

Draft Budget 2020-21

Executive Summary

The draft budget for 2020-21 is a deficit of £3,024k, this compares with a forecasted result for FY 19/20 of £478k deficit. The FY 20/21 deficit is comprised of:

	Amount in FY20-21 budget	Description
Underlying Trading Deficit	£838k	This is the estimate of the underlying deficit, if HCPC continued to operate in FY 20/21 without any investment in change.
Data Intelligence Team	£74k	This team will be created to achieve the data, intelligence and research aspirations set out in our five-year plan.
Professional Liaison Team	£204k	This team covers the professional liaison service as part of the supporting professional practise and preventing harm agenda.
Fitness to Practice	£1,330k	This cost relates to the process of clearing backlogs within FtP, assuming that the backlog will be removed in 18 months. 12 months' costs are included in 2020-21.
Business improvement	£427K	This is the cost of the interim transformation programme. The transformation team is expected to be in place until September 2020.
Other	£150k	This is a placeholder for the assumed savings that maybe achieved through in-depth challenge of other departments' budget.
Budgeted Deficit	£3,024k	

The full draft budget for the year ending 31 March 2020 with high level forecast of 2021-22 and 2022-23 is attached.

Previous consideration Proposed 2020/21 budget timetable and process were presented to Council on 5 February 2020.

Decision	The Committee is invited to discuss the draft budget.
Next steps	The final 2020-21 budget will be presented to Council on the 25 March 2020 for approval.
Strategic priority	Strategic priority 3: Ensure the organisation is fit for the future and able to anticipate and adapt to changes in the external environment
Risk	Strategic Risk 4 - Failure to be an efficient regulator
Financial and resource implications	HCPC budget for the financial year ending 31 March 2021.
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Appendix 1: Background information

Changes to the budgeting process means that the budget will be reviewed on a quarterly basis, where a revised forecast for the next 12 months will be considered. The current budget takes into account cost saving initiatives the organisation went through in 2019-20 financial year, where a number of cost efficiencies were identified and implemented. The proposed headcount for 2020-21, prior to any investment activities is 243, which is a 20% reduction compared to pre-social worker transfer numbers.

Table below shows the headline figures in comparison to 2019-20 forecasted results.

Three Year Financial Plan				
	2019-20	2020-21	2021-22	2022-23
	M6 forecast	Budget	Forecast (high level)	Forecast (high level)
	£	£	£	£
Total Income	32,829,427	27,454,787	28,988,017	31,231,670
Total Expenditure	33,422,249	30,051,775	29,744,939	29,716,917
Operating Surplus/(Deficit)	(592,822)	(2,596,988)	(756,921)	1,514,753
Change Costs	(1,345,888)	(427,440)	0	0
One off saving	1,461,041	0	0	0
Total Surplus/ (Deficit)	(477,669)	(3,024,428)	(756,921)	1,514,753
General Fund	3,592,303	567,875	(189,047)	1,325,707
Intangible assets	2,653,588	3,835,819	5,202,239	6,620,105
Net Tangible asset	938,715	(3,267,944)	(5,391,286)	(5,294,398)
Cash	11,583,268	6,553,654	8,770,956	7,227,782

1. Income

- 1.1. Total income is budgeted to be £27.4m compared to £32.8m per the 6 month forecast for 2019-20. This is a £5.4m (20%) decrease. The main driver is the loss of social worker income following the transfer of social workers in December 2019. Budgeted income is a product of the registrant number forecast last updated in January 2020 and the fees applicable to each profession.

- 1.2. Within the budget, a fee increase of £8.12 (9%) was applied from 1 September 2020, in line with the fee proposal to Council. Only one profession is due to renewal after September, the impact of the increase is only £150k in FY20-21.
- 1.3. Total income also included rental income from the GCC, which is expected to increase in 2021 following rent review.
- 1.4. No adjustment has been made to reflect impact from Brexit.

