

Finance and Resources Committee – 17 March 2010

Budget for 2010- 2011: Narrative

Executive summary and recommendations

**Introduction**

A copy of the narrative for the budget for the year ending 31 March 2011 is attached.

**Decision**

The Committee is asked to discuss the narrative.

**Background information**

Please see other papers on the budget for 2010-2011 on the agenda for today's meeting.

**Financial implications**

HPC income and expenditure for financial year ending 31 March 2011.

**Resource implications**

Budget holders time in creating and delivering the budget.

**Appendices**

Narrative for budget 2010-2011

**Date of paper**

9 March 2010

# Health Professions Council

## Annual Budget

April 2010 – March 2011

### Introduction

This is the ninth annual budget for the Health Professions Council (HPC). In 2001 - 2002, the last year of operation the Council for Professions Supplementary Medicine (CPSM), total operating expenditure was £3.6 million and there were 137,854 registrants. The budgeted income for 2010 - 2011 is £16.8 million with 216,803 registrants, or increases of 468% and 158% respectively.

In Appendix One of this document details the Operational Expenditure, Income and number of registrants since 2006 - 2007. During that time registrant numbers have risen from 177,230 to 216,803. The operating costs of all departments with the exception of Fitness to Practise have risen from £7.56 million to £9.12 million or 21%. In the same period HPC's Fitness to Practise costs have risen from £2.94 million to £7.15 million or 142%.

The Annual Budget is one of a number of planning processes that are used by the HPC, including the Registrant Forecasting model and the Departments' Annual Work plans. Finally, it should be noted that there will be no fee increase in the financial year 2010 – 2011.

### Major Tasks for the year

- 1) Maintain and enhance service quality
- 2) Monitoring of Fitness to Practise costs
- 3) Fitness to Practise IT system
- 4) Online renewals
- 5) Integration of Hearing Aid Council
- 6) NI Assistants project
- 7) Estate strategy
- 8) Work on Healthcare Scientists and Psychotherapists and Counsellors
- 9) Deliver 11 major and 25 small projects
- 10) Maintain culture as growth continues

### HPC's Overall Financial Performance

The overall financial performance of the HPC is forecast to improve moderately, driven by a 13% increase in income and a 10% increase in operating expenditure.

	<b>Budget</b>	<b>9/12 Forecast</b>	<b>Change</b>	<b>Change</b>
	<b>2010 – 2011</b>	<b>2009 – 2010</b>		
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Income	16,831	14,920	1,911	12.8
Op Ex	16,811	15,117	1,694	9.8
Op Surplus/(Deficit)	20	(197)	217	

The significant increase in income is mainly due to the rise in registrant numbers, in particular the 15,871 Practitioner Psychologists who became regulated by the HPC in July 2009 and the full year impact on income in 2010 – 2011.

While increases in Operating Expenditure for the majority of departments are in the order of 21%, fitness to practise costs have risen by £1.17 million accounting for 78% of increased costs in 2010 - 2011.

### Registrant Numbers

Total registrant numbers are forecast to increase year on year by 9,574 or 4.6%. While UK graduates make up 99% of the growth, there is a small decline in other categories.

<b>Category</b>	<b>Budget 2010 – 2011</b>	<b>9/12 Forecast 2009 – 2010</b>	<b>Change</b>	<b>% change</b>
UK Applications	9,484	9,214	270	2.9
International Applications	1,260	1,430	(170)	(11.9)
Readmissions	2,733	3,340	(607)	(18.1)
Grandparenting	150	120	30	25
<b>Total No Registrants</b>	<b>216,803</b>	<b>207,229</b>	<b>9,574</b>	<b>4.6</b>

On 1<sup>st</sup> April 2010 the HPC will take on the responsibility from the Hearing Aid Council for regulating 1,566 Hearing Aid dispensers. No other Aspirant Groups are forecast to become regulated by the HPC during the financial year 2010 – 2011.

The detailed assumptions which these forecasts are based upon are provided in the Annual Registrant Forecast 2010 - 2011 which precedes this paper.

In financial terms the impact of the increase in registrant number is as follows:

<b>Category</b>	<b>Budget 2010 – 2011 £'000</b>	<b>9/12 Forecast 2009 – 2010 £'000</b>	<b>Change £'000</b>	<b>% change</b>
UK Applications	493	488	5	1.0
International Applications	529	601	(72)	(11.9)
Readmissions	309	329	(20)	(6.1)
Grandparenting	63	50	13	26.0
<b>Total No Registrants</b>	<b>216,803</b>	<b>207,299</b>	<b>9,574</b>	<b>4.6</b>

In relation to Income it should be noted that the remaining Department of Health Grant of £360,000 is treated as a capital grant and is not included in income. It is assumed that any grant received in relation to the NI Pilot Project will be treated in the same way.

