

SHADOW HEALTH PROFESSIONS COUNCIL

FINANCE AND RESOURCES COMMITTEE

DRAFT MINUTES

**of the 3rd Meeting of the Finance and Resources Committee held at Park House, 184
Kennington Park Road, London, SE11 4BU on Tuesday 19 March 2002 at 1 p.m.**

PRESENT

Mr Colin Lea (ex officio), Chairman
Mr Michael MW Barham
Professor Norma Brook (ex officio)
Mr Keith M Ross
Mrs Jackie C Stark
Mrs Barbara A Stuart
Mr Neil Willis
Dr Sandy Yule
Mr Daniel Ross (co-opted)

Mr Marc Seale (Chief Executive designate)
Mr Paul Baker FCA (Secretary)

1 APOLOGIES FOR ABSENCE

1.1 Apologies had been received from Mr Robert Clegg, Professor John Harper and Mr William A Munro.

2 APPROVAL OF AGENDA

2.1 The Draft Agenda was adopted as the Agenda for the Meeting.

3 APPROVAL OF MINUTES OF THE MEETING HELD ON 22ND JANUARY 2002

3.1 It was agreed that the minutes of the second meeting of the Shadow Health Professions Council Finance and Resources Committee be confirmed as a true record and signed by the Chairman.

4 MATTERS ARISING

4.1 A paper indicating progress on various matters was NOTED as follows.

4.2 Pension Fund

The existing fund would continue with a name change. The Consultant to the Scheme would be making a presentation to members in April.

- 4.3 **Appointment of insurers**
To be decided by management and brought to the Committee for ratification.
ACTION: PKHB
- 4.4 **Appointment of Investment Managers**
A presentation by the existing Fund Managers would be made at the next meeting. In the meantime a selection of alternatives is being put together
ACTION: PKHB/Daniel Ross
- 4.5 **Standing Financial Instructions**
In the course of preparation. Assistance would be sought from the auditors who had recently been reviewing and documenting the existing systems.
ACTION: PKHB/BDO Stoy Hayward
- 4.6 **Training for Council Members and Finance & Resources Committee**
This would be conducted by BDO Stoy Hayward in London later in the year.
ACTION: PKHB/BDO Stoy Hayward
- 4.7 **Department of Health**
In addition to the tabled paper, Mr Seale reported that he and the President had visited the Department of Health concerning the one-off funding to be provided for set-up costs. £750,000 had been agreed for the period to 31st March 2002. No firm offer had been made for the two years to 31st March 2004. However in each of the two years approximately £1.25 - £1.5 million might be available for revenue expenditure and £0.5 million for capital expenditure. Negotiations were continuing. No further grants would be available thereafter.
- 5. APPOINTMENT OF CONSULTANTS**
- 5.1 It was AGREED that Kingsley Knapley, Solicitors, and BDO Stoy Hayward, Chartered Accountants, should be appointed to act. In the case of BDO Stoy Hayward, the Chairman and Mr Seale were empowered to sign the engagement letter. The appointment of Kingsley Knapley would need to be reviewed in 18 months and would depend on the volume of work handled up to that date.
- 6 REPORT FROM BDO STOY HAYWARD**
- 6.1 Mr David Robinson and Mr Edward Finch of BDO Stoy Hayward presented their report.
- 6.2 An abbreviated version of the report follows:

The principal concerns of SHPC management are:
1. Ensuring that the accounting records of CPSM at 31 March 2002 will be sufficiently reliable to provide an accurate record of the assets and liabilities of CPSM which will be transferred to HPC on 1 April 2002.

2. Ensuring that CPSM has recorded the assets and liabilities at values consistent with UK Generally Accepted Accounting Practices and that assets are recoverable and liabilities completely recorded.
3. Ensuring that HPC has accounting systems and procedures which reliably capture financial information and record it in a way which is readily accessible in a form which enables good management.
4. Establishing a corporate culture of transparency built on openness and good governance.
5. Establishing new management structures and responsibilities that engender a balance of devolved responsibility and management control.
6. Ensuring that the tax affairs of HPC are arranged in a way which avoids unnecessary liabilities arising.

