seeing our processes from the customer / stakeholder's viewpoint. We need to appreciate that customers are more interested in outcomes than processes, and will have other priorities. We need to design processes with the customer in mind, and be willing to occasionally make exceptions to our processes when it is appropriate. While remaining alert to the possibility of bad faith, we need to trust that the great majority of our customers are acting in good faith, and treat their transactions with us as valid.

6.3 Business partnering is inherently collaborative and decentralised. We need to collaborate with budget holders with a presumption of trust in their competence and corporate behaviour. The benefit of a business partnering culture is that budget holders are encouraged to bid for and use funds flexibly, transparently and corporately.

6.4 We expect that the outcome of this culture, supported by compliance controls at least at the threshold level, will be a high quality service to our stakeholders, and value for money for HCPC and its stakeholders.

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<sup>8</sup> The section on compliance and control in the table in section 8 explains what is meant by the threshold level of financial control.

## 7 Strategy for finance systems

- 7.1 The current finance system is Sage 200, plus the WAP<sup>9</sup> purchase ordering module. Sage is used only by the Finance Department and the Major Projects Department, and there are about 70 regular users of WAP across all departments. Registrant balances (effectively the sales ledger) are calculated within NetRegulate and reports are generated for import into Sage. Other departmental systems with financial data are not linked to Sage.
- 7.2 Management information is provided through Excel spreadsheets generated using Sage BI, an Excel add-in, and transaction listing pivot tables linked to the Sage database.
- 7.3 Sage 200 has been in place since 2009, while over the same period HCPC's budget has grown from £15m to over £30m. The system is inexpensive and effective, but integration with other systems is limited and the user experience is relatively poor.
- 7.4 Our strategy for the future development of finance systems is consistent with the HCPC IT strategy. In particular we aim to develop systems to drive efficiencies, meet rising stakeholder expectations, and reduce risk, subject to the availability of resources and the development being proportionate to need.
- 7.5 We plan to review accounting systems during 2017-18 to assess whether to retain or replace Sage and WAP. The review will consider whether alternative systems could provide better integration with other HCPC systems and a better user experience, and whether those benefits would justify the additional investment. The review will also consider outsourcing and shared services options.
- 7.6 If a replacement for Sage and WAP is agreed, it will be a major project for the financial year 2018-19 or later.

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<sup>9</sup> WAP is a Sage application developed by Sicon <https://www.sicon.co.uk/>

## 8. Finance Department strategic aims

8.1 Since the 1990s, accepted best practice in Finance has generally been to maximise the efficiency of transaction processing, and shift emphasis from the compliance and control function to the value adding business insight function. Finance is expected to develop from its traditional role of backward looking scorekeeper to forward looking strategic business partner. Our strategy is similar, as set out in the table below.

8.2 We work in accordance with the five HCPC values, transparency, collaboration, responsiveness, value for money and high quality service.

Area of work	Context	Approach
<b>Transaction processing</b> includes: <ul style="list-style-type: none"><li>collecting fees from Registrants</li><li>paying our employees, Partners and suppliers</li></ul>	These transactions are the way in which most of our stakeholders interact with us and they are absolutely essential for HCPC to function.	<b>Strategic aim: improving efficiency <i>and</i> customer service</b>  We will improve the efficiency of transaction processing by standardisation, simplification and automation.  We aim to balance efficiency with customer service and the need for at least the threshold level of control.

Area of work	Context	Approach
<p><b>Compliance and control</b> work includes:</p> <ul style="list-style-type: none"> <li>• reconciliations</li> <li>• management accounts</li> <li>• statutory accounts</li> <li>• meeting Freedom of Information requirements</li> <li>• procurement processes</li> <li>• managing cash flow and deposits</li> </ul>	<p>This is about checking that we are processing transactions accurately, that our spending is in accordance with plans, and we are meeting our obligations in law and regulation in Finance-related areas. It also includes the management of Finance-related risks through the HCPC risk management process.</p> <p>These objectives are similar to “hygiene factors” in that they must be met to a certain threshold level. If the organisation fails to meet a compliance or control objective, the outcome can be extremely damaging – for instance, a breach of procurement rules leading to a legal challenge. But once the threshold level is met, further increases in compliance and control do not normally add further value to the organisation. Where to set the threshold level for compliance and control objectives is a judgement informed by the HCPC’s risk appetite and strategy, including this document.</p>	<p><b>Strategic aim: proportionate and effective controls</b></p> <p>Our compliance and control processes are audited annually by internal financial auditors and may be reviewed by external financial auditors<sup>10</sup> or British Standards Institute auditors, or as part of other quality assurance processes such as a near miss report. Audits are inherently risk averse so each audit is more likely to result in recommendations for extensions to financial controls than recommendations to reduce control processes. Audit recommendations are a form of expert advice and management is rightly more inclined to accept than reject expert advice.</p> <p>As a result, financial control processes tend to increase over time. Controls may also become disproportionate as the organisation changes in size. Excessive compliance and control processes are inefficient and reduce the quality of service to budget holders and other stakeholders. Therefore we will regularly review controls and processes with a view to reducing or simplifying them, subject to the minimum threshold level of control referred to at the left.</p>

<sup>10</sup> The purpose of the NAO’s financial audit is to express an opinion on the financial statements, and not to assess financial controls. Any observations the NAO make on our financial controls are therefore a bi-product of their audit and should not be relied upon by HCPC as a comprehensive assessment of our whole financial control system.

Area of work	Context	Approach
<p><b>Business insight</b> work includes:</p> <ul style="list-style-type: none"> <li>• budgeting and forecasting</li> <li>• procurement planning, to improve value for money</li> <li>• preparation or review of business cases for investment projects</li> <li>• preparation of the five year plan which assesses the sustainability of HCPC's finances</li> <li>• other financial analysis to support management's decisions</li> </ul>	<p>This is where Finance has the most opportunity to add value, over and above its essential functions. But the concept of "adding value" should not detract from the importance of getting transaction processing and compliance and control work right</p>	<p><b>Strategic aim: customer focus and value for money</b></p> <p>Our business insight work takes a customer focused approach, working with budget holders to understand their departments' work, their cost drivers and information needs. We aim to ensure that all the information that budget holders need to manage their spend is captured in the accounting system so that the accounting system can be the "single version of the truth", and inefficient and conflicting off line spreadsheets can be eliminated.</p> <p>The budget setting process is linked to departmental work plans and planned activity levels<sup>11</sup>. Budgets, in year forecasts and the five year plan are approved by EMT to achieve an effective and sustainable allocation of resources across HCPC as a whole. Budget holders are targeted to achieve actual spending to within +/- 5% of their forecast and there are controls over the employee complement, but we deliberately do not set other more detailed limits or controls over the budget. This approach encourages collaboration and adaptability and avoids perverse incentives and non-corporate behaviours.</p> <p>We also support budget holders with the preparation of business cases for proposed investments comparing the costs and benefits of the various options, helping to ensure that we achieve value for money.</p>

<sup>11</sup> This applies particularly to non-payroll costs in the FTP, Registration and Education departments. In other departments the link between activity levels and costs is less significant.

## 9. References

PwC Global Finance Benchmark Report 2015 <http://www.pwc.com/us/en/increasing-finance-function-effectiveness/finance-effectiveness-benchmark-study/assets/pwc-global-finance-benchmark-report.pdf>

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