Council

7 December 2022

Finance report October 2022

Executive Summary

This report covers the financial position as at the end of October 2022 with an updated full-year forecast and a commentary on major variances, risks and opportunities. The year to date (YTD) position is broadly stable compared to September 2022. The projected year-end underlying position is for a deficit of £250k, after allowing for potential labilities that may crystallise this year.

The projected underlying deficit position derives from the allowance for future liability that arises from the slippage of operational caseload and, subject to further review as part of the year-end process, other potential liabilities.

The additional international income incorporated in the updated position can be taken as a benefit to our depleted reserves.

Investment Policy Review

Appendix 2 to this report contains a summary of the Executive's review of the HPC's Investment Policy, undertaken at the Requests of the Audit and Risk Assurance Committee in light of the economic environment. At the Committee's recommendation the Council is asked to reconfirm the Policy remains appropriate.

Previous consideration	Standing item to update Council on HCPCs financial position.
Decision	The Council is asked to discuss the report. Council is asked to confirm the Investment Policy at appendix 2.
Next steps	Ongoing active management of the position over the remainder of the financial year.
Strategic priority	Strategic priority 5: The organisation continues to be financially sustainable, enabling us to invest in those areas of our operations which are most important to service users and patients, our registrants and partners.
Financial and resource implications	The implications are set out in the report.

EDI impact	No direct implications.
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hcpc health & care professions council

Finance Report – October 2022

Executive Summary

1. This report presents the financial position at the end of October 2022, with a commentary on the major variances, risks and opportunities. The projected underlying position for the full-year is a deficit of around £250k, subject to further review as part of the year-end process of future liabilities.

Headlines

2. The operating surplus for the year to date (YTD) is £2.7m versus the Oct-22 forecast surplus of £2.5m. The favourable variance of £0.2m is driven by additional income from international and UK scrutiny fees, partly offset by a small departmental overspend.

3. The full-year operating forecast is for a surplus of £447k, compared to the forecast £205k deficit in the September finance report. The movement of £652k in the forecast comprises £360k of reduced spend and net additional income of £395k, offset by additional costs relating to the uplift of the contingency pot of £103k (see Table 8 within the appendices section).

4. We have applied weightings against the quantified risks and opportunities (see Table 5). If the weighted risks and opportunities materialise this would result in the forecast operating surplus decreasing to £370k.

5. The improvement in the year-end operating forecast, while welcome, is largely due to one-off and unplanned income that cannot prudently be assumed in future budgeting, plus slippage in operational caseload. The projected underlying position referenced in paragraph 1 takes account of these liabilities. The additional international income of c£1m represents an opportunity to repair HCPC's depleted reserves and provide for potential future costs.

Income and Expenditure

6. Table 1 below summarises the impact of the reported position on HCPC's Income & Expenditure. The position will be managed actively to mitigate any further risks and maximise opportunities before the year-end, including keeping under review whether any provisions need to be recognised in this year's figures to recognise financial liabilities and risks and whether any value for money expenditure on implementing the corporate plan can be brought forward.

Table 1.1 - Income & Expenditure Account

	Oct - 22 YTD			
	Actuals	**Forecast**	**Variance**	**Full Year Forecast**
	£'000	**£'000**	**£'000**	**£'000**
Income	**21,648**	**21,439**	**209**	**35,878**
Total Operating Expenditure	**19,311**	**19,253**	**(58)**	**35,134**
Operating surplus/(deficit)	**2,338**	**2,187**	**151**	**745**
Other exceptional expenditure	**182**	**187**	**5**	**801**
* HCPTS Relocation Project	(19)	(35)	(16)	(43)
Grant Income	**525**	**525**	**0**	**546**
Total Operating Surplus/(Deficit)	**2,662**	**2,490**	**172**	**447**
Liabilities from deferred caseload and other potential risks, subject to review				(700)
Projected underlying position				(253)

Table 1.2 - Registration Income by Category

	Oct-22 YTD Actuals			Full Year
	Actual	**Budget**	**Variance**	**Forecast**
	£'000	**£'000**	**£'000**	**£'000**
Renewal & Graduate Reg Fees	15,613	15,584	30	27,192
Readmission Fees	142	117	25	178
International Scrutiny Fees	4,972	4,922	50	7,350
UK Scrutiny Fees	779	698	81	951
Total Registration Income	**21,506**	**21,320**	**186**	**35,672**

Income

7. YTD income is £21.6m, which represents a favourable variance of £0.5m compared to the forecast for YTD income as at October. As shown in Table 1.2, this is largely due to international scrutiny fees exceeding budget projections.