2. Expenditure

- 2.1. The budget shows a £3.4m / 10% decrease in operating costs, from £33.4m in the 2019-20 Month 6 forecast to £30.0m.
- 2.2. Following the transfer of social workers and the change improvement process, most of the department will be operating with a lower budget. In particular:
 - Education, **£100k / 13% reduction in spend** vs 2019-20 month 6 forecast. This is due to reduced visits following the transfer of social workers. The department also phased the reduction of costs, therefore month 6 forecast is already a drop from the original budget.
 - Registration, **£624k / 18% reduction in spend**. Apart from the reduction in activities following the social worker transfer (e.g. international and CPD assessments), the department will also reduce printing and posting costs following the go-live of the phase 2 registration transformation project.
 - FtP shows a **£2.8m / 18% reduction in expenditure** in 2020-21. The 2020-21 budget includes £1.3m costs to clear backlog cases, assuming that the backlog will be cleared in 18 months. At their meeting in March, the Council will be invited to go through a number of options in relation to the timeline of the clearance, with financial impacts and thus budget for FTP will not be finalised until July (after Q1 of 2020-21).
- 2.3. No operating expenditure for major projects is included in the budget. Following the change in accounting policy, majority of project costs will likely to be capitalised. A portion of the project manager costs can also be allocated to individual projects, and thus capitalised.
- 2.4. In the current version of the budget, 100% of the project manager costs are expensed. The portion of the manager costs that should be capitalised (assuming 50%) is roughly in line with the portion of major project costs that should be expensed (assuming 10% of total capex costs).
- 2.5. 2020-21 training cost is currently assumed to be the same as 2019-20 month 6 forecast at £136k. The Learning and Development team will work with each department following the annual performance review and create an organisation training plan in the first quarter of 2020.
- 2.6. Budgeted salary costs assume a 2% pay award. The actual pay award is recommended by the Remuneration Committee and approved by Council.

3. Surplus/(Deficit)

- 3.1 The overall result at this stage of the budget preparation process is a budgeted deficit of £3.0m for 2020-21, deficit of £0.8m for 2021-22 and a surplus of £1.5m for 2022-23. This is compared to a £0.5m deficit in 2019-20. This shows that with fee rise and the improvement process the organisation is going through, deficit position will not be long standing.
- 3.2 The overall result will change before finalisation following the implementation of the accounting change agreed by Council in 2019, which will result in an increase to the intangible asset value and yearly depreciation/amortisation. Finance department are yet to complete their challenge of all departmental budgets, and following review by executive directors and SMT, adjustment may be made to individual budgets.
- 3.3 The high level forecast of FY 21-22 and FY 22-23 shows the underlying position before investment. Council will be invited to give strategic directions prior to the start of the relevant year on how surplus will be distributed. This could include pay back of previous years' deficits (building up of reserves), investment for the future (e.g. prevention agenda) etc.
- 3.4 Budgeted costs for FtP also aims at bringing the department's activity to a steady state, no future investment to ensure sustainability of the department has been included.
- 3.5 No cost in relation to the regulatory reform has been included.

4. Capital Expenditure

- 4.1. A capital expenditure pot of £2.1m has been included in the account which is calculated to be 7.5% of the annual income. The pot will be used for major projects, IT equipment and purchase of fixture and fittings and improvements to buildings.

5. Cash flow and balance sheet

- 5.1. The cashflow forecast shows a net cash outflow for the year of £5.0m, of which £1.5m is a normal cyclical movement in the deferred income balance.
- 5.2. We are required to revalue freehold land and buildings each year for our statutory accounts. The balance sheets do not include any adjustment for the 31 March 2020 valuation.
- 5.3. Cash balance forecasted for 31 March 2020 is £11.6m, this will drop to £6.6m at 31 March 2021 as the increase in fee will not be fully realized and the organization continues to invest.

6. Reserves

6.1. HCPC's current Reserves Policy, approved at the May 2017 Council meeting states that the organisation should be operating within target range of free reserves. The upper limit of our target range is zero free reserves, and the lower limit is negative free reserves equivalent to three month of budgeted operating expenses. The free reserves for the next 3 year are:

	2019-20 M6 forecast	2020-21 Budget	2021-22 Forecast	2022-23 Forecast
Free reserves	- £5.3m	- £9.6m	- £11.5m	- £11.2m
Free reserves as months of operating costs	- 2 months	- 3.9 months	- 4.8 months	- 4.7 months
Maximum allowed under current reserves policy	- £8.1m	- £7.3m	- £7.2m	- £7.2m
Accumulative deficit in excess of reserves policy	n/a	- £2.3m	- £4.3m	- £4.0m

6.2. We are proposing a change to the reserves policy, where it is suggested that as if the Net Tangible Asset (Net asset less intangible asset) is positive and that registration fees continue to be paid in advance, HCPC will have liquid assets to conduct its work. The Net Tangible Asset for the next 3 years are shown in the three year financial plan table above.