Various findings and conclusions are set out below. Many of the points raised are known to the executive staff of SHPC and are being addressed by the existing finance staff and management.

Review of management information

- The proposed budget setting process is adequate in scope for an organisation of HPC's size.
- There is a planned shift of responsibility for budgeting and financial management to cost centre managers but this has not been fully implemented in 2002 due to time constraints.
- The proposed delegation of responsibility to departmental managers should be accompanied by appropriate training in budgeting and financial management.
- The proposed budget for 2002-2003 whilst adequate could be further enhanced by:
 - Consideration of key items, eg legal costs and fee income, by profession.
 - Including a monthly cash flow forecast in the budget working papers.
 - Separation of costs that are "controlled" by the department from those costs that are "uncontrollable".
 - Flexibility on budgeted figures, particularly in the first year of HPC, as it will be the first time that the budget is delegating responsibility to the departments.
 - Budgets and management accounts could include 'non financial information' which can contribute to key performance indicators, e.g. number of new registrations.
- The management accounts which have been prepared for CPSM had the following shortcomings that should be avoided by HPC:
 - Insufficient commentary on variances between budget and actual income / expenditure
 - Budgeted figures have been calculated on an incremental basis, when efficiency gains could be achieved by basing budgeted costs on what is actually driving expenditure (zero based budgeting basis).
 - A more frequent method of communicating the management accounts to the board and key management. Monthly reporting is recommended.
- The trial balance of CPSM, from which the management accounts are extracted, contains numerous unreconciled accounts, including the bank balance, and old balances which may require writing off.
- The structure of the chart of accounts (which determines the way in which financial information is reported) is inappropriate. Many immaterial items, eg stationery, are analysed in needless detail while key accounts such as legal costs are not analysed at all.
- They observed during the course of the review that many of the discrepancies were being addressed by the accounts function with an aim to achieving a reliable and accurate trial balance by 31 March 2002.
- The information supporting the management accounts will be the same information (i.e. not adapted) that will form the annual financial (audited) accounts of HPC.

- The organisation should monitor how much it is spending with its suppliers as well as ensuring value for money is obtained for the services / goods that it orders. A system of tendering should be introduced and particular attention should be focused on those major suppliers to HPC that value for money is being derived e.g. Kall Kwik.
- Currently, the organisation cannot accept payment by credit or debit card. This is not consistent with contemporary expectations or the practice of other registration and regulatory bodies and should be rectified.

Review of accounting systems

The comments which follow relate to the current systems and procedures of CPSM. The current financial management and staff have proposed and implemented corrections to some of the inadequacies identified.

- The systems of control over certain areas of CPSM's finances were not adequate to ensure that transactions were accurately and completely recorded and at an appropriate value.
- There were some instances in which the procedures believed by staff to exist were not operating as described.
- Although there are accepted procedures in place for many types of transaction, there is no consistent written record of financial policies and procedures. It is recommended that procedures are documented in writing and communicated to all relevant staff.

Review of the transfer of assets and liabilities from CPSM to HPC

This section deals with the transfer of assets and liabilities that will occur on 1 April 2002, between CPSM and HPC.

Accounting policies were reviewed, not only for the transfer at 1 April, but also for adoption by HPC on an ongoing basis.

- There is no statutory guidance on the form and content of HPC's accounts. The Order in Council under which it is established requires it to "prepare accounts in such a format as the Privy Council may determine". Best practice would be for HPC to follow UK GAAP. The accounting policies of CPSM were reviewed in comparison with UK Accounting Standards and the requirement of Companies Act 1985.
- Should HPC obtain registration as a charity, it would be subject to the accounting requirements of the Charities Act 1993 and the Statement of Recommended Practice – *Accounting and Reporting by Charities*, issued in October 2000. The points which follow apply in either circumstance.
- Incorporating the most recent valuation of the property at Kennington Park Road will lead to an approximate write off of £200,000 in the income & expenditure account. This should be written off in CPSM's accounts to 31 March 2002.
- HPC may adopt either a policy of carrying property at either cost or revalued amounts, less depreciation – if revaluation then the valuation will need to be updated every 5 years in full and on a "desk top" basis every three years.
- Office furniture and equipment should be depreciated at 25% on a 'straight line' rather than a reducing balance basis.
- There is no accounting standard governing income recognition, although the Accounting Standards Board – *Statement of Principles* recognises two possible methods, - the matching method or the critical event method.