8. There continues to be an upward trend in international applications with 9283 applications having been processed to date. The higher volumes have been driven by accelerated processing of paper applications to clear an overall backlog. The forecast is based on a trend-based scenario of 13,682 international applications this financial year compared to the original budget projection of 7,000.

9. Renewal and registration fee income has been calculated based on the number of registrants as at the end of October 2022. System errors that were reported in the September report are now resolved and updated figures have been captured as part of October reporting.

10. Interest rates have increased since the budget was set from 0.1% to 0.7%, which has contributed to the increase in investment income (£22k for the year to date).

Expenditure

11. Total YTD operating expenditure is £19.3m versus forecast expenditure of £19.2m, which is an adverse variance of £0.1m. The small variance arises in partners and professional fees, partially offset by other small variances. Table 3a outlines the expenditure variances for the year to date against forecast.

Table 3a - Year to Date Forecast Variances by Category of Spend

Category of Spend	Year to Date Forecast Variance	Type	Note
Computer Costs	28,000	Favourable	(a)
Partners	(35,000)	Adverse	(b)
Professional Fees	(61,000)	Adverse	(c)
Other Categories	10,000	Favourable	(-)
Total Operating Expenditure	**(58,000)**		

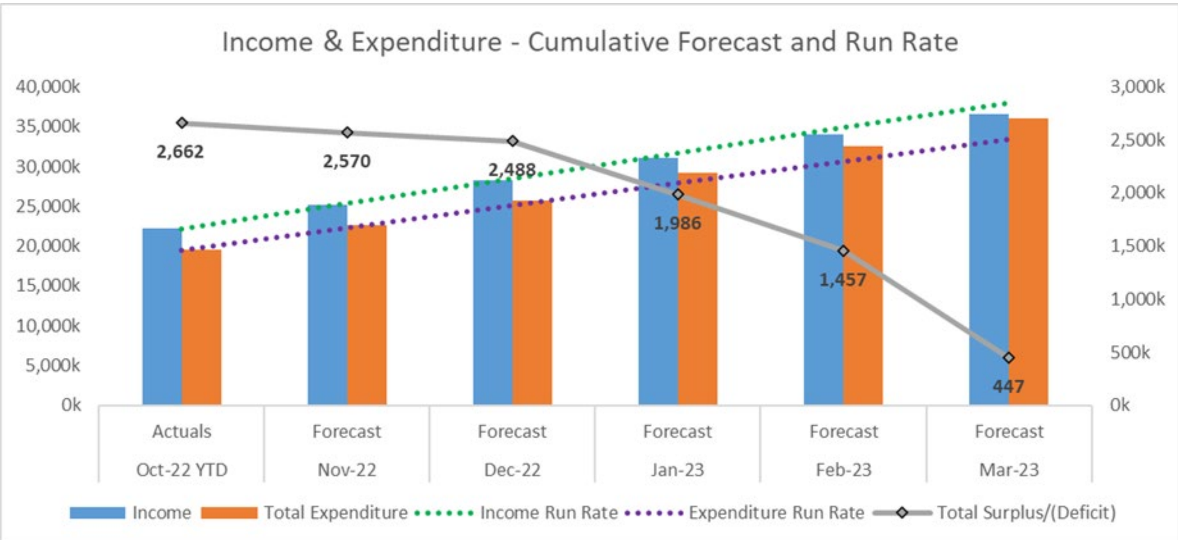
Notes

a) Computer Costs and Small Projects - £28k underspend. £11k relates to lower spend in while department is reviewing costs in preparation for FY23-24 budget setting. Also, due to the delay in completion of projects, depreciation costs for intangible assets are £11k underspent.

b) Partners - £35k overspend. Mostly related to Partners' costs for international assessments, partially off-set by other partner underspends.

c) Professional fees - £61k overspend. £54k of the underspend relates to estimated FtP legal costs from previous years' contracts. These costs are being finalised and will be updated in the November report.

12. The graph below shows the cumulative YTD operating position and forecast for the remainder of the year.



Note. £447k forecast operating surplus position as at March 2023 is based on current trends and is subject to change as part of monthly rolling-forecasts. The projected underlying deficit position is circa £250k after allowing for liabilities arising from the timing of operational caseload processing and recognition potential future labilities to be reviewed as part of the year-end process.

Staffing

13. Average FTE figures as at October 2022 were 310 versus forecast FTE figures of 339. There are currently 40 positions covered by fixed term contractors and agency workers.

