Council

22 September 2021

Finance Report

Executive Summary

This quarterly report presents the financial position and activities as at the end of June, with a commentary on the major variances, risks and opportunities.

The operating deficit for the period was (£690k) compared a budgeted deficit of (£2,013k). Income is £369k favourable to budget and operating expenditure is £954k favourable to budget. The forecast outturn for fee income is expected to exceed budget, with a net opportunity (after taking account of related costs) of around £1m, predominately driven by the increase in international applications.

The variance on expenditure principally relates to FtP, which is £803k favourable and Recruitment Costs which is £102k favourable. Because of the size of the timing differences in both income and expenditure and challenges with the baseline Q1 FtP budget, the reported figures at Q1 do not reflect the true financial position of HCPC.

Risk and opportunities

There are two principal risks to the approved budget:

- The financial implications of the decision to terminate the lease on 405 KPR; and
- Aligning the FtP operational requirements with the FtP budget.

Since the budget was agreed, a decision to terminate the lease on 405 KPR was made, with consequent refurbishment planned to repurpose part of 184/186 KPR for hearing suites. A full evaluation of the costs and savings accruing to the current financial year has yet to be made. There is a separate paper on the costs associated with restructuring the operations of FtP Hearings as a result of the termination of the lease on 405 KPR.

The Q1 FtP budget was set by extrapolating costs from 2020/21 Q4 results. However, this quarter was not representative of true running costs. The Q1 FtP budget of £4,263k indicates an annual run-rate of £17,052k. The Q1 FtP Actuals of £3,460k indicates an annual run-rate of £13,840k. To stay within a £13m budget allocation, FtP would have to delay legal instructions and limit the number of hearings, which would increase the backlog of cases instead of decreasing it.

The main opportunity is in income, where renewals and international scrutiny fees are expected to exceed forecast by over £1m.

Budget 2022-23 timeline

Appendix 1 provides an outline of the proposed timeline to develop the 2022-23 budget and Corporate plan, including governance review and approval.

Financial Policies

Also appended to this report are two revised financial policies for approval. These have previously been considered by Committees for recommendation to Council and are:

1. Investment Policy – Appendix 2

The HCPC's Investment Policy was last updated in May 2017. The policy has been reviewed and the following changes have been made:

- Government bonds have been removed as an acceptable investment, in line with advice from DHSC and HM Treasury.
- Organisational changes have been reflected in the approvals.
- Bank credit ratings were reviewed.

This policy has been considered by the People and Resources and Audit and Risk Assurance Committees. Amendments requested have been incorporated.

2. Procurement Policy – Appendix 3

The Procurement Policy has been updated in light of the changes to the Public Sector regulations after Brexit. Other changes reflect the new organisation structure and include updates to the procurement process so it become more agile and clear. These are:

- The value thresholds and applicable procurement routes in line with the public Sector Regulations and the HCPC delegation of authority. These were reduced from five main threshold ranges to four and set up a clear threshold for small value orders, which is proposed to be up to £5.000;
- An updated list of the purchasing organisations that have framework agreements
- The inclusion of the Pre-Tender Market Engagement (PTME), as a procurement best practice to understand what the market has to offer.
- A new approach to the exceptional circumstances where the competitive tendering process may be waived, limiting it in terms of value and time.

The revised Procurement Policy has been considered by the Audit and Risk Assurance Committee and a verbal update will be provided.

Previous consideration	PRC considered the financial update as well as the Investment Policy at its meeting on 15 September 2021. The Committee agreed to recommend the Council approve the policy subject to an amendment which has is incorporated into the draft presented. The Audit and Risk Assurance Committee considered the revised Investment and Procurement Policy at its meeting of 16 September 2021. A verbal update on this discussion will be provided. The Council has previously approved the new presentation style of the finance report.

