
Finance update

Executive Summary

March 2020 (Month 12) End of financial year accounts - Unaudited

At the end of March 2020, HCPC's YTD surplus is £289k, which is a favourable variance of £767k when compared to the forecasted deficit of £478k.

The key variances are due to planned cost reduction in various departments plus successful additional grant claim in relation to opportunity cost for not tendering the legal contract with Kingsley Napley in 2019, due to uncertainties around the Social workers transfer date. Value of the opportunity cost claim amounts to £709k.

Also as a result of a thorough review of Social workers transfer related expenditure, a considerable amount of direct costs were allocated to the grant which in turn created additional savings in a few departmental forecast outturns.

Appendix 1 ([page 3](#)) is the narratives for the month 12 results and Appendix 2 ([page 5](#)) shows the unaudited month 12 management accounts with a bridge between actual and the month 6 forecasted result and a dashboard to explain the variances clearer.

Council is asked to note the FY 19-20 financial outturn.

Financial dashboard

As part of the financial model built project, we are looking to gather reporting requirements from the Council to improve the quality of management information we provide.

Appendix 3 ([page 11](#)) shows a draft financial dashboard which aims at highlighting key variances in the management accounts and provide commentary in call out box against those variances.

Executives would like to propose that the new financial pack to Council will include:

- Bridge between actual and budgeted YTD spends
- Financial dashboard with commentary
- Income and expenditure statement

A copy of the detailed financial information pack will be saved in Council members' Ipad to ensure transparency.

Council is asked to provide feedback on the dashboard and approve the proposed financial pack format.

Financial strategy

At the March 20 HCPC Council meeting it was decided that discussion on the HCPC Reserves Policy will be taken offline. Subsequent discussions with Audit Committee chair led to the conclusion that the Reserves Policy needed to be in the context of a Financial Strategy rather than a standalone Reserves Policy. In that context, Appendix 4 (page 12) shows the Financial Strategy that incorporates the Reserves Policy.

Council is asked to discuss and approve the proposed financial strategy.

Previous consideration	<p>The March 2020 (Month 12) un-audited accounts were presented to SMT on 5 May 2020. Financial dashboard has been presented to SMT for feedback on 12 May 20.</p> <p>Financial strategy was circulated to Audit Committee members for consideration and feedback via email prior to the Council meeting.</p>
Decision	<ul style="list-style-type: none">• For note – March 2020 (Month 12) Un-audited Management Accounts.• For feedback and approval – financial dashboard and new report format.• For approval – HCPC Financial Strategy
Next steps	<p>A final audited 19-20 year-end finance update will be provided at the next meeting of the Council on 2 July 2020</p>
Strategic priority	<p>Strategic priority 3: Ensure the organisation is fit for the future and able to anticipate and adapt to changes in the external environment</p>
Risk	<p>Strategic Risk 4 - Failure to be an efficient regulator Strategic Risk 5 – Failure of leadership, governance or culture</p>
Financial and resource implications	<p>None as a result of this paper</p>
Author	<p>Tian Tian, Finance Director Tian.Tian@hcpc-uk.org</p> <p>Gordon Dixon, Business Improvement Director Gordon.Dixon@hcpc-uk.org</p>

Appendix 1 – M12 management accounts narratives

At the end of the 2019-20 financial year, HCPC's YTD position is a surplus of £289k which is £767k favourable variance to forecast.

Income

Registration Income is showing a positive variance of £99k, this is mainly due to increased volume of international applicants. This variance also includes a write off of £53k negative deferred income balance for Social Workers. This is the remaining balance held in balance sheet after transfer of money to SWE.

Operational Expenditure

This is showing a positive variance of £677k; this is mainly driven by the significant decrease in costs in the regulatory departments due to the re-allocation of SW related costs claimed.

FTP Non-pay expenditure is showing an adverse variance of £744k, this is driven by significant increase in the volume of panels and hearing due to the increase in the caseload.

This adverse variance is netted off by the payroll favourable variance of £560k, this is due to the re-allocation of SW related costs claimed (£353k) and a reduction in FTP's staffing levels after the departure of Social Workers in Dec 2019.

During the year, as part of the organisational transformation plan, budget holders have worked hard to reduce cost base within their departments. This includes:

- Office Services: £258k favourable variance mainly due to pro-active negotiations with the local authority for business rate rebates and reduction in the cost of postage and electricity.
- Quality Assurance and Finance: £155k favourable variances mainly due to lower staff level as a result of departmental restructure, and new fee collection methods that reduces bank charge and postal costs.

Also included are favourable variances in Major projects due to delays to project initiations.