Table 4: FTE by Department

		FY22-23 Forecast	Oct-22 FTEs			Variance
Department		**Total**	**Permanent**	**FTC/Agency**	**Total**	**Total**
Chief Executive		7	7	0	7	0
Governance		11	11	0	11	0
Policy		9	9	1	10	1
Insight & Intelligence Analytics		4	4	0	4	0
Communication		6	5	0	5	(1)
Professional Liaison		6	5	1	6	0
Fitness to Practise		141	104	20	124	(17)
Registration		79	65	13	78	(1)
Education		12	11	1	12	0
IT & Digital		16	13	0	13	(3)
Business Change		14	6.5	1.5	9.0	(6)
Finance		15	12	1	13	(2)
HR		10	9	0	10	(1)
Office Services		9	8	0	8	(1)
Total FTEs		**339**	**270**	**40**	**310**	**(29)**

Risks and Opportunities

14. The table below summarises risks and opportunities and their potential impact on the latest central forecast, based on the weighted impact figures. If the £78k net impact of the weighted risks and opportunities was incorporated in the central forecast, that would result in a revised year-end forecast of a £369k operating surplus.

Risk Description	**Probability**	**Full Year Impact**	**Weighting %**	**Weighted Impact**
		£'000		
Increase in international assessors' costs	High	400	75%	300
Additional legal costs	High	300	75%	225
Reg Reform	Medium	100	50%	50
33 Stannary Street – Basement Refurbishment	High	100	75%	75
Increase in recruitment and facilities costs from additional headcount and operational demands	High	30	75%	23
*NHSEI - Funded Work	High	1,000	75%	750
Total		**1,930**		**1,423**

*Likely to be fully or partly deferred to FY 2023-24

Opportunity Description	**Probability**	**Full Year Impact**	**Weighting %**	**Weighted Impact**
		£'000	**Upper**	
NHSEI Grant Income	High	1,000	75%	750
*Increase in international scrutiny fees income as per current trend	High	700	75%	525
Further slippage in recruitment	Medium	80	75%	60
Reduction in business rates and rent - Stannary Street basement and 184/186	Low	40	25%	10
Total		**1,920**		**1,345**

*Likely to be fully or partly deferred to FY 2023-24

Other Risks/Opportunities	Probability	Full Year Impact £'000
Cost of Extended Temporary Registers	High	TBC
NMC Case	Medium	TBC
Additional Partners’ travel and accommodation cost savings	Medium	TBC
Extended Temporary Registers Income	High	TBC
Additional phasing of vacant posts	Medium	TBC

Balance Sheet and Reserves

15. *The impact of the reported position on the balance sheet is shown in the table below.*

Table 6 - Balance Sheet

	Actual 31-Oct-22 £'000	Oct-22 Forecast 31-Mar-23 £'000
Total Fixed Assets	**10,007**	**10,349**
Current Assets		
Other Current Assets	15,828	16,728
Cash & Cash Equivalents	17,897	13,040
Total Current Assets	**33,725**	**29,768**
Total Assets	**43,732**	**39,471**
Current Liabilities		
Current Liabilities	4,451	4,451
Deferred Income	34,953	33,553
Total Current Liabilities	**39,404**	**38,004**
Liabilities > 1 Year	142	142
Total Liabilities	**39,546**	**38,146**
NET ASSETS	**4,186**	**1,971**
Reserves	1,524	1,524
Operating Surplus/(Deficit)	2,662	447
GENERAL FUND	**4,186**	**1,971**
Of which reserves for potential future liabilities arising from in-year position		*700*

16. The opening reserves balance as at 1 April 2022 was £1.5m. The budgeted surplus for the year is £0.45m, which would give a closing reserves balance of £2.0m as at 31 March 2023. As at 31 October 2022, our reserves closing balance is £4.2m.

17. The cash balance as at 31 October 2022 was £17.9m. The cash management policy is to maintain positive balances in all accounts. We do not budget to be in breach of this policy at any point during the financial year.

Capital Expenditure

18. YTD total capital expenditure is £292k compared to a forecast of £380k, giving us a £88k favourable variance. This is mainly due to the timing of projects and invoices.

19. The Oct-22 forecast for the full financial year on project related capital spend is £878k and £174k for IT and office equipment (non-project related). The Oct-22 forecast has reduced by £0.5m compared to Sep-22 forecast. This is mainly due to delays in progressing some major projects.

