
Finance Update

Executive Summary

February 2020 (Month 11) Accounts

At the end of February 2020, HCPC's YTD deficit was £257k. Proposed adjustment for the interpretation of accounting changes is £744k, once this is agreed and implemented, the YTD surplus would be £487k which is £180k favourable variance to forecast.

FTP department is showing adverse variance of £527k, this is driven by significant increase in the volume of panels and hearing. There has been an increase in caseload, as well as extra hearing days and additional ICP days to conclude SW cases.

The adverse variance in FTP is netted off with savings from other areas such as business rates, and increased volume of international applicants.

Appendix 1 shows the month 11 accounts in detail. Council is asked to note the management accounts.

Application of Capitalisation and Depreciation Policies

New interpretation and application of the capitalisation and depreciation policies were first raised to the Audit Committee in November 2019. This was discussed and agreed in principle. Council then received the 6+6 forecast which estimate the financial impact of this change to be £1.1m up to February 2020. This will show as a reduction to our operational expenditure and an increase in intangible assets.

A detailed analysis were performed on this and the actual financial impact of the change is £744k as of February. Difference between actual and forecast is due to less spends in major projects, while the team awaits Council's decision on the IT strategy.

Appendix 2 is the detailed proposal to the application of capitalisation and depreciation policies.

Council is asked to discuss and approve the implementation of the changes to our accounts.

New Reserves Policy

In March 2020 the Audit Committee considered some of the working capital and implied financial strategy components of the Reserves Policy. Based on this discussion further work has been undertaken to review the Reserves Policy.

The objective of the reserves policy is to ensure that HCPC has sufficient working capital to ensure it can conduct its statutory functions in an orderly and efficient manner. To provide full consideration, the Audit Committee considered:

- Liquidity;
- The three-year draft budgets; and
- Likely future investment requirements.

HCPC faces a number of investment decisions including the pace at which the FTP backlog is reduced and the need to upgrade IT systems. Assumptions around the speed of this investment have been made in the three-year draft budget. Based on those assumptions, HCPC will have sufficient liquidity to conduct its business in an orderly and efficient manner.

The likelihood of large unplanned cash drawings was considered. The most likely reason for this would be that HCPC would lose registrant cohort/s. The experience of the Social Worker transfer indicates that this would take sufficient time to allow HCPC to adjust to those changes.

Appendix 3 documents the new proposal for the Reserves Policy.

Council is asked to discuss and approve the updated Reserves Policy.

Insurance disclosure

Our insurance policies renew on 1 April. The Insurance Act 2015 includes a statutory duty to make a fair presentation of the risk, replacing a similar previous common law duty. The Act requires us to make a disclosure to the insurer including information which is material to the insurance contract which we know, or ought to know.

Information material to the insurance contract which HCPC is deemed to “know or ought to know” is that which anyone in senior management knows, and information which would be revealed by a reasonable search. Information which we have disclosed to the insurers in previous years does not need to be disclosed to them again.

The process for gathering information includes a discussion of this paper at Senior Management Team (SMT) meeting in March and declarations from each SMT member and each Operational Management Team (OMT) member. While it is unlikely that a Council member will know any information which one or more SMT members do not also already know, the paper is also presented to Council to ensure that the Insurance Act duty is met.

Additionally, as a condition of our Directors and Officers cover, which protects Council members and employees against claims that can be brought against them as individuals (for example, health and safety claims), the individuals are required to declare any prior claim made against them under similar policies, or any prior bankruptcy or insolvency.

The process will be repeated annually.

Council is asked to note the duty to make a fair presentation of risk. Council members are asked to consider whether they know of any information which may require disclosure to the insurers, and if so, to inform the Finance Director.

Appendix 4 shows examples of information that may require disclosure to the insurers.