Exceptional costs

There is an adverse variance in the exceptional costs section of £20k.

This is made up of the following listed below:

	Var £'000	Description
Legal tender Opportunity Cost	709	See above
Accounting changes	-718	Difference due to less spend in projects than anticipated

Impairment of Intangible assets	-283	Write off of major project costs following impairment review
Turnaround Costs	326	Favourable variance against forecast due to less settlement cost than originally anticipated
Corporation Tax	-54	Not included in forecast
Total Exceptional section Variances	-20	

Estimated balances

The following are estimated costs in the accounts which may change during audit as the actual liability is confirmed:

- IR35 liability of £85k
- Accrued costs for claim 9 of SW grant of £281k (nets off with income)
- Accrued grant income for claim 9 - £281k (nets off with cost)

Balance sheet

Cash balance as at 31 March 20 was £11.9m compared to forecast of £11.6m. Deferred income is showing a difference of £338k (£17.1m actual compared to £16.7m forecast).

Building valuation report from SHW has resulted in an upward revaluation of £132k, this has been reflected in the account.

Debtors is currently £2m higher than the forecast outturn. This is mainly due to a number of invoices which were paid in advance at year-end relating to the financial year 20-21 which amounts to £0.8m. Also included is £1.4m accrued grant income.

Other liabilities balance included accrued settlement costs for a number of employees.

Reserves

As at March 20, HCPC's negative free reserves is equivalent to 1.64 months of operating expense, this is within the target range of free reserves as per the current Reserves Policy.

Net asset less Intangible Assets (Realisable Net Asset) is positive £1.96m, this is within target range of the proposed reserves policy as referenced within the financial strategy document, which states that realisable net asset should be positive.