- It is recommended that HPC adopts the matching method of recognising income, i.e. spreading the income over the subscription period rather than at the point of receipt.
- This method will introduce the concept of deferred income into the accounts, which has been estimated at £1.33 million at 31 March 2002. Based on expected membership growth for 2002/3, this change of policy would also reduce reported income for the year ending 31 March 2003 by £70,000. This should be reflected as a prior year adjustment in the accounts of CPSM at 31 March 2002.
- In line with similar not for profit organisations, both CPSM and HPC will continue to value their investment portfolio at market value in the management and financial accounts.

Taxation Issues

In this section, the direct and indirect tax positions of CPSM and HPC were considered, together with:

- employee tax considerations;
- the tax implications of payments to Council members; and
- implications of the transfer of assets and liabilities from CPSM to HPC.

The implications of charitable status were also considered, together with the role of the Professions Supplementary to Medicine Charitable Trust (“PSMCT”).

Direct tax

- Subject to resolution of charitable status, it is believed that the current taxation status of CPSM would be applicable to HPC. As a body established for the benefit of members, income from members is not taxable. Income from investments and capital gains would continue to be taxable unless charitable status was established.
- The freehold property and investment portfolios are expected to be standing at a capital loss for tax purposes at 31 March 2002. If this is the case, no capital gain will arise at the time of transfer. A clearance is required from the Inland Revenue prior to the transfer to confirm this. If these assets are retained in HPC and HPC is not charitable then any future capital gains will be taxable with the original cost to CPSM being the “base cost”.
- The current arrangement of shielding investment income (and potentially capital gains also) from tax by donating these amounts to the PSMCT could continue to be effective.
- A third option is to increase the scope of PSMCT, including transferring a more substantial portion of the “reserve” assets to it. This could give the benefits of charitable status whilst avoiding some of the pitfalls.

VAT

- HPC’s regulatory activities will fall outside the scope of VAT, following the decision ICAEW case. Accordingly, no VAT is recoverable on related expenditure.
- It is recommended that HPC consider the relationship with PSMCT. The current structure, whereby CPSM supplies staff to PSMCT could be challenged by Customs. The supply of staff unless under joint contracts of employment could give rise to a requirement to register for VAT. It may be more effective for PSMCT to make grants to CPSM to undertake charitable work.
- There is no VAT liability on the transfer of assets from CPSM to HPC.

Payments to Council Members

- These are not currently paid under deduction of tax. Except where the Council member's employer or business partnership is receiving the funds, these are Schedule E emoluments and should be subject to PAYE.
- An alternative resolution of this issue would be to approach the Inland Revenue to request a concessionary basis for dealing with these payments.
- It is recommended that a non employee payroll be established by HPC. It is also recommended that procedures for payment of Council members' expenses are revised to ensure that any taxable benefits are identified.
- Any liabilities should be identified and recognised in the balance sheet of CPSM at 31 March 2002.

Payroll, expenses and benefits

- Historical problems were identified in the operation of PAYE and expenses. These have been addressed by the current administrator but it is recommended that the auditors of CPSM be asked to review this area in detail at 31 March 2002 and verify that any liabilities are recognised in the accounts for the year then ending.
- Payments to assessors were found to be operated on an inconsistent basis. Some are paid gross, as the individuals have declared that they are self employed, others under deduction of tax. Further the tax deducted from payments to some assessors has not been paid over to the Inland Revenue. The tax status of Assessors should be clarified as a matter of urgency and any tax due to the Revenue paid over by CPSM or provision made in its accounts at 31 March 2002 for any liability.
- There is currently no evidence of a dispensation from P11D reporting in place. A dispensation is to be applied for.
- There is a lack of documented procedure for claiming expenses and some expenses have been reimbursed without production of appropriate documentation (corporate Barclaycard). These matters should be resolved as a matter of priority.