Decision	The Council is asked to: i. **Note** the latest management accounts position; ii. **Note** the timeline for the 2022-23 budget production; iii. **Approve** the revised Investment Policy; and iv. **Approve** the revised Procurement Policy.
Next steps	The key next steps are: • Review the operational and financial assumptions to create a financial forecast through until March 23; • Undertake sensitivity analysis based on different scenarios of assumptions; including o Assumptions for future fee rises; o Impact of the Estates Strategy; o Potential Operating Model Changes; and o Major projects
Strategic priority	5. Build a resilient, healthy, capable and sustainable organisation
Strategic Risk	5. The resources we require to achieve our strategy are not in place or are not sustainable.
Financial and resource implications	As described in the paper.
Author	Gordon Dixon, Finance Consultant Gordon.Dixon@hcpc-uk-org
Sponsor	John Barwick, Chief Executive and Registrar john.barwick@hcpc-uk.org

Quarterly Management Accounts 2021-22

1. Budget movements

1.1. Since the budget was agreed, a decision to terminate the lease on 405 KPR was made, with consequent refurbishment planned to repurpose part of 184/186 KPR for hearing suites. A full evaluation of the costs and savings accruing to the current financial year has yet to be made.

1.2. With the increase in the number of International Applications the ELT has approved the business case for additional Registration Staff to process the applications. The budget for International Assessors will also increase accordingly.

2. Income

2.1. The table below shows the breakdown of registration income for the year to date, with a projection to show forecast outturn.

2.2. International scrutiny fees assumed 3,833 applications this year. The number for Q1 was 1,430, with HEE and LAS actively recruiting for further applicants. Increased applications will also lead to increased renewal fees.

2.3. For non-registration income, the principal risk is that the GCC may elect to move out of our premises early. The maximum risk is 4 months' income foregone, which equates to £58k. There is a small upside opportunity in that the rent receivable may be renegotiated upwards.

Registration Income by Activity

Income by Activity	Actual YTD	Budget YTD	Variance YTD	Variance YTD %	Full Year Budget	Outturn Forecast
Graduate Registration Fees	580,271	316,926	263,345	83	1,493,230	1,480,101
Readmission Fees	27,486	47,152	-19,666	-42	166,717	160,373
Renewal Fees	5,759,353	5,887,722	-128,370	-2	23,159,399	23,267,663
International Scrutiny Fees	599,520	320,551	278,969	87	1,478,055	2,438,711
UK Scrutiny Fees	63,693	101,649	-37,956	-37	850,125	821,754
Registration Income	**7,030,323**	**6,674,000**	**356,323**	**5**	**27,147,526**	**28,168,602**

3. Operating Expenditure

3.1. Overview

Reported operating expenditure is £954k favourable to budget. However, as has been noted above, this figure is distorted by under accrued costs, with WIP in FtP legal costs alone accounting for £350k.

3.2. Staffing

3.2.1. As shown in the table below, average staff numbers were 14 below establishment, with 279 staff against 293 budgeted. FtP were 21 posts below the budgeted establishment, with delayed recruitment for 4 scheduling officers and 9 case managers, and other posts held vacant. Average headcount in registration was 6 higher than budget, due to 12 temporary staff being taken on for 10 weeks to assist with the higher volume of applications.

3.2.2. Note that as establishment budgets were devolved to departments on the basis of a resource envelope, no permanent savings can be identified from the underspend in Q1, as managers have discretion to vary their pay costs within their overall allocation.

3.2.3. The annual pay award was budgeted for at £126k, but cost £116k, yielding a £10k permanent saving which will be reflected in Q2.

3.2.4. Recruitment is £81k underspent, which is at least partly a timing difference, as there was a recruitment freeze and departments delayed recruiting to a number of posts until later in the year.

3.2.5. Training is £42k underspent and is to some extent linked to the delay in recruitment. The variance is split fairly evenly between organisational and departmental training.