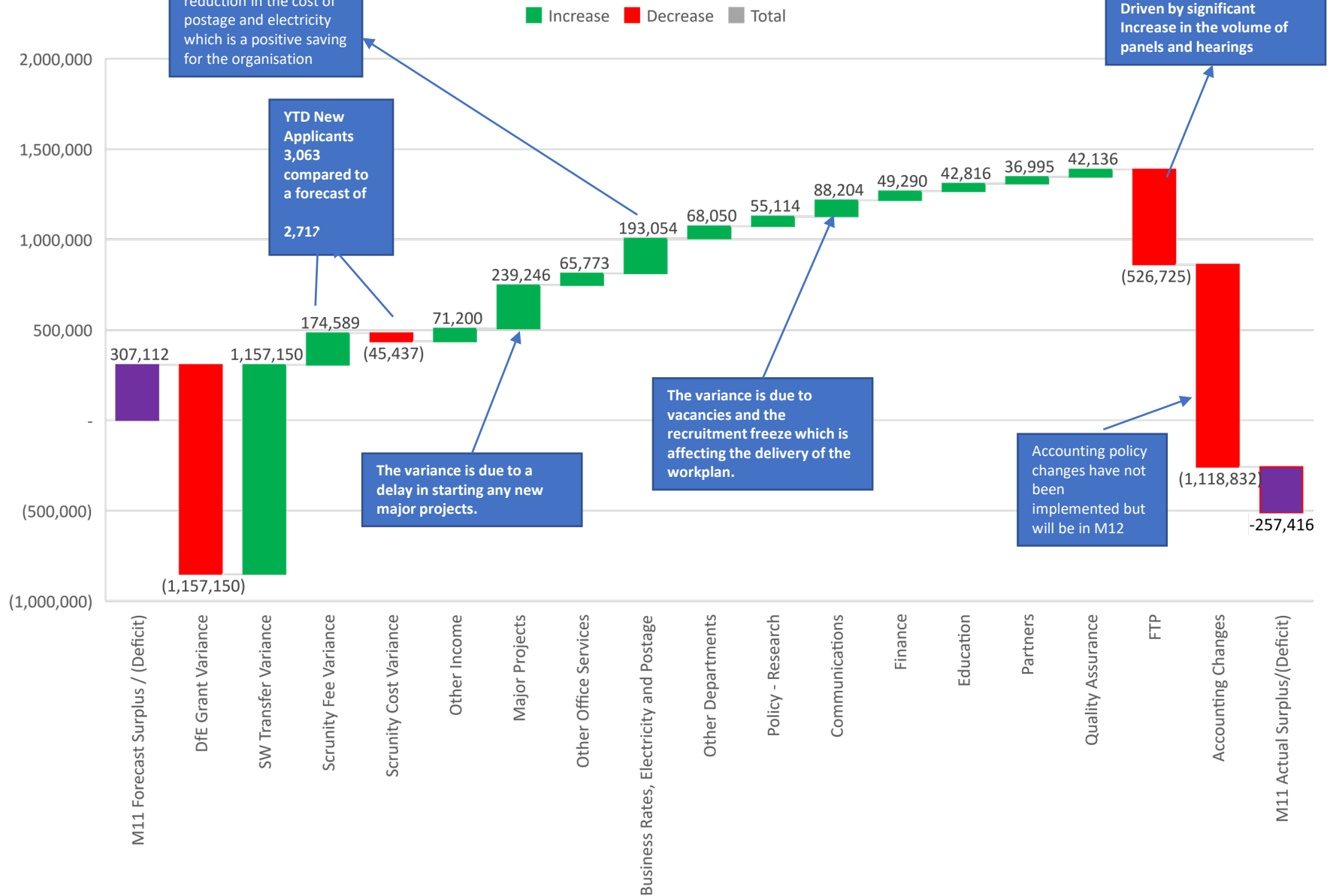
Previous consideration	The December 2019 (Month 9) accounts were presented to Council on 5 February 2020. Application of Capitalisation and Depreciation Policies and the new Reserves Policy were considered at the Audit Committee. Insurance disclosure is an annual exercise, and was last went to Council in March 2019.
Decision	For Note – February 2020 (Month 11) Accounts For Approval – application of the change in interpretation of capitalisation and depreciation policies For Discussion and approval – New proposal for the Reserves Policy For Note – duty to make fair presentation of risk for insurance purpose.
Next steps	Finance update including the final 2019-20 result will be provided at the next meeting of the Council on the 21 st of May 2020.
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 Strategic Risk 5 – Failure of leadership, governance or culture
Financial and resource implications	None as a result of this paper. Approval of interpretation of capitalisation and depreciation policies will result in a reclassification adjustment between Income and Expenditure Account and Statement of Financial Position.
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P11 February 2020 Management Accounts Overview