P12 March 2020 Management Accounts Overview

Tian Tian
Finance Director

YTD to March 2020 - YTD Variance Analysis

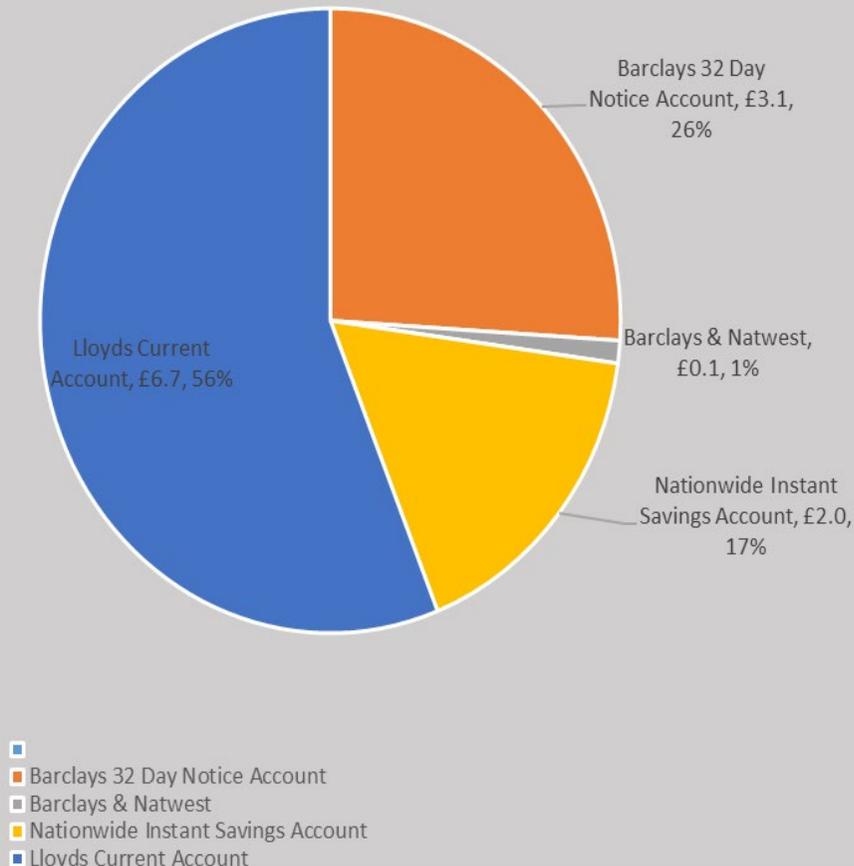


Income and Expenditure Account YTD up to end of Mar 20	Actual £	Full Year 6+6 forecast £	Variance £	Full Year Original Budget £
Income (A)				
Registration Income	32,650,735	32,552,165	98,570	32,436,424
Rental Income	175,000	175,000	0	175,000
Investment Income	113,138	102,261	10,877	50,798
Income (A)	32,938,872	32,829,426	109,446	32,662,222
Expenditure				
Pay Costs	12,450,112	13,359,504	909,392	13,580,725
Non Pay Costs	19,356,325	19,099,638	(256,687)	19,683,527
Depreciation	938,948	963,107	24,159	886,844
Total Expenditure (B)	32,745,385	33,422,249	676,864	34,151,097
Operating Surplus/(Deficit) C= (A-B)	193,487	(592,823)	786,310	(1,488,875)
Corporation Tax	54,174	0	(54,174)	0
Missed Opportunity Costs - SWE	(709,393)	0	709,393	0
Impairment of Intangible Assets	283,007	0	(283,007)	0
CIP/Accounting Policy Changes	(743,218)	(1,461,041)	(717,822)	0
Turnaround Costs	1,019,973	1,345,888	325,915	0
Total Other Exceptional Expenditure	(95,457)	(115,152)	(19,695)	0
Social Worker Changes				
Grant Income	2,593,906	2,766,370	(172,464)	2,064,423
Grant Costs	(2,593,906)	(2,766,370)	172,464	(2,064,423)
Total Social worker changes (E)	0	0	(0)	0
Total Surplus/(Deficit) F= (C+E-D)	288,945	(477,670)	766,615	(1,488,875)

Statement of Financial Position Balance Sheet	Actual Mar-20	6+6 Forecast Mar-20	Actual 31 March 2019	Budget 31 March 2020
Total Fixed Assets	8,827,574	8,867,655	7,898,072	9,513,080
Current Assets				
Other Current assets	4,370,503	2,310,029	2,970,827	1,816,503
Cash & cash equivalents	11,908,026	11,583,268	18,662,518	11,913,206
	16,278,529	13,893,298	21,633,345	13,729,709
Total Assets	25,106,104	22,760,953	29,531,417	23,242,790
Current Liabilities				
Trade and other payables	887,714	716,184	1,578,506	216,764
Other Liabilities	2,496,764	1,560,013	1,612,006	1,612,918
Deferred Income	17,067,206	16,729,402	22,107,880	19,132,839
Total current liabilities	20,451,683	19,005,598	25,298,391	20,962,522
Liabilities greather than one year	163,052	163,052	163,052	163,052
Total Assets less liabilities	4,491,368	3,592,303	4,069,974	2,117,216
General Fund b/fwd	(3,771,687)	(3,771,687)	(3,539,747)	(3,583,761)
Rev Reserve - Land & Building	(430,737)	(298,287)	(298,287)	(22,330)
This Period's (surplus) /deficit	(288,945)	477,671	(231,940)	1,488,875
General Fund c/fwd	(4,491,368)	(3,592,303)	(4,069,974)	(2,117,216)

Cash

Total Funds @ Banks as at 31 March 2020



At the end of Mar 20; the cash balance at the banks was £11.9m; of which £3.1m was held on fixed term deposit and £8.8m was in instant access accounts.

The interest rate on our main instant account is now 0.70%.

**The chart shows the cash balance as @ 31st of March 20.
Full cash flow forecast statement on next page**

Cash Flow Forecast 2019-2020	Mar-20 Forecast	Mar-20 Actual
Opening Balance	12,140,336	12,140,336
Cash in		
Registration Fees - Payment	1,057,498	4,364,763
Registration Fees - Refunds and returned Cheques	(10,575)	(62,645)
Investment Income	7,863	4,303
Rental income - GCC	0	43,750
Grant income	741,488	406,896
Other income		55,368
SW final DD Rec 2019		0
PSA refund	0	0
Total Cash Receipts	1,796,274	4,812,435
Cash out		
Payments to Suppliers	1,003,304	1,798,082
Payments to Partners	250,000	204,777
Pay type (non payroll)	15,000	14,161
Staff expense	2,800	2,378
Capital	379,079	117,848
PSA	752,000	752,771
Payment to SWE re upfront payments		0
Payroll - Salaries	558,469	557,938
Payroll - Tax & NI	283,116	283,116
Payroll - Pensions	80,000	4,521
Payroll - Other		0
Corporation Tax		0
Total Cash Payments	3,323,768	3,735,592
Net misc items (Cash Book related corrections)	0	0
Net Cash Flow	(1,527,494)	1,076,844
Liquidation of Investments		(1,309,154)
Closing Balance	10,612,842	11,908,026
Table 1 Investments & Cash Note	31/03/20 Forecast	31/03/20 Actual
Non-Instant Access Accounts		
Santander Deposit (3mth to December)	1,309,154	0
Barclays 32 Day Notice Account	3,103,850	3,097,974
Total Non-Instant Cash	4,413,005	3,097,974
Instant Access Accounts		
Nationwide Instant Savings Account	2,000,000	2,000,000
Lloyds Current Account	4,115,479	6,670,619
Barclays & Natwest	84,358	139,433
Total Liquid Cash	6,199,837	8,810,052
Cash Position	10,612,842	11,908,026