Corporate Status

The benefits and disadvantages of charitable status for HPC were considered, as was the current and potential future role of the PSMCT.

- It is not clear whether HPC will be a charitable body which would be required to register with the Charity Commission. Following the decision of the Charity Commission regarding the GMC, it is likely that at least some of HPC's activities will be charitable in law. The Council should ensure that they have obtained sufficient assurance to conclude on this matter. As in the GMC case, this is complicated as HPC, like all statutory corporations, has no written objects.
- If HPC's activities are wholly charitable (in law), it is required to register. If however not all of its activities are charitable it can not register (subject to minor concessions for trading activities). In the latter case, the current practise of making donations to the PSMCT can be continued. Donations to this charity are currently used to fund educational aspects of CPSM's work. The income of PSMCT could in future be used to fund similar activities in HPC.

- In order to simplify the currently circular flow of funds between the registration body and the charity, it may be possible to transfer the investment portfolio to PSMCT. This would also shield the portfolio's capital gains from taxation. The trust deed of PSMCT will need to be reviewed to ensure that it can support HPC.
- Any such transfer of assets should be made only after a careful assessment of likely reserve requirements and cash flow profiles for HPC. Subject to ensuring that PSMCT has sufficiently wide objects, funds may be returned to HPC in subsequent years to fund its "charitable" objectives.
- The Council should review its approach to risk management. Consideration should be given to forming a sub group of the Finance Committee to undertake the functions of an Audit Committee. The Finance Committee as constituted is too large to effectively undertake that role.
- The review of accounting systems indicates that improvements are required to certain aspects of the systems before the new Council can take full assurance that the receipt and application of funds is properly controlled and recorded. It is recommended that the Council considers establishing an internal audit function.

The volume of work required in the short term is great. It is anticipated that the Finance Director (designate) will need to employ additional resources on a temporary basis in order to ensure the objectives of the new Council are met in time.

It is recommended that the Finance Committee establish a small group to steer the process of implementing the recommendations. The group should liaise actively with management and professional advisers to set a timetable and establish a review process to ensure milestones and deadlines are achieved. This group could be a precursor to an audit committee. It is also recommended that a further review of systems and procedures actually operating during the year should be undertaken to ensure that the improvements identified have been properly implemented.

6.3 The Committee NOTED the Report and APPROVED the following:

- Monthly management accounts reporting to the Committee
- Tendering for annual spends over £30,000
- 3 quotes for individual purchases over £1,000
- The formulation of a preferred list of suppliers
- Further work in connection with the PSMCT
- A separate accounting system for PSMCT
- A review of potential liability in CPSM's accounts for VAT on staff costs transferred to PSMCT
- The production of a statement for each Shadow HPC Council Member of the fees paid to them during the period to 31st March 2002, for tax purposes.
- P11Ds for all relevant staff and Officers of CPSM for the year ended 31st March 2002.

- The formation of a sub-committee to act as overseers of the work to be done as a result of the report
 - The formation of an Audit Committee responsible to Council.
- 6.4 It was also recognised that there was no need to register HPC as a Registered Charity but the matter should be kept under review in the coming months.
- 6.5 It was RESOLVED that the Sub-Committee noted above to act as overseers of the work done as a result of the report above should comprise Colin Lea, Jackie Stark and Daniel Ross.
- 6.6 It was RESOLVED that the Audit Committee should comprise Sandy Yule, Jackie Stark and Daniel Ross.

7 DRAFT TERMS OF REFERENCE (STANDING ORDERS)

- 7.1 Draft Standing Orders for the Committee were tabled and it was explained that the format was likely to be changed to correspond with the other Statutory and Non-Statutory Committees. It was AGREED that the draft covered all the necessary points except that
- All references to President should be changed to Chairman
 - “The Registrar” should be changed to “the Chief Executive and Registrar”
 - Casual vacancies need not be filled if the unexpired term is less than 6 months
 - Each member’s term of office should be for a period of 2 years and no member should be appointed for more than 6 consecutive terms
 - There should be reference to potential removal from the Committee of members who missed 3 consecutive meetings without valid reason

ACTION: PKHB

7.2 Appointment of Vice-Chairman

As a consequence of the draft standing orders indicating that the Committee may appoint a Vice-Chairman, it was RESOLVED that Sandy Yule be appointed Vice-Chairman of the Committee.