## Sensitivities

The forecast Operating Surplus is sensitive to changes to both forecast Income and Operating Expenses. Below are the effects on budgeted operating surplus by changes in income and operating expenditure respectively.

<b>Change (£'000)</b>	<b>-2%</b>	<b>-1%</b>	<b>0%</b>	<b>+1%</b>	<b>+2%</b>
Income Changes	-316,134	-147,819	20,496	188,811	357,126
Op Ex. Changes	345,904	183,200	20,496	-142,208	-304,912

It should be noted that the budget does not include a contingency.

## Employee costs and Numbers

The HPC is a service organisation and our employment cost represents significant cost. Over the last five years employment cost as a percentage of overall Operating Expenses have remained in the band 33% to 37%.

	10/11	09/10	08/09	07/08	06/07
Employments Costs (£'000)	5,834	5,141	4,721	4,085	3,491
% of Op Ex	35%	34%	37%	35%	33%

These costs include overtime, pension, staff recruitment and temporary staff costs

The number of FTE will increase by 14 or 10.6%. The majority 11, 8.3% will be in the Fitness to Practise Department.

<b>Department</b>	<b>2010 – 2011</b>	<b>2010 -2009</b>	<b>change</b>	<b>%change</b>
Chief Executive	2	2	0	0%
Communications	10	9	1	0%
Education	13	13	0	0%
Facilities	6	6	0	0%
Finance	8	8	0	0%
Fitness to Practise	42	31	11	35%
HR	3	3	0	0%
IT	5	5	0	0%
Operations	6	6	0	0%
Partners	4	2	2	50%
Policy and Standards	5	5	0	0%
Registration	38	38	0	0%
Secretariat	4	4	0	0%
<b>Total</b>	<b>146</b>	<b>132</b>	<b>14</b>	<b>10.6%</b>

## Major Projects

The HPC will deliver 11 major projects in 2010 – 2011. They are as follows:

- 1) Credit/Debit cards outsourcing
- 2) Education systems review
- 3) Electronic staff records
- 4) Fee Rise 2011
- 5) Fitness to Practise case management system
- 6) Hearing Aid Dispensers
- 7) Independent Safeguarding Authority Applicants
- 8) Independent Safeguarding Authority Registrants
- 9) NetRegulate changes
- 10) Partner reviews
- 11) Registrant publication preferences

The cost of the 11 projects will be £1,261k of which £296k or 23% will be Operating Expenses and £965k or 77% will be capital expenditure.

## Capital Expenditure and Depreciation

Over the last five years the HPC has invested capital mainly in IT infrastructure, software and buildings. In the FY 2010 – 2011 the strategy will continue with £1,106,957 going towards IT. The HPC has funded £5.66million of capital costs over the last five years or an average of £1.13million pa. In the forecast plan for 2010 – 2011 is to invest £1,219,000 of capital.

The corresponding annual depreciation has been in the band £223k - £541k and at £540,546 will remain so in the financial year 2010 – 2011. Year-on-year changes in HPC's annual depreciation are driven by the depreciation life of our software investments which is three years.

	10/11	09/10	08/09	07/08	06/07
Capital expenditure (£'000)	1,219	1,117	1,241	1,536	544
Depreciation (£'000)	541	366	347	223	408

## Departments' Operating Expenditure

The HPC is organised around 14 Departments. The table below summarises the forecasted departmental spend and the cost of the Council and Committees for 2010 – 2011 compared with the annualised nine month forecast for 2009 – 2010.

<b>Department</b>	<b>2010 – 2011</b>	<b>2009 - 2010</b>	<b>Change</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Chair	50	49	1	1.49
Chief Executive	314	371	(57)	(15.42)
Communications	1,121	1,096	25	2.32
Council and Committees	400	385	15	3.85
Education	745	658	87	13.36
Facilities	895	872	23	2.60
Finance	647	601	46	7.55
Fitness to Practise	7,146	5,979	1,167	19.51
HR	520	433	87	20.09
IT	1,041	897	144	16.04
Operations	502	431	71	16.62
Partners	412	326	86	26.29
Policy and Standards	313	262	51	19.39
Registration	1,616	1,801	(185)	(10.25)
Secretariat	252	267	(15)	(5.40)
<b>Total</b>	<b><u>15,974</u></b>	<b><u>14,428</u></b>	<b><u>1,546</u></b>	<b><u>10.72</u></b>

The causes to changes to Department costs of more than £100,000 are as follows.