Table 7 - Capital Spend

		Full Year	Year to Date		
		Forecast	**Actual**	**Forecast**	**Variance**
Non-Projects	**Description**	**£**	**£**	**£**	**£**
Information Technology	Includes infrastructure, property, software licenses and IT equipment costs.	174,280	54,945	70,000	15,056
Office Equipment	Furniture and fixtures (including cost of furniture that is treated as single unit, such as a group of desks)	0	5,265	0	(5,265)
Total Non-Project Costs		**174,280**	**60,210**	**70,000**	**9,791**
Major Projects	**Description**	**£**	**£**	**£**	**£**
Business Central	Business central re-implementation	307,302	0	0	0
Education Dynamic 365	Annual development of the Education system	1,187	1,187	1,187	0
Hybrid Working	Purchase of equipment to enable and implement hybrid working in the organisation	100,000	24,261	51,190	26,929
Data Excellence	Build a new data platform	0	0	0	0
Online Experience	Enhance the registration system to improve the registrant's online experience	0	0	0	0
FtP CMS Product Development	New CMS system Product Development - Phase 2	230,516	132,156	139,878	7,722
Landline Mobility	Implement the landline system in the cloud	24,000	27,920	24,000	-3,920
Online Applications	Registration system Product Development - Phase 3	215,245	46,094	93,323	47,229
Major Projects Costs		**878,250**	**231,618**	**309,578**	**77,960**
Total Capital Spend		**1,052,530**	**291,828**	**379,578**	**87,751**
HCPTS Relocation Project		**29,469**	**29,469**	**29,469**	**0**

APPENDIX 1

Table 8 – Sep-22 to Oct-22 Forecast Movements

Details	Department	£'000	Notes
Sep-22 Forecast Deficit		**(205)**	
Increased scrutiny fees income from International applicants	Income	619	Increased applications from 12,500 to 13,682
Reduction in overall facilities and property management costs	Facilities	254	Key areas of underspend: ▪ Property costs - £100k related to repairs, maintenance contracts and refurbishment costs based on committed costs. ▪ Professional fees - £105k based on future requirements. ▪ Utilities - £41k based on information from the CCS data. ▪ Postage - £5k
Reduction in organisational training, professional fees and recruitment	Human Resources	103	Reduction in anticipated costs as per review.
Hybrid-working project costs reduced	Major Projects	63	Reduction in anticipated costs as per review.
Vacancy Factor Adjustment	POL, PLT and COM	51	From January to March 23
Deferred training costs into FY 23/24	Partners	29	Training of partners reviewed.
Research contract awarded at a lower rate and pay costs off-set by HEE Funding	Policy	22	Reduction in anticipated costs as per review.
Reduction in anticipated costs as per review	Various Departments	15	Reduction in anticipated costs as per review.
Additional payroll costs	Insight and Analytics	(27)	3.0 Additional staff; an apprentice, A&D analyst transferred from Business Change and a Data standard officer Fixed term for the Data excellence project
Temp staff and bank charges	Finance	(85)	Resource brought in to manage financial controls of Partners area and financial impact of NMC case. Bank charges related to higher volume of transactions from international applications.
Additional costs of international applications and overtime	Registration	(288)	Increase in anticipated costs as per income review.
Contingency increased	Contingency	(103)	Includes high probability risks (refer to Table 9 in appendices).
Oct-22 Forecast Deficit		**447**	

Table 9 – Updated Contingency Fund

Description	Amount (£)	Notes
Forecasted Contingency	**278,530**	As at Sep-22
Allocated Spend:		
33 Stannary Street - Renovation	50,000	Provision (estimate to bring-up to standard for sub-letting)
Other costs	140,000	Under review
Increased Utilities costs	90,000	Provision
Additional Overtime	52,000	Provision (£100k full year budget vs £86k for YTD - run rate of £14k)
Additional recruitment costs	40,000	Related to filling senior posts
Audit fees - overrun costs	10,000	Expected as part of Nov-22 Actuals
Additional Contingency Required	**103,470**	In addition to the £279k
Total Contingency FY22-23	**382,000**	Contingency for Oct-22 Full Year Forecast

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Appendix 2 - Review of HCPC Investment Policy

Summary

1. HCPC's Investment Policy was last updated and approved by Council in September 2021. According to Clause 13.1, the Investment Policy will be reviewed by the Council every three years or more frequently if appropriate due to changes in circumstances. The Audit and Risk Assurance Committee requested a review in light of the economic environment.