8 HUMAN RESOURCES STRATEGY

- 8.1 A paper entitled “Human Resources Strategy for HPC” was tabled by the HR Consultant, Jackie Hammond and NOTED by the Committee. It was AGREED that the appointment of a HR Manager be recommended to Council. Any appointment was unlikely to exceed 3 years, when the position should be redefined as HR Administrator, all new systems and procedures then being in place. See job description and person specification at appendix 3

9 BUDGET 2002/3

- 9.1 The Secretary presented Version 3 of the Preliminary Budget together with a Commentary. The Budget showed a deficit of £200,000. It was explained that income had been left at current levels but overhead expenditure included additional costs inherent in the new operation. These included fees for Council Members attending meetings of Council and committees. Additional expenditure had also been budgeted for the President and new staff in Operations, Administration and Communications.
- 9.2 The budget was NOTED but it was felt that further changes may be necessary and it was AGREED that the changes would be notified to the Chairman and Financial Consultant for review. The final Budget, to incorporate the DoH funded items for the year, would be put to Council for approval in due course.
- 9.3 It was AGREED that a rolling forecast for the next five years would be required as an aid to securing an increase in the fees to be charged to registrants and that for the coming year it was necessary to produce a "Latest Estimate" of the annual result after each quarter.

ACTION: PKHB

10 BANK MANDATE AND AUTHORITY LIMITS

- 10.1 A paper entitled "Suggested Bank Mandate Arrangements" was tabled. It was AGREED that the paper be amended to reflect various changes to the original suggestions. The amended paper, being the recommendation to Council, is attached to these Minutes as Appendix 1.

11 COUNCIL AND COMMITTEE EXPENSES

- 11.1 A paper entitled "Expenses Policy for Council Members for their attendance at Council and Committee Meetings" was tabled. It was AGREED that the paper be amended to reflect various changes to the original suggestions. The amended paper, being the recommendation to Council, is attached to these Minutes as Appendix 2.

12 ANY OTHER BUSINESS

- 12.1 There was no other business.

13 DATE AND TIME OF NEXT MEETING

- 13.1 This was confirmed as Tuesday April 30th at 11 a.m..

Signed (Chairman)

Date

HEALTH PROFESSIONS COUNCIL

SUGGESTED BANK MANDATE ARRANGEMENTS (Revised)

It is necessary for a new bank mandate to be confirmed to NatWest with effect from 1st April 2002, the commencement day for HPC.

CPSM's current mandate includes all the current Finance Committee with a number of staff also signing. In practice it is the staff who sign with occasional signatures from outside the office.

The suggestions below reflect the practical aspects of running the office and comply with current insurance requirements:

LIST A

Marc Seale

LIST B

Peter Burley
Giercia Malcolm
Paul Baker

LIST C

Norma Brook
Colin Lea
Michael Barham

Cheques to be signed as follows:

Up to £25,000:

Any 2 signatures from Lists A & B

Over £25,000

Any 2 signatures from Lists A & B and 1 from List C

BACS transfers:

The payment of some invoices and payroll is made by BACS.

The total list of payments must, before transmission, be signed by any 2 from list A or B but individual items of payments greater than £25,000 should be initialled by a person from List C.

Transfers between accounts:

Other than automatic transfers, transfers between NatWest Accounts (including Money Market Transactions) may be confirmed on the authority of List A or Paul Baker.

No person may sign a cheque made payable to himself.

HEALTH PROFESSIONS COUNCIL
EXPENSES POLICY FOR COUNCIL MEMBERS
FOR THEIR ATTENDANCE AT COUNCIL AND COMMITTEE MEETINGS
(Revised)

1 INTRODUCTION

1.1 This policy comes into effect with effect from the inception of the Health Professions Council (HPC) on 1st April 2002.