#### Fitness to Practise

The principal elements of the department costs that are the cause of increase in 2010-2011 are:

- Employee numbers are expected to increase as there are likely to be an additional 25% cases and hearings in 2010-2011.
- Legal costs are expected to increase by approximately £504k in line with the number of hours needed to deal with the hearings expected to conclude in 2010-2011.
- The panel costs are also expected to increase by approximately £202k for the reasons outlined above.

#### Information Technology

The two main items with increased costs for IT department in 2010-2011 are:

- Management of Web and internet services. This is caused by the completion of the Online renewal project which has required additional costs for these services. This was expected and included in the original project scope.
- A cost of approximately £50k has been picked up by the IT department as the management of the Telephone system has been passed across by the Facilities department.

#### Registration

There is a saving of approximately £182k due to reduced printing and stationery costs as this is the quiet renewal year in the two year cycle.

## **Cash**

£'000	10/11	09/10	08/09	07/08	06/07
Cash (Year End)	4,336	5,300	5,341	4,899	4,049

## **Statement of Financial Position**

Subject to HPC's estate strategy, depreciation costs are likely to increase by approximately £540k over 2010-2011 compared to the previous year. This is primarily arising from the online renewal system going live and the start of the normal depreciation cycle.

It has been assumed that the value of debtors and creditors will remain similar to current levels.

It has been assumed that value of the investment funds will remain at current levels and will not change due to market gains or losses. It is not prudent to try and anticipate how the market will move over the next 12 months.

Interest levels for money held on deposit has been assumed to continue at current low levels as this is seen as a prudent approach.

## **Outlook**

The budget for 2010 – 2011 will be challenging with little room for unexpected expenditure. Whilst no increase in fees will occur in the forecast budget year, work must be undertaken to ascertain the possible need for a fee increase in April 2011.

Appendix One – Data for Budget 2010-2011

	2006 - 2007	2007 - 2008	2008 - 2009	2009 - 2010	2010 - 2011
<b>Expenditure by department</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>9Mth Forecast</b>	<b>Budget</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chair	48,758	39,344	50,952	49,000	50,000
Chief Executive	260,473	280,526	285,880	371,000	313,000
Communications	833,157	886,079	980,136	1,096,000	1,122,000
Council & Committees	594,217	448,737	351,729	385,000	400,000
Education	478,283	474,401	537,218	658,000	745,000
Facilities	863,044	825,938	862,778	872,000	895,000
Finance	512,460	530,240	625,419	601,000	647,000
Fitness to Practise	2,940,191	3,759,735	4,656,490	5,979,000	7,146,000
HR & Partners	485,101	613,196	724,229	759,000	932,000
IT	604,079	848,168	819,986	897,000	1,041,000
Operations	344,807	306,405	426,964	431,000	502,000
Policy and Standards	194,486	252,286	277,645	262,000	313,000
Registration	1,520,065	1,695,336	1,551,418	1,801,000	1,629,000
Secretariat	252,972	261,564	215,935	267,000	252,000
Major Projects	162,305	132,104	212,320	322,000	283,000
<b>Total before Depreciation</b>	<b>10,094,398</b>	<b>11,354,059</b>	<b>12,579,099</b>	<b>14,750,000</b>	<b>16,270,000</b>
Depreciation	408,023	223,455	346,581	366,000	541,000
<b>Total Inc. Depreciation</b>	<b>10,502,421</b>	<b>11,577,514</b>	<b>12,925,680</b>	<b>15,116,000</b>	<b>16,811,000</b>
<b>Income</b>	<b>10,511,525</b>	<b>11,624,839</b>	<b>13,549,069</b>	<b>14,920,120</b>	<b>16,831,000</b>
<b>Operating Surplus/ (Deficit)</b>	<b>9,104</b>	<b>47,325</b>	<b>623,389</b>	<b>(195,880)</b>	<b>20,000</b>
<b>Registrant Numbers</b>	<b>177,230</b>	<b>178,393</b>	<b>185,689</b>	<b>208,000</b>	<b>217,000</b>