Income By Profession

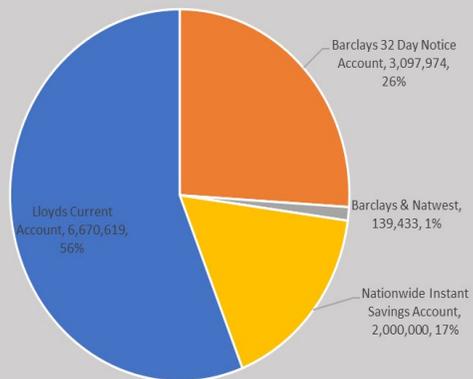
	Mar-20 Year to date		Mar-20 Year to date	
Arts Therapists	34,856	418,277	Paramedics	209,066 2,624,319
Bio-medical Scientists	146,361	2,240,993	Physiotherapists	460,549 5,582,451
Chiropodists	95,504	1,169,909	Practitioner Psychologists	186,604 2,271,054
Clinical Scientists	48,281	569,872	Prosthetists & Orthotists	9,468 105,840
Dietitians	81,689	978,393	Radiographers	300,839 3,714,332
Hearing Aid Dispensers	23,759	293,820	Social Workers	812 6,016,802
Occupational Therapists	304,921	3,733,402	Speech & Language Therapists	128,297 1,563,356
Operating Department Practitioners	104,754	1,254,512	Registration Income	2,146,596 32,671,470
Orthoptists	10,838	134,140	Other Income	-27,116 267,402
			Total Income	2,119,480 32,938,872

Expenditure

	Year to Date		
	Pay	Non-Pay	Total
Chair, Council & Committee	0	371,081	371,081
Chief Executive	794,663	979,240	1,773,903
Policy & External Relations	660,227	213,443	873,670
HR & Office Services	1,294,101	2,706,802	4,000,903
IT & Major projects	1,117,139	1,988,630	3,105,769
Governance & QAD	680,771	72,513	753,284
FTP	4,753,757	11,182,115	15,935,873
Registration	1,999,317	1,451,316	3,450,633
Education	531,942	208,621	740,563
Finance	618,194	182,564	800,759
Depreciation	0	938,948	938,948
Transformation Costs	0	1,019,973	1,019,973
Total	12,450,112	21,315,246	33,765,358

Summarised Departments by Exe Dir with Larger departments still shown separately

Total Funds @ Banks as at 31 March 2020



- Barclays 32 Day Notice Account
- Barclays & Natwest
- Lloyds Current Account
- Nationwide Instant Savings Account

Statement of Financial Position Balance Sheet	Actual Mar-20	6+6 Forecast Mar-20
Total Fixed Assets	8,827,574	8,867,655
Current Assets		
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Other Liabilities	2,496,764	1,560,013
Deferred Income	16,871,494	16,729,402
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Liabilities greater than one year	163,052	163,052
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Rev Reserve - Land & Building	(430,737)	(298,287)
This Period's (surplus)/deficit	(288,945)	477,671
General Fund c/fwd	(4,491,368)	(3,592,303)

Colour Legend

Blue	More than 5% better than forecast
Red	More than 5% worse than forecast
Green	Close to forecast
Yellow	Between 2.5% & 5% better than forecast
Orange	Between 2.5% & 5% worse than forecast

Debtors higher than forecast outturn by £1.9m. £1.4m due to SW grant related income to be received and £0.5m relates to invoices for 20-21 paid in advance

HCPC Financial Strategy

Context

The Health and Care Professions Council's (HCPC) role is to protect the public by regulating 15 health and care professions by:

- Setting standards for professionals' education and training and practice;
- Keeping a register of professionals, known as 'Registrants', who meet the standards; and
- Taking action, if professionals on the Register do not meet the standards.

The HCPC Financial Strategy aims to enable all aspects of the HCPC's work to be conducted in an orderly and efficient manner thereby allowing HCPC to deliver its statutory and organisational objectives.

To achieve this, HCPC must ensure it has:

- Realistic income plans and strategies; and
- Effective expenditure control and investment strategies.