6.3. For both reserves policy calculations, it has been assumed that all capital expenditure has been on intangible assets.

7. Conclusion and recommendation

7.1. Audit committee is asked to discuss the draft budget and provide feedback for the next stages in preparation of the final budget for approval by Council in March 2020.

First Draft

20-21 Budget Overview

24 February 2020

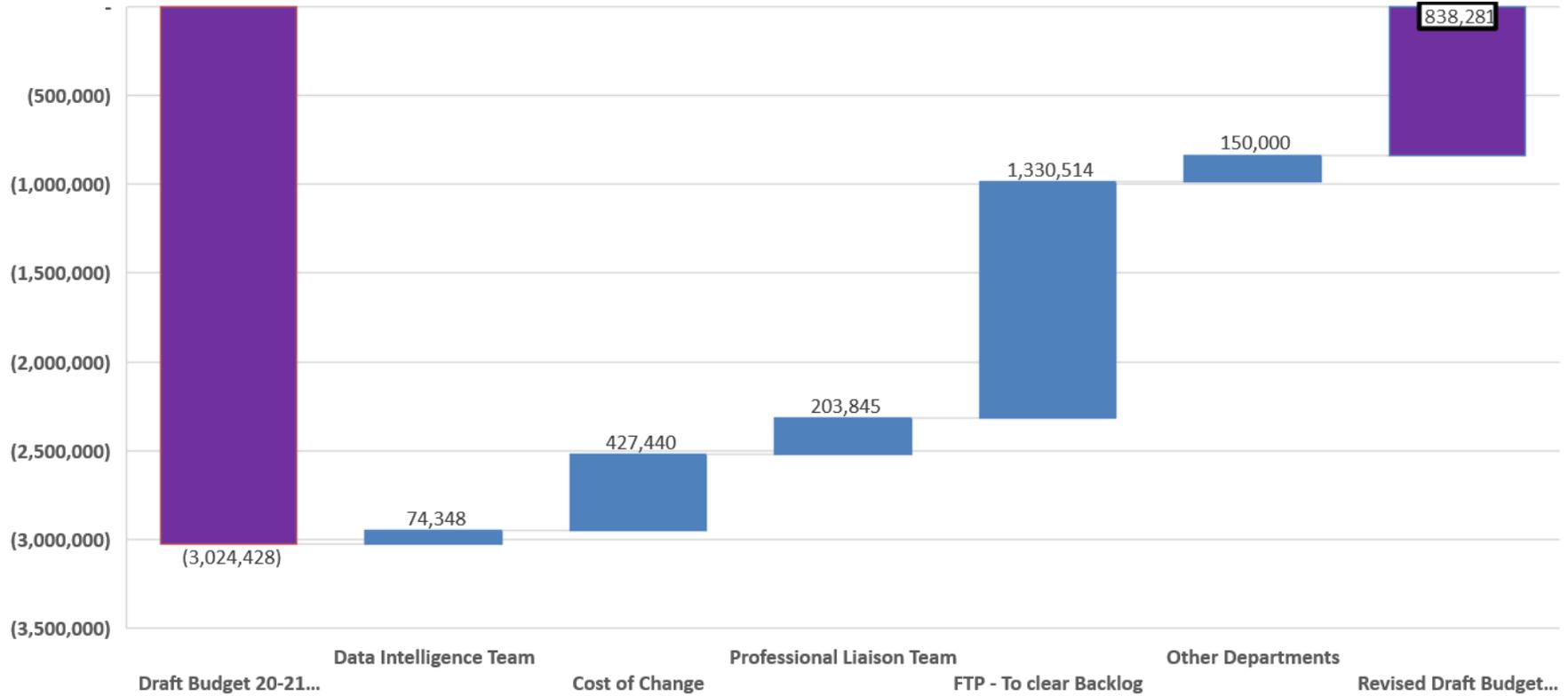
Tian Tian
Finance Director

Assumptions

- Fee increase of £8.12
- Effective from 1st of Sept 2020
- Capital expenditure pot is 7.5% of Income
- No Major projects Opex Costs
- Project Managers costs not capitalised
- Depreciation – Estimated
- 2% pay increase
- FTP Back log clearing costs included
- Training costs estimated
- Communication budget estimated– depend on external communication strategy