25 March 2020

Tian Tian
Finance Director

YTD to February 2020 - YTD Variance Analysis

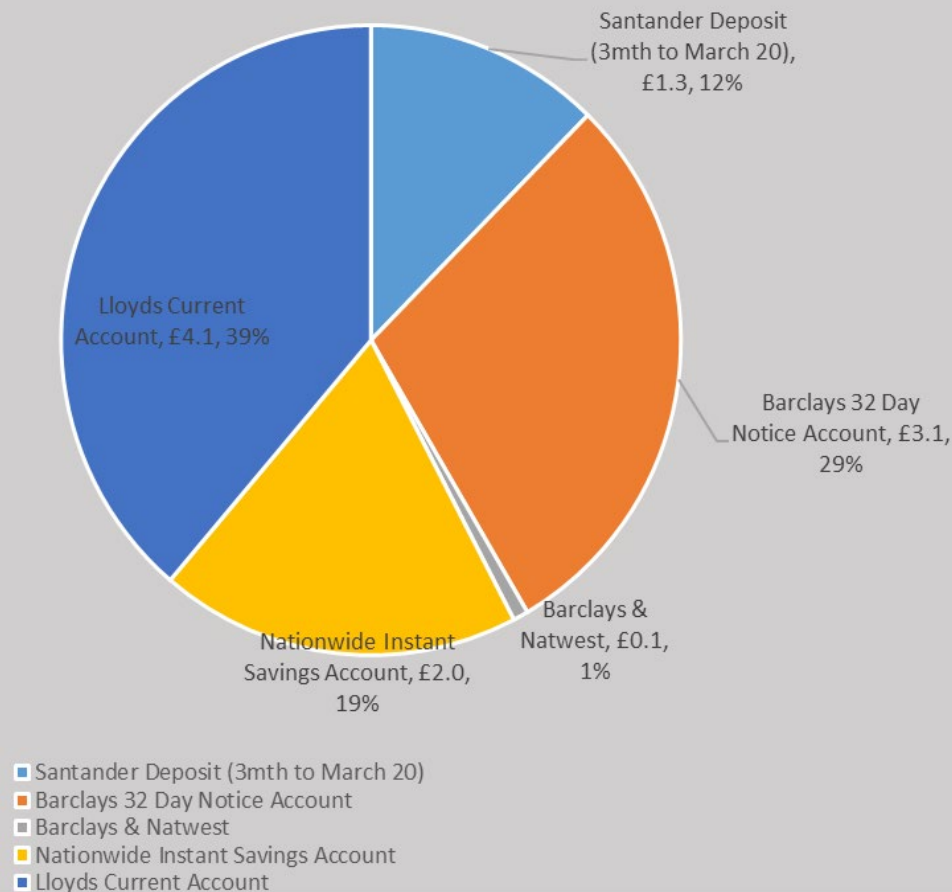


Income and Expenditure Account YTD up to end of Feb 20	Actual £	6+6 Forecast £	Variance £	Full Year 6+6 forecast £
Income (A)				
Registration Income	30,555,888	30,318,788	237,100	32,552,165
Rental Income	160,417	160,417	0	175,000
Investment Income	103,087	94,398	8,689	102,261
Income (A)	30,819,392	30,573,603	245,789	32,829,426
Expenditure				
Pay Costs	11,858,903	12,268,297	409,394	13,359,504
Non Pay Costs	17,687,632	17,574,001	(113,631)	19,099,638
Depreciation	846,737	878,085	31,349	963,107
Total Expenditure (B)	30,393,272	30,720,384	327,112	33,422,249
Operating Surplus/(Deficit) C= (A-B)	426,121	(146,781)	572,901	(592,823)
Corporation Tax	0	0	0	0
CIP/Accounting Policy Changes	0	(1,118,832)	(1,118,832)	(1,461,041)
Turnaround Costs	683,537	664,940	(18,596)	1,345,888
Total Other Exceptional Expenditure	683,537	(453,892)	(1,137,429)	(115,152)
Social Worker Changes				
Grant Income	1,131,483	2,288,633	(1,157,150)	2,064,423
Grant Costs	(1,131,483)	(2,288,633)	1,157,150	(2,064,423)
Total Social worker changes (E)	0	0	0	0
Total Surplus/(Deficit) F= (C+E-D)	(257,416)	307,111	(564,527)	(477,672)

