

Finance and Resources Committee- 19 March 2013

Financial Strategy

Executive summary and recommendations

Introduction

HCPC draft financial strategy is attached as Appendix 1

Decision

The Committee is asked to;

- a) review and approve the financial strategy
- b) recommend the strategy for approval by the Council.

Background information

None

Resource implications

None

Financial implications

None

Appendices

Financial Strategy

Date of paper

7 March 2013

Financial Strategy 2013/2018

January 2013

Contents

- 1.0 Executive summary
- 2.0 Purpose of a financial strategy
 - 2.1 Means of achievement
 - 2.2 Organisational planning
 - 2.3 Key assumptions
- 3.0 Monitoring and delivering the financial strategy

1.0 Executive Summary

The purpose of HCPC's financial strategy is to ensure that adequate financial resources are available to support the strategic objectives of the organisation.

The strategic objectives as set out in HCPC's Strategic Intent 2012/2017 are:

1. To maintain, review and develop good corporate governance
2. To maintain, review and develop efficient business process throughout the organisation;
3. To increase understanding and awareness of regulation amongst all stakeholders;
4. To ensure that the organisation's work is evidence based;
5. To be proactive in influencing the wider regulatory policy agenda; and
6. To ensure that our approach to regulation takes account of differences between the four countries.

The management accounting processes, including the annual approved budget and the 6 month reforecast, provide the position from which projections can be made to give an overall forecast of income and expenditure levels for the coming years and to provide a foundation for the support of the financial strategy.

On a monthly basis we compare actual operational numbers with our financial forecasts and analyse the variances.

The projections include prioritising spending plans, considering the financial pressures and looking at existing expenditure to identify efficiency savings to ensure that we continue to provide value for money and maintain adequate cash balances.

We follow strict internal control procedures which are subject to audit, both as a whole by the external auditors and in specific areas by the internal auditors as part of their annual programme.

It is necessary to maintain a minimum level of reserves to provide working capital and act as a contingency to meet any unforeseen needs. The Reserves Policy is approved annually by Council and the current policy is for HCPC to maintain a reserves level that is a minimum of 3 average months budgeted operating expenses. The cash position is compared graphically against the reserves policy level on a monthly basis and the annual cash flow forecast also refers to the policy level. Reserves levels and the ability to pay creditors by due dates are covered in Section 15 "Finance" of the HCPC Risk Register.

The resources available to the HCPC are limited to the registration income received. The amount of registration income depends on registrant numbers and any new professions which we are asked to regulate, and the level of the fees. Projections of financial position are prepared annually covering the next 5 years,

based upon the operational registrant numbers forecast. These indicate whether a fee increase will be required, how much that needs to be and when it will be required.

2.0 Purpose of a financial strategy

The overall objective for the financial strategy is to work out how the HCPC wants to structure and manage its finances, looking forward over a five year period and to ensure this fits with and supports the objectives. The key financial objectives are:

- To ensure the long term financial viability of HCPC
- To secure and manage the financial resources generated through a supporting fee strategy, to deliver the organisation's strategic objectives.
- To provide value for money services
- To maintain the level of reserves set out in the reserves policy.
- To ensure all resource allocation is policy led and based on agreed priorities.
- To ensure that registrant fee increases are kept to a minimum, but if required are regular and small.
- To prioritise capital investment to deliver our infrastructure needs

2.1 Means of achievement

HCPC needs finance systems and internal controls which are capable of recording and analysing activity and securing the organisational growth for the medium term. A proposed financial systems review in 2013 will cover Sage, PRS and the Suppliers' Database but will not include the transactions through NetRegulate, which will be considered as part of the registration system review.

Our tendering and procurement policy is designed to follow best practice and ensure that terms and timing are secured to best advantage. There is a requirement to retender large contracts every 4 years which allows terms of trade to be reconsidered and removes any complacency in supplier relationships. For our expenditure over the spending levels laid down by The Public Contracts Regulations 2006 of the European Communities Act 1972, which implements the relevant European Union Directives, we follow the procedures that have been set by the Regulations and Directives. We tender via the Official Journal of the European Union (OJEU). A dedicated procurement specialist is currently being recruited to improve the expertise in this area.

Our 5 year plan is designed to show an indicative annual financial outturn based on the forecast of registrant numbers and a number of financial assumptions. This model can be flexed to show different scenarios and assists management in making recommendations to Council concerning, for example, increases in registration fees and partners' daily allowances.

It is our policy to directly invest cash reserves in products offered by financial institutions with a Standard and Poor's Credit Rating of at least AA minus (Moody's Credit Rating of AA2) and where the interest rates are market-competitive.

Our current strategy is to maintain our agreed reserves level in cash and to build reserves for major projects such as a new registration or finance system or additional premises and development work. We use bank deposit accounts for medium term investment to secure the maximum interest return.

2.2 Organisational Planning

Good business planning requires the identification and assessment of risk and the making of assumptions about the future. The financial strategy must link with the other key strategies of HCPC.

The medium term approach enables HCPC to take a pro-active stance to changing circumstances. The risk assessment process should highlight all potential factors that might impact on its aims and objectives and allow preparatory measures to be effected early, managing the risk and either minimising any detrimental outcome or maximising the benefit that can be gained.

2.3 Key Assumptions

To be able to produce a meaningful financial plan, a number of assumptions have to be made and regularly kept under review. Economic factors such as inflation and interest rates as well as the fee policy and pay increases, both for permanent establishment and day rates for partners, legal assessors, Council and Committee members impact on the HCPC's financial position.

3.0 Monitoring and delivering the financial strategy

We need to ensure that strong financial management enables the achievement of financial stability to deliver the priorities of HCPC within our overall budget resources.

The budget setting process is established to ensure that departmental budgets are approved as part of the overall budget and financial plan. Departmental budgets are drawn up late in the calendar year and run through a review process culminating in a review meeting with all budget holders in January, where each budget holder presents the departmental budget and faces questions and challenges from the peer group and the Chief Executive. The Council Chair and

the Chair of the Finance and Resources Committee (F&R) attend this meeting as “participating observers”. This is then followed by a presentation of the headline first draft budget to (F&R) in the January meeting, with a final detailed budget presented to F&R at its March meeting with a recommendation for Council to approve the budget at its March meeting.

A Finance Report is presented to each meeting of F&R. This includes the monthly management accounts, incorporating an analysis of variances to explain why they have occurred and whether they are simply a timing difference or a permanent variance, comparing the actual results with the budget. Monthly cash flow data and a comparison with the annual cash flow forecast is included in the Finance Report as well as a report on where cash resources are being held and the rates of interest and lock-up times. At the half year a re-forecast is carried out and the monthly management accounts thereafter are compared to the re-forecast.