Optional Expenditure in Draft Budget 20-21

■ Increase ■ Decrease ■ Total



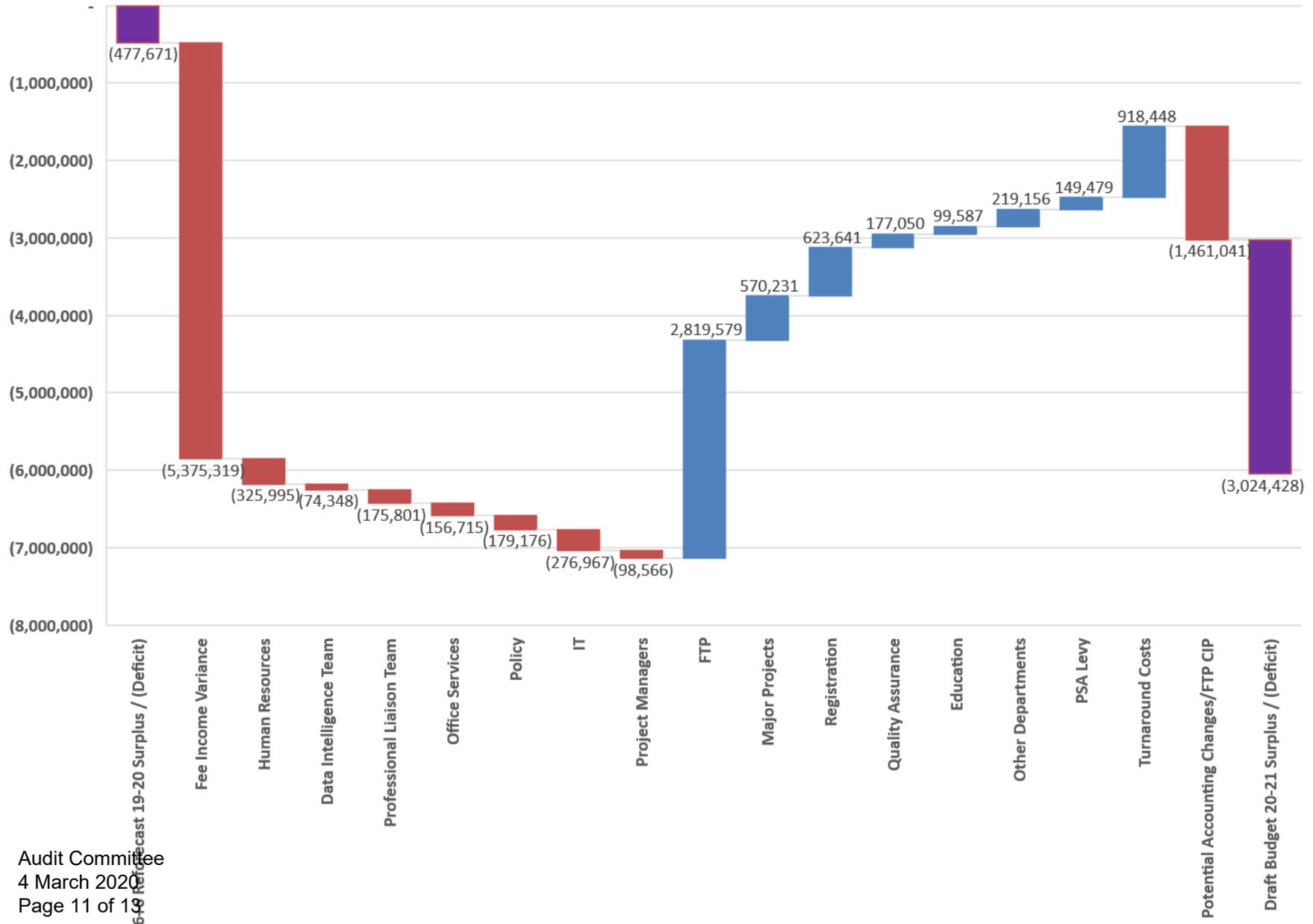
If 100% optional expenditures are taken out of the budget, total deficit in the year would be £838k