HCPC Latest Headcount						
Department	**Original Budget**			**Q1 position**		
	Permanent	**Super-numerary**	**Total**	**Permanent**	**Super-numerary**	**Total**
Chief Executive	8		**8**	7	1	**8**
Governance	12		**12**	12		**12**
Policy	10		**10**	8		**8**
Communication	6		**6**	5	1	**6**
Professional Liaison	3		**3**	1	1	**2**
Fitness to Practise	115	17	**132**	86	25	**111**
Registration	54		**54**	54	6	**60**
Education	12		**12**	12		**12**
IT & Digital	17		**17**	14	3	**17**
Business Change	6	1	**7**	4	3	**7**
Finance	12		**12**	7	7	**14**
HR	11		**11**	10	2	**12**
Office Services	9		**9**	8	2	**10**
Total	**275**	**18**	**293**	**228**	**51**	**279**

3.3. Overheads (non-staffing)

3.3.1. IT non-pay expenditure is (£117k) adverse to profile. This relates to software support.

3.3.2. Office running/property costs are £85k underspent, with permanent savings on repairs and maintenance, cleaning materials, electricity and security. Some work was paused pending the evaluation of estates. Building refurbishment was based on a work plan which is changing, so an underspend on maintenance contracts is a timing difference. Outturn will be dependent on the costs associated with the estates programme. A substantial provision (£350k) for dilapidations was made in the 2020/21 accounts, and some of the work will be capitalised, meaning that only some of the costs will fall into the current year, but there is still a risk of overspending this budget.

3.3.3. Registration partner costs are (£85k) overspent due to the increased requirement for international scrutiny partners. There is a further £3.4k pressure on registration budgets as the cost of transcription services was not included.

3.4. Legal and professional

3.4.1. FTP professional and legal costs are reported as £721k underspent. Contracts with Kingsley Napley, Blake Morgan and Capsticks comprise the bulk of this spend. We are negotiating to receive monthly reports of work in process (WIP), as the cost of work performed but unbilled is reflected in the profiling of the budget. The cost of this WIP is estimated at £350k. (Work on the backlog cases given to all three firms has been unaffected.) The expectation is to be at least caught up in the remaining 3 quarters.

3.4.2. Education is £29k below forecast, of £14k relates to Visitors (timing difference in QA of investigations). £9k is slippage related to the upgrade of the Dynamics system.

4. Non-operating expenditure

4.1. Transformation costs for Q1 are over budget by £77k. This is driven by staff changes in the finance department and the delay in the implementation of the FtP K2 Nexus system.

5. Savings and efficiencies

5.1. The budget included £1.83m for additional income, reflecting the increased registrant base, the additional income due to a fee increase effective for professions whose renewal window opened in or after July, and additional scrutiny fees, especially from international applicants. It is currently forecast that this increase will be exceeded by a further £1m.

5.2. No cashable benefits have as yet been realised from the efficiencies identified in expenditure (see table below), and no new savings and efficiencies have been identified. The decision to leave 405 KPR will certainly save rent and utilities for 4 months, but the in-year costs may outweigh these longer-term benefits.

	Savings & Efficiencies		
	Permanent	One-off	Total
	£	£	£
Summary of Savings			
Office Services without exit of 405	-	(103,233)	(103,233)
Exit of 405	(62,450)		(62,450)
Training and Staff Recruitment	(250,000)		(250,000)
Corporate Directorate Savings	(11,000)	(54,000)	(65,000)
Regulation Directorate one-off savings		(17,252)	(17,252)
Registration Costs	(309,750)		(309,750)
Professional Practice and Insight Directorate Savings	(10,397)		(10,397)
Depreciation	(14,868)		(14,868)
Total Expenditure Savings	**(658,465)**	**(174,485)**	**(832,950)**

6. Capital

6.1. Capital spend in 2021/22 was £145k in Q1, which is £127k favourable to budget. As the table below illustrates, there has been slippage in non-project capital costs (£82k) as well as the CMS replacement project (£33k). There is no indication that the projects will be underspent over their lifetime, but there may be a permanent underspend within the current year.