Income

HCPC is primarily funded by Registrants paying a fee to be on the Register. HCPC receives Registrant fees in advance creating liquid cash assets. Registrant's fees are paid either for two years in advance or, if paid by direct debit, six months in advance. These pre-payments ensure that there will normally be significant liquid assets to pay any current debts as and when they fall due.

This structuring of the pre-paid Registrants fees is a critical element of the financial strategy that enables HCPC to have positive cash balances.

The significant risk of reduction to the pre-paid Registrant's fees is either:

- A loss of a one of more cohorts of Registrant's; or
- A change to the pre-payment structure.

Any major changes to the Register with the loss of one or more cohorts, such as with the transfer of Social Workers to Social Work England in December 2019, is likely to have a long lead time. The timeframe for the transfer of Social Workers was in the magnitude of two years. Given that changes to the professions that HCPC regulate would require legislative changes, as with Social Workers, it would be expected that any other changes would be expected to be implemented on a similar two-year time scale. This timeframe will allow HCPC to evaluate alternative financial strategies should there be a situation where large amounts of Registrants would leave the HCPC register.

The pre-payment structure of the Registrants fees is determined by the HCPC Council therefore any change to this structure is in the control of the HCPC Council. Should any change to the Registrant's fee pre-payment structure be proposed then it would be expected that the full financial impact, supported by an equality and diversity impact assessment, would be evaluated as part of the proposal.

The HCPC Council approved in March 2020, subject to ratification through the legislative processes, a £8.12 increase in fees. This increase was calculated using year on year percentage pay increases awarded to Band 5 NHS professionals, the

HCPC Financial Strategy

largest band by volume, since 2015 when HCPC last increased its fees. It is the ambition for HCPC to move to a system of regular incremental fee increases based on a formula like that used for the current proposed increase.

A failure to obtain regular fee increases aligned to service delivery cost increases is a risk that will impact HCPC's financial strategy.

Expenditure

HCPC needs to invest in the future to be able to remain relevant to stakeholders, adapting to the changing requirements and Registrants changing ways of working. To be able to invest in the future, it is proposed that HCPC commits between 5 and 10% of its predicted revenue to forward looking projects such as the prevention agenda and IT systems upgrades.

Taking action, if professionals on the Register do not meet the standards, often takes time that crosses financial years. Each financial year HCPC will be acting on concerns raised in previous financial years as well as processing new concerns. However, when more concerns are being raised than being concluded a backlog is created. The backlog is the number of concerns being processed that is over and above the number of concerns that would be work in progress if the concerns were being concluded at same raised as new concerns were being raised. The anticipated cost of concluding the backlog of FTP concerns should be disclosed as a contingent liability, so that future impact is visible when considering financial decisions.

HCPC is moving to a dynamic budgeting process whereby forecasts are revised every quarter with a forward look for 2 to 3 years in advance in order to improve the medium-term financial planning. As part of this process it is expected that budget holders will be able to demonstrate efficiency objectives are being targeted and achieved.

Reserves Policy

A Reserves Policy is focused on ensuring an organisation has sufficient working capital to conduct its business in an orderly fashion taking into account commitments and potential risks. The HCPC approach to a Reserves Policy is based on this objective within the context of balancing the need to invest to ensure sustainability while maintaining working capital through pre-paid Registrants fees.

As a result of the pre-paid Registrant's fees, HCPC operates with a significant cash balance which ensures that HCPC has sufficient working capital.

If the Net Assets less Intangible Assets (the Realisable Net Assets) are positive, then if HCPC were to encounter a situation where it would need to close, it would be able to undertake closure in an orderly fashion. The HCPC's Reserves Policy is predicated on this basis.

To be sustainable as an independent organisation HCPC's Realisable Net Assets should be positive. As at March 2020, HCPC has positive Realisable Net Assets. However, due to the need to invest and delays in implementing fee increases the

HCPC Financial Strategy

current financial forecasts for the next 3 years indicate that HCPC will move to a position of having negative Realisable Net Assets. The ambition is to return to positive Realisable Net Assets within 5 years. In the meantime, the HCPC's Reserves policy relies on the working capital provided by Registrants pre-paid fees.

The Reserves Policy of the HCPC is reviewed on an annual basis by the Council in line with the HCPC budget and development plans.

Cash

HCPC is committed to complying with excellent payment practices for staff, partners and suppliers. HCPC will maintain its ethical and cultural values by not delaying due payments to conserve cash.

Going Concern

As at March 2020, HCPC considers itself to be a going concern based because:

- It has cashflow forecasts that indicate that there is sufficient working capital to continue to operate in the current circumstances;
- It has a financial strategy that recognises the need to invest in the future at the present time with the ambition to return to positive Realisable Net Assets within 5 years.