2. Bearing in mind current market uncertainties and the fact that HCPC continues to have relatively low working capital reserves, the very low investment risk appetite and restricted class of approved investment types set out in the current policy seem appropriate. The Finance Team will work to ensure that, within the policy, HCPC benefits where possible from higher interest rates available on bank depots and will rebalance our cash holdings in line with the 67% threshold set by the policy.

3. ARAC and People and Resources Committee (PRC) considered the review of the policy in November 2022. Both Committees agreed to recommend that the Council reconfirm the existing policy. The minutes of those meetings are on the Council's December 2022 agenda to note.

4. The Council is asked to:

   a) Note the ARAC and PRC consideration of the review of the policy and recommendation it should remain in place.

   b) Agree that the current policy should remain in place.

INVESTMENT POLICY

1. Introduction

1.1. The investment policy is part of HCPC's corporate governance framework, and is consistent with our legislation and our strategic intent. It is also consistent with HM Treasury's guidance for the financial management of public bodies[1]. The policy sets out limits on the types of asset in which HCPC funds may be invested, together with processes for decision making, authorisation and reporting.

1.2. This policy applies to all those persons involved in investment activities for or on behalf of the HCPC.

2. Responsibilities

2.1. Council is responsible for approving the policy and monitoring investment performance. The Executive is responsible for advising Council on the policy.

2.2. Investments under the policy will be approved by the Chief Executive or the Executive Director of Corporate Services.

3. Legislation

3.1. The HCPC's governing legislation does not specify the types of investment we may hold, but gives an implied power to invest[2].

4. Objective and definition of investments

4.1. The objective of any investment is to achieve a financial gain in the form of income and/or capital appreciation. Hence investments are assets that are not required for immediate operational purposes and are held for the purpose of capital appreciation and/or income generation. Normally, the greater the potential gain, the greater the risk of capital loss, so investors need to be clear on the degree of risk they are willing to accept ("risk appetite").

4.2. The HCPC's investment policy provides the framework for the management of funds that are surplus to immediate requirements. The objectives of the policy, in order of priority, are

- to ensure that our funds are held safely;
- to ensure that we have sufficient liquidity to fund our operations; and
- to achieve a return on surplus funds.

[1] https://www.gov.uk/government/publications/managing-public-money

[2] *Health and Social Work Professions Order 2001, SI 2002 no 254, Schedule 1, Part 1, Section 16:* Subject to any provision made by or under this Order, the Council may do anything which appears to it to be necessary or expedient for the purpose of, or in connection with, the performance of its functions.

5. Main categories of investment

Equities

5.1. Held primarily in the expectation of capital appreciation. Can also produce income via dividends. Can be held directly in individual companies, or indirectly in funds. Listed investments are liquid, in that they can be sold instantly. High risk, since capital value is subject to performance of the individual company, and companies in the same sector, and the economy in general.

Investment property[3]

5.2. Held for rental yield and in the expectation of capital appreciation. Can be held indirectly via funds. Directly held investment properties have high transaction costs and are extremely illiquid: likely minimum 6 months from decision to sell to receipt of proceeds. High risk, since capital value is subject to condition of the property, changes in the surrounding area, and the economy in general.

Corporate bonds

5.3. Held primarily for interest yield. The redemption value and the interest payments are fixed, except in the event of default, so the yield to maturity on a high quality bond is reliable. But capital gains or losses in the period before maturity are possible because bond prices move in response to changes in the market rate of interest and, in the case of lower quality bonds, the perceived risk of default by the borrower. The longer the period to maturity, the larger the possible price movements and the higher the risk. Listed bonds are liquid.

UK government issued bonds, known as gilt edged securities

5.4. Held for interest yield or as a store of value. The redemption value and the interest payments and therefore the yield to maturity are virtually certain. Capital gains or losses in the period before maturity are possible because gilt prices move in response to changes in the market rate of interest. The longer the period to maturity, the larger the possible price movements and the higher the risk. Gilts are liquid. Short dated gilts are therefore the lowest risk sterling denominated investment[4].

[3] HCPC's freehold properties in Kennington are operational, not investment assets.
[4] Following Brexit, the UK government no longer has the highest possible credit rating, but its credit rating is higher than that of any commercial bank. Several foreign governments have higher credit ratings than the UK government but a foreign government bond would be inappropriate because of exchange rate risk.

Bank deposits

5.5. Held for interest yield. No risk of capital loss except in the event of the failure of the bank[5]. Liquidity depends on the length of the deposit and the terms. Some fixed term deposits can be redeemed early on payment of an interest penalty. The lowest risk category of investment.