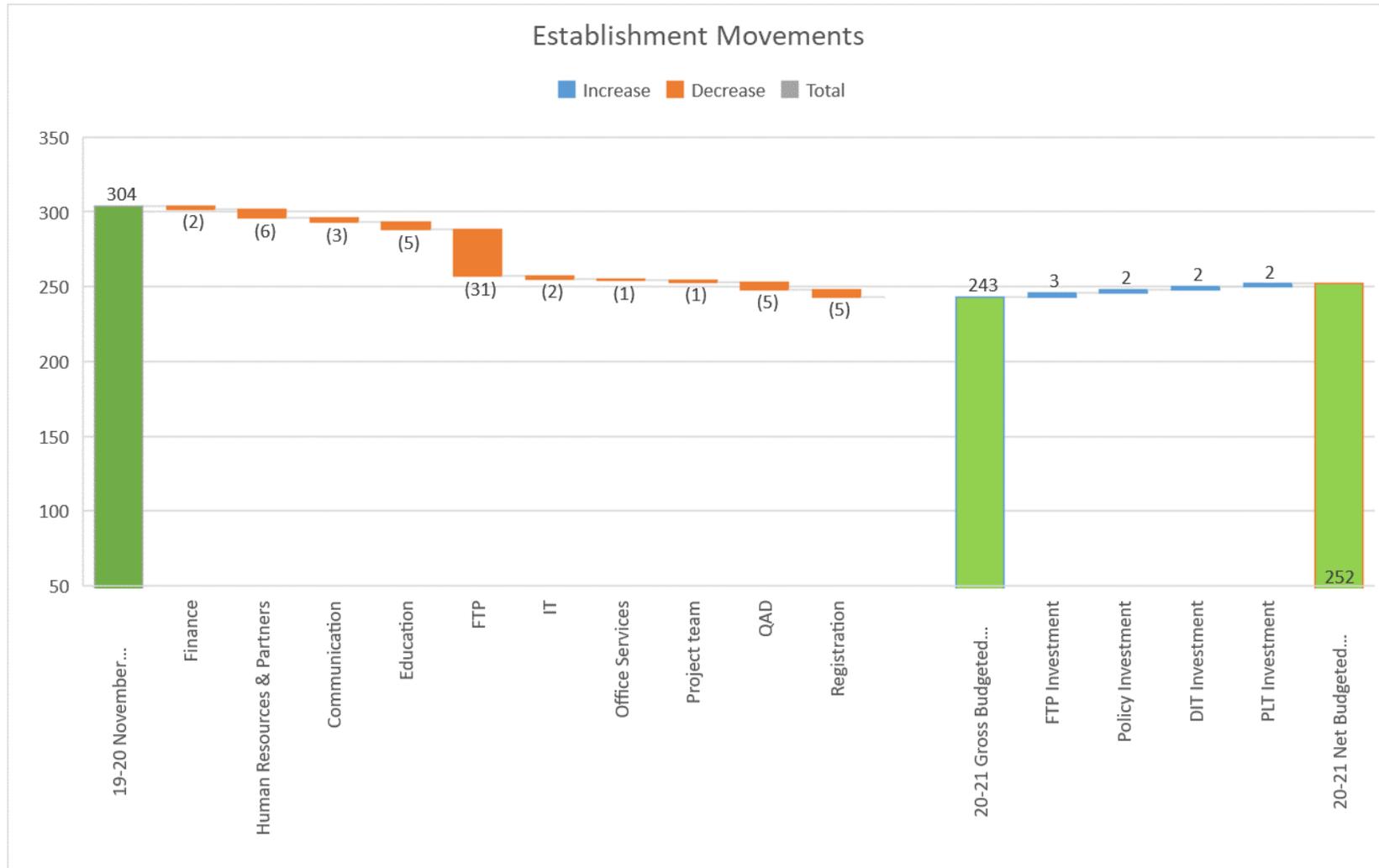
HEALTH AND CARE PROFESSIONS COUNCIL
2020-21 Draft Budget
INCOME AND EXPENDITURE