SOFP	Actual	6+6 Forecast	Actual	6+6 Forecast	Budget
Balance Sheet	Feb-20	Feb-20	31 March 2019	31 March 2020	31 March 2020
Total Fixed Assets	8,021,476	8,573,598	7,898,072	8,867,655	9,513,080
Current Assets					
Other Current assets	1,930,953	1,512,403	2,970,827	2,310,029	1,816,503
Cash & cash equivalents	12,140,336	12,195,268	18,662,518	11,633,548	11,913,206
	14,071,290	13,707,671	21,633,345	13,943,577	13,729,709
Total Assets	22,092,765	22,281,269	29,531,417	22,811,232	23,242,790
Current Liabilities					
Trade and other payables	544,700	716,184	1,578,506	716,184	216,764
Other Liabilities	1,429,263	1,560,013	1,612,006	1,560,013	1,612,918
Deferred Income	16,143,193	15,464,935	22,107,880	16,729,402	19,132,839
Total current liabilities	18,117,156	17,741,132	25,298,391	19,005,598	20,962,522
Liabilities greather than one year	163,052	163,052	163,052	163,052	163,052
Total Assets less liabilities	3,812,558	4,377,085	4,069,974	3,642,582	2,117,216
General Fund b/fwd	(3,771,687)	(3,771,687)	(3,539,747)	(3,771,687)	(3,583,761)
Rev Reserve - Land & Building	(298,287)	(298,287)	(298,287)	(298,287)	(22,330)
This Period's surplus/deficit	257,416	(307,112)	(231,940)	427,391	1,488,875
General Fund c/fwd	(3,812,558)	(4,377,086)	(4,069,974)	(3,642,582)	(2,117,216)

Cash

Total Funds forecasted@ Banks as at 31 March 2020



At the end of Feb 20; the cash balance at the banks was £12.1m; of which £4.4m was held on fixed term deposits and £7.7m was in instant access accounts.

£5.4m of the January cash balance has been paid out to Social Work England.

The interest rate on our main instant account is now 0.70%. The chart shows the forecasted cash balance as @ 31st of March 20.

Full cash flow forecast statement on next page

Cash Flow Forecast 2019-2020	
Opening Balance	
Cash in	
Registration Fees - Payment	
Registration Fees - Refunds and returned Cheques	
Investment Income	
Rental income - GCC	
Grant income	
Other income	
SW final DD Rec 2019	
PSA refund	
Total Cash Receipts	
Cash out	
Payments to Suppliers	
Payments to Partners	
Pay type (non payroll)	
Staff expense	
Capital	
PSA	
Payment to SWE re upfront payments	
Payroll - Salaries	
Payroll - Tax & NI	
Payroll - Pensions	
Payroll - Other	
Corporation Tax	
Total Cash Payments	
Net misc items (Cash Book related corrections)	
Net Cash Flow	
Liquidation of Investments	
Closing Balance	

Feb-20	Mar-20
Actual	Forecast
15,310,405	12,140,336
5,336,752	1,057,498
(17,141)	(10,575)
8,496	7,863
0	0
	741,488
0	0
5,328,108	1,796,274
1,908,994	1,003,304
252,787	250,000
14,282	15,000
1,220	2,800
0	379,079
0	752,000
5,360,780	
591,690	558,469
288,424	283,116
80,000	80,000
8,498,176	3,323,768
0	0
(3,170,069)	(1,527,494)
12,140,336	10,612,842

Table 1 Investments & Cash Note	
Non-Instant Access Accounts	
Santander Deposit (3mth to December)	
Barclays 32 Day Notice Account	
Total Non-Instant Cash	
Instant Access Accounts	
Nationwide Instant Savings Account	
Lloyds Current Account	
Barclays & Natwest	
Total Liquid Cash	
Cash Position	

29/02/20	31/03/20
Actual	Forecast
1,309,154	1,309,154
3,096,193	3,103,850
4,405,347	4,413,005
2,000,000	2,000,000
5,687,067	4,115,479
47,922	84,358
7,734,989	6,199,837
12,140,336	10,612,842

Appendix 2: Application of Capitalisation and Depreciation Policies

Detailed analysis of the HCPC accounting policies has raised questions about the interpretation and application the capitalisation and depreciation policy.