Capital Report					
	2021-22				
	YTD Original Budget	YTD Actual	Total Original Budget	YTD Budget Variance	Budget Variance
	£	£	£	£	%
Information Technology	77,500	12,994	150,000	64,506	**83**
Office Equipment	17,500	0	70,000	17,500	**100**
Non Project Capital Costs	**95,000**	**12,994**	**220,000**	**82,006**	**86**
Reg Transformation and Improvement		(19,431)		19,431	**0**
Education Dynamic 365		4,279	50,000	(4,279)	**0**
FTP CMS Replacement - Phase 1&2	177,000	144,292	208,000	32,708	**18**
Data Platform		729		(729)	**0**
Reg Phase 3		2,566	500,000	(2,566)	**0**
Work Mobilisation					
Other Projects					
Total Major Projects	**177,000**	**132,436**	**758,000**	44,564	**25**
Total Capital	**272,000**	**145,430**	**978,000**	**126,570**	**47**

7. Cashflow and investments

7.1. The cash balance as at 30 June was £5,321k.

7.2. The cash policy is to maintain positive balances in all accounts. We are not, and do not forecast to be, in breach of this policy at any point during the year.

8. Reserves

8.1. HCPC general fund reserves opened in April at £2.896m. The budgeted deficit for the year is (£2.276m), which would give closing reserves of £620k. With income forecast to exceed target, but FtP costs likely to exceed budget and uncertainty around the in-year costs associated with estates moves, there are both pressures and opportunities which will impact on closing reserves.

Income and Expenditure

30 June 2021

Income by Activity	Year to date Actual	Year to date 2021-22 Budget	Year to date Variance v Year to date Forecast	Year to date Variance v Year to date Forecast %	Full Year Budget
Graduate Registration Fees	580,271	316,926	263,345	83	1,546,777
Readmission Fees	27,486	47,152	(19,666)	(42)	210,659
Renewal Fees	5,759,353	5,887,722	(128,370)	(2)	23,855,600
International Scrutiny Fees	599,520	320,551	278,969	87	2,027,303
UK Scrutiny Fees	63,693	101,649	(37,956)	(37)	885,771
Registration Income	**7,030,323**	**6,674,000**	**356,323**	**5**	**28,526,110**
Other Income	3,205	5,000	(1,795)	(36)	30,000
Investment Income	470	500	(30)	(6)	3,000
Rental Income GCC	43,750	29,167	14,583	50	117,000
Total Income	**7,077,748**	**6,708,667**	**369,081**	**6**	**28,676,110**
Chair	18,221	18,103	(118)	(1)	72,410
Chief Executive	307,450	333,539	26,089	8	1,041,118
Council & Committee	53,895	61,030	7,135	12	244,120
Communications	169,537	183,489	13,952	8	733,956
Data Intelligence Team	0	0	0	#DIV/0!	
Education	147,658	176,863	29,206	17	678,254
Office Services	555,855	672,173	116,318	17	2,652,482
Finance	229,800	249,852	20,053	8	881,227
Fitness to Practise	3,460,146	4,263,036	802,890	19	13,000,000
Human Resources	282,948	388,001	105,053	27	1,311,219
Human Resources Partners	60,420	58,033	(2,387)	(4)	232,132
IT Department	795,879	651,752	(144,126)	(22)	3,009,898
Major Projects	48,412	0	(48,412)	#DIV/0!	0
Project managers	84,023	153,977	69,954	45	475,446
Policy	117,392	154,219	36,826	24	683,994
Professional Liaison Team	43,570	39,946	(3,624)	(9)	233,207
Quality Assurance	(4)	0	4	#DIV/0!	0
Registration	770,539	681,932	(88,607)	(13)	2,793,358
Secretariat	155,910	155,408	(501)	(0)	621,633
Depreciation	261,964	276,428	14,464	5	1,090,844
PSA Levy	195,164	195,162	(2)	(0)	780,648
Apprenticeship Levy	8,777	8,498	(280)	(3)	33,990
Operating expenditure	**7,767,555**	**8,721,441**	**953,886**	**10.9**	**30,569,937**
Operating surplus/(deficit)	**(689,807)**	**(2,012,774)**	**1,322,968**		**(1,893,827)**
Other exceptional expenditure					
Transformation costs	120,947	197,580	76,633	12	382,580
Corporation Tax	0	0	0		0
	120,947	**197,580**	**76,633**	11	**382,580**
COVID 19 Changes					
Grant Costs		0	0	0	0
Grant Income	2,987	0	2,987	0	0
	2,987	**0**	**2,987**		**0**
Revaluation					
Revaluation on Freehold land and buildings	0	0	0		0
	0	**0**	**0**		**0**
Total surplus/(deficit)	**(807,766)**	**(2,210,354)**	**1,402,588**		**(2,276,407)**