	6+6 Reforecast Budget	Draft Budget	Draft Budget	Draft Budget	Variance 2020-21 budget to M6 Reforecast 2019-20	
	2019-20	2020-21	2021-22	2022-23	£	%
	£	£	£	£		
INCOME						
Graduate Registration Fees	1,711,385	1,493,230	1,546,858	1,614,246	(218,155)	(13%)
Readmission fees	264,677	166,717	217,802	186,835	(97,960)	(37%)
Renewal Fees	27,623,055	23,159,399	24,754,302	27,097,954	(4,463,656)	(16%)
International scrutiny fees	1,858,016	1,478,055	1,375,369	1,237,832	(379,660)	(20%)
UK scrutiny fees	1,065,713	850,125	885,337	885,337	(215,588)	(20%)
Registration Income	32,522,846	27,147,526	28,779,668	31,022,204	(5,375,319)	(17%)
Other Income	29,320	30,000	30,000	30,000	680	
Rental Income GCC	175,000	175,000	178,349	179,466	-	0%
Investment Income	102,261	102,261			-	0%
Total Income	32,829,427	27,454,787	28,988,017	31,231,670	(5,374,639)	(16%)
EXPENDITURE						
Department Expenses						
Chief Executive & SMT	850,677	1,085,028	1,105,571	1,128,046	(234,351)	(28%)
Chair, Council & Committees	406,836	391,149	398,762	398,762	15,687	4%
Communications	688,082	688,082	781,335	791,668	0	0%
Data Intelligence	0	74,348	101,105	103,120	(74,348)	0%
Education	793,749	694,162	760,000	769,380	99,587	13%
Office Services	2,726,720	2,883,435	3,119,448	3,126,480	(156,715)	(6%)
Finance	873,105	540,806	539,522	555,663	332,299	38%
Fitness to Practise	15,752,198	12,932,619	12,621,945	12,180,068	2,819,579	18%
Human Resources	1,069,544	1,549,997	1,271,218	1,287,304	(480,453)	(45%)
Human Resources Partners	353,844	199,386	263,434	224,430	154,458	44%
IT Department	2,490,056	2,767,022	2,351,598	2,387,624	(276,967)	(11%)
Professional Liaison Team	28,044	203,845	293,046	508,973	(175,801)	(627%)
Project managers	333,029	431,596	440,074	448,818	(98,566)	(30%)
Policy & Standards	305,981	485,157	511,512	517,995	(179,176)	(59%)
Major projects	570,231				570,231	100%
Registration	3,446,150	2,822,509	2,714,776	2,689,657	623,641	18%
Quality Assurance	501,671	324,621	331,099	337,707	177,050	35%
Governance	329,045	278,615	283,041	287,556	50,431	15%
Depreciation Expense	963,107	903,487	1,003,487	1,103,487	59,620	6%
PSA Levy	902,190	752,711	810,765	826,980	149,479	17%
Apprenticeship Levy	37,991	43,200	43,200	43,200	(5,209)	(14%)
TOTAL EXPENDITURE	33,422,249	30,051,775	29,744,939	29,716,917	3,370,474	10%
OPERATING SURPLUS/(DEFICIT)	(592,823)	(2,596,988)	(756,921)	1,514,753	(2,004,165)	
Social Worker Changes						
Grant income	2,766,370				(2,766,370)	(100%)
Project Costs	(2,766,370)				2,766,370	(100%)
Cost Improvement Programme Target	250,000				(250,000)	
Audit Committee	1,211,041				(1,211,041)	
Capitalisation & Dep'n	(1,345,888)	(427,440)	0	0	918,448	
TOTAL SURPLUS/(DEFICIT)	(477,671)	(3,024,428)	(756,921)	1,514,753	(2,546,758)	

Bridge from 6+6 19-20 forecast to Draft 20-21 Budget

■ Increase ■ Decrease ■ Total





Prior to investment activities, headcount will reduce by 61 or 20% from 304 (pre social worker transfer). With investment in FTP, policy, Data Intelligence and Professional Liaison teams, the total headcount in March 2021 is expected to be

Statement of Financial Position

	2019-20	2020-21	2021-22	2022-23
	£	£	£	£
<i>Tangible assets</i>	6,214,067	6,286,823	6,069,276	5,866,875
<i>Intangible assets</i>	2,653,588	3,835,819	5,202,239	6,620,105
Total non-current asset	8,867,655	10,122,642	11,271,515	12,486,980
Current asset	13,893,298	8,110,973	10,328,275	8,785,100
<i>(of which cash)</i>	11,583,268	6,553,654	8,770,956	7,227,782
Total asset	22,760,953	18,233,615	21,599,790	21,272,080
Liability	(19,168,650)	(17,665,740)	(21,788,837)	(19,946,373)
Total Asset less Liability	3,592,303	567,875	(189,047)	1,325,707