The following proposal was discussed in the Audit Committee and agreed in principle.

Proposals:

Bundling / Unbundling

The current capitalisation policy states that items <£5,000 are not capitalised. Purchases are often unbundled to minimise the capital expenditure. As an example, 10 laptops purchased at £1,000 each. This is currently interpreted as 10 separate items of less than £5,000 and therefore the cost is expensed. An alternative view is that this is a single purchase of >£5,000 and should be capitalised.

We classify this as a change in the interpretation of the policy. As at February, financial impact of this is £45k reduction in operational expenditure and an increase in assets.

Project Costs

The current interpretation of project costs is that many vendor costs for projects are capitalised while the direct HCPC costs such as project manager costs and some vendor implementation costs are expensed. An alternative interpretation of the policy is that all directly attributable costs, both vendor and HCPC costs, should be capitalised to reflect the true cost of the project.

As of February, financial impact of this is £394k reduction in operational expenditure and an increase in assets.

Economic Life

Currently all capital assets, except land and buildings are depreciated over 3 years irrespective of forecast economic life of the asset. It is proposed to review the depreciation periods to align the period with a realistic forecast of the economic life.

We classify this as a change in the accounting estimate and therefore changes are accounted for prospectively. As of February, financial impact of this is a £305k reduction in operational expenditure and an increase in assets.

Council is asked to discuss and agreed the implementation of these changes.

Appendix 3: proposed Reserves Policy

The new proposal for the Reserves Policy is:

The reserves policy of the Health and Care Professions Council (HCPC) has been based on the HCPC's objectives. Its main aim is to achieve a margin of working capital sufficient to enable all aspects of the HCPC's work to be conducted in an orderly and efficient manner.

As HCPC receives registrant fees in advance, there will normally be significant liquid assets to pay any current debts as and when they fall due. Any major changes to the Register with the resultant impact on registrant fees, such as with the transfer of Social Workers to Social Work England, are likely to have a lead time similar to that experienced with that transfer.

HCPC has made prudent use of pre-paid registrants' fees to acquire property, therefore reducing rent costs and providing value for money. This property could be disposed of in an orderly fashion and the full value realised, or mortgaged, within the likely timeframe associated with a major change to the register.

Therefore, for the purposes of the Reserves Policy, if the Net Tangible Assets are positive and registrant fees continue to be paid in advance, HCPC will have liquid assets to conduct its work in an orderly and efficient manner.

The reserves policy of the HCPC is reviewed on an annual basis by the Council in line with the development plans.

This reserves policy ensures that HCPC continues to have sufficient working capital to conduct its work in an orderly manner in the short-term as well as have options for medium term adjustments, if circumstances change.

Appendix 4: information which may be known by Council members and which may require disclosure to the insurers

If Council members are aware of any information which they think may be material to the insurers **and** may not already be disclosed to the insurers, they should raise the matter with the Finance Director. If the information is confidential, they can approach our insurance broker directly: Mark Brown, Lockton, mark.brown@uk.lockton.com

The following are examples (not an exhaustive list)

- Any investigation into HCPC by an authority outside the normal course of business (i.e. not including our annual audits by the PSA and the NAO)
- Any significant planned change in business activity or processes
- Any circumstances/dispute/grievance/accident which could give rise to a claim, not already notified to the insurers
- For the purpose of our Directors and Officers cover, Council members are also required to disclose details of any legal proceedings which have been brought against them in their personal or professional capacity, including any proceedings brought against them during a previous employment, or against a company of which they were a director. For example, any proceedings under health and safety legislation, or insolvency, bankruptcy, or proceedings to enforce a debt. Note that this requirement to disclose covers Council members' entire adult life.

The process of asking Council members to consider whether they have any relevant information will be repeated annually. If Council members become aware of any potentially relevant information part way through a year, they should raise the matter with the Finance Director.