1.2 The rates quoted in this policy document will change from time to time but changes will be sanctioned by the Finance and Resources Committee and notified to Council Members.

1.3 Attending members are asked to submit their expenses to the Council or Committee Secretary at the conclusion of the meeting in question or if this is not practicable, expenses should be submitted within two calendar weeks of the meeting to the Finance Department of HPC. Late submission may result in late settlement.

1.4 From time to time those other than Council Members may be co-opted onto Committees. These rates only apply to co-opted committee members with the written authority of the President or Chief Executive/Registrar.

1.5 All payments will be made into the bank accounts of Council Members. No payments will be made by cheque. HPC will endeavour to make such payments on the Friday following the receipt of an authorised claim by its Finance Department.

1.6 Receipts are required to substantiate claims, which should be made on the form provided. Vouchers for items below £5 are only required if available.

2 GENERAL CONDITIONS

2.1 Payments of Allowances and Expenses should only be made where expenses notified in the claim were actually and necessarily incurred.

2.2 Alternates or deputies may make claims as if they were the actual member for whom they were alternating or deputising, providing that two separate claims are not received.

2.3 Full details must be made on the claim form provided for the purpose.

3 ATTENDANCE ALLOWANCE

3.1 A daily rate of a maximum of £260 is payable for attendance at Council, Statutory Committee or formal Non-Statutory Committee Meetings. It is not payable for casual attendance at HPC premises. It should be noted that when this sum is payable to Council Members as opposed to their employers (e.g. NHS Trusts), UK taxation will be deducted at source. The position of Council Member is considered

an "Office" under Income Tax legislation and payments are subject to PAYE legislation. The payment may also be subject to National Insurance.

3.2 Sums payable to the employers of Council Members should be billed by their employers on a monthly basis and should refer to the date(s) of the meeting(s) for which re-imburement is sought. If the appropriate dates are not billed or do not match the known dates of meetings, there will be a delay in settlement.

3.3 Self-employed persons may claim the lower of their daily charge-out rate or £260. A certificate of their daily charge-out rate must be lodged with the HPC Finance Department. This certificate is required from their accountant or, if no accountant is employed, self-certification is permitted.

4 TRAVELLING AND SUBSISTENCE

4.1 Reasonable rates are payable for travelling and subsistence costs to reimburse the out-of-pocket expenses of Council members. Expenses will only be reimbursed if actual expenses are incurred, i.e. no round sum payments will be made, just because a member has attended.

4.2 The following expenses will normally be paid:

Travel:

Rail Fares: 1st Class rail fares at the cheapest available rates using the HPC nominated travel agent wherever practical.

Air Fares: Club Class air fares will be reimbursed at the discretion of the Council/Committee Secretary.

Tube, Coach and Bus Fares:

will be reimbursed as incurred.

Mileage Allowances:

Mileage allowance is payable for the use of the Council Members' own cars. These are in accordance with Inland Revenue rates, which are subject to annual change.

The rates in force until any notification of change is made are as follows:

Cylinder capacity	1 st 4000 miles	Additional Miles
Up to 1500 cc	40p	25p
1501 to 2000 cc	45p	25p
Over 2000 cc	63p	36p

Rates for lease cars, motor cycles and pedal cycles are available upon request.

Taxi Fares: will be reimbursed where a taxi journey is considered quicker or more economical than using public transport.

Other Travelling Expenses:

Expenses incurred in respect of tolls, parking and ferries may be claimed.

Subsistence:

Hotel Accommodation and Meals:

Bed and breakfast arrangements up to a daily maximum of £120 will be reimbursed. An evening meal up to a maximum of £30 will be reimbursed. Lunches will not normally be reimbursed if lunch is provided by HPC.

Members staying with friends or relatives may claim £30 towards subsistence.

Meals taken during travel will be similarly reimbursed if within the spirit of the clause above.

5 CONCLUSION

5.1 Council and Committee Members are expected to act honourably and sensibly within the spirit of this policy. Further advice and guidance is available from the Finance Department of HPC and individual Committee Secretaries.

5.2 The Expense Claim Form which follows forms part of this Appendix.