6. Credit ratings

6.1. The risk level of bank deposits and bonds is assessed by credit ratings agencies. The three main agencies are Standard & Poor's, Moody's and Fitch. They use similar scales, ranging from AAA, which is the judged to be the lowest risk of default, to C. Instruments rated BBB- or higher by S&P or Baa3 or higher by Moody's are referred to as "investment grade" – that is, deemed suitable for investment by banks.

7. HCPC's risk appetite in relation to investments

7.1. The Council have agreed that HCPC's risk appetite in general should be measured. We are funded through registrant fees and we have a responsibility to ensure we invest cautiously to minimise loss while maximising benefit. We accept that investments may be long term and take time to deliver rewards, appropriate benefit realisation monitoring is required to mitigate risk in investments.

7.2. Factors affecting our risk appetite specifically in relation to investments are discussed below.

7.3. Over the historical long term, investments in equities and property have produced positive returns in excess of the returns available from bank deposits or bonds. Therefore a risk neutral investor with funds available to invest for the long term would normally choose to invest at least partly in one of those asset classes.

7.4. HCPC's costs are funded by fees charged to registrants. Positive returns on investments via capital gains and/or income would make a contribution towards those costs, and may limit the need for fee increases. Conversely, investment capital losses could impact on operations and/or lead to fee increases.

7.5. However, registrants and other stakeholders are likely to place much more weight on a capital loss which causes a fee increase or a reduction in HCPC's operations than they would on a capital gain of the same value. We do not budget for significant investment income so we are not dependent on it to fund

[5] The UK has a deposit insurance scheme, the Financial Services Compensation Scheme, but it protects deposits up to £85,000 made by individuals and small companies, so the HCPC is not covered.

operations. Therefore our risk appetite in relation to investments should be very low.

8. Investment planning horizon

8.1. Although equities and properties have historically performed well over the long term, they can be volatile over the short term. Investors are therefore normally advised to invest in equities or property only if they can afford to take a long term stance. Because of the cyclical nature of registrant renewals, we have peaks and troughs in our cashflow, but we do not have a large permanently investable fund. This is a further reason why equities and property are not appropriate investments for HCPC.

8.2. Investment in government bonds could be construed as contravening paragraph 6.18 of Managing Public Money. As a public sector body associated with the Department of Health and Social Care and part of the department's accounting group, HCPC investing in UK government bonds could be construed as the government investing in itself.

9. Permitted classes of investment

9.1. Given a very low risk appetite and relatively short term investment planning horizon, the only permitted classes of investment are sterling bank deposits with terms of up to 24 months.

9.2. Our banks must be UK registered and must have long term credit ratings of at least A- from Standard & Poor's and A3 from Moody's[6]. In order to reduce our exposure to an individual bank, no more than 67% of total cash will be held under one banking licence at any time.

10. Ethical considerations

10.1 Investment policies often include an ethical criterion applying to the companies in which investments can be made.

10.2 This policy only allows for investments to be made in UK registered banks with a long term credit rating of at least A- from Standard & Poor's and/or A3 from Moody's. The banks with which we place funds on deposit will lend our funds (mixed with those of all their other depositors) to a very large number of borrowers in a very wide range of industries. All large UK registered banks may well be directly or indirectly involved to some degree in lending which could be challenged on ethical grounds, and full disclosure as to their lending portfolio is limited. So, for practical reasons, this policy does not require an ethical criterion

[6] We currently bank with Barclays (rated A- (Negative) by S&P, A1 (Negative) by Moody's), Lloyds (A and A1 respectively), Natwest (owned by Royal Bank of Scotland: BBB+ and A3) and Santander (Santander UK is rated A (Negative) and Aa3 (Negative)).

to be applied to the choice of banks with which we place funds on deposit.

11. Decision making process

11.1 Investments in bank deposits will be proposed by the Finance department based on cash flow forecasts and approved by the Chief Executive or the Executive Director of Corporate Services. Because of the low risk and straightforward nature of these bank deposit investments, external professional advice is not required.

12. Benchmarking and reporting

12.1 The target rate of return on investments is that interest earned, as a percentage of average cash and investment balances, should equal or better the Bank of England base rate. Including cash balances in the denominator incentivises the Finance department to make best use of available funds, within the policy and subject to the overriding requirement that cash must be available to pay operational costs as they fall due.

12.2 The actual return will be calculated annually and reported to the Council as part of the annual budget setting process.

13. Review of the policy

13.1 This policy will be reviewed by the Council every three years, or more frequently if appropriate due to changes in circumstances.

September 2021