9. Risks and Opportunities

A. 405 KPR and implications on FTP Hearings

The options for FTP Hearings as a result have different implications on the budget even though the cash implications may be similar.

A provision for the dilapidations for 405 KPR has been included in the 2020/21 accounts. The I&E for 2021/22 will be impacted by any variation once the actual cost of the dilapidations is crystalised. The current cashflow incorporates the payment of the dilapidations provision in December 2021.

The current plans are to remodel 184/186 KPR to allow for hearings capacity. The remodelling costs would be capitalised and depreciated in line with HCPC accounting policies. This would impact the depreciation budget for 2021/22. The alternative of using external spaces for a number of physical hearings is also being considered and will be required during the remodelling period. These costs will directly impact the FtP external meeting room hire expenses. The forecast of the mix of internal and external hearing capacity and the timing of its use has to be completed prior to a revised phased budget being finalised.

B. Aligning the FtP operational requirements with the FtP budget

The original proposed budget to deliver the FtP Improvement Plan put to PRC in February 2021 was £14.7m. With additional savings, such as increasing the assumption on use of virtual hearings and potential timing differences, this figure could be reduced to circa £14.3m. This proposed budget figure was based on a number of key assumptions provided to the Finance Team by the Head of FtP.

Ahead of PRC in March and Council ultimately approving the full year budget in July there was a priority given to reducing costs across the organisation in order to have a break-even position in FY2021/22 by the then Executive Director of Corporate Services. To support this cost reduction aim the number of final hearings budgeted for was reduced from 40-45 per month to 35 per month. This was on the assumption that the average rate of new FtP concerns is circa 110 per month (which requires the need to complete 400-435 final hearings per year not to increase the volume of cases in progress (i.e. this would not reducing the backlog)). The cost for delivering this ‘standstill’ (in relation to hearings) FtP workplan was circa. £13.5m – £13.8m.

The FtP budget set of £13m enabled HCPC to almost balance the budget but will result in an increase in the number of cases awaiting a final hearing. An analysis of the working papers from the Finance team to support the £13m budget showed that it was calculated by using the 2020-2021 FtP outturn, removing the non-recurrent costs and then adding in the new expected non-recurrent costs. In a steady state this would be a good cross-check.

However, 2020-2021 was not steady state with there being circa. 3 months with a reduced number of ICPs and 6 months with very few final hearings. As a result, the £13m budget has these reduced baseline volumes of ICPs and Final Hearings built into the budget. This also does not align the budget planning assumptions (e.g. number of ICPs and hearings etc.) provided by the Head of FtP as part of the budget setting process.
The Q1 actuals for FTP show a spend of £3.46m. This figure doesn’t include circa. £0.33m for FTP Case Preparation Legal Fees where the method of invoicing by the

legal firms was changed some cases were only invoiced at milestones rather than monthly WIP. The finance team did not change the accrual process. Therefore, the real spend for Q1 was circa. £3.79m which is a run- rate of circa £14.78m which is in line with the operating plan to deliver the FTP improvement plan.

The FTP budget was finalised by the Executive Director of Corporate Service effectively reduced the £14.3m required to deliver the operational plan to the £13m which provided a balanced overall budget for the HCPC. The primary impact of this will be a delay in hearings.

The £13m budget is circa £500-800k short of the standstill position required by hearings and is due to incorrect assumptions being used by the Finance team when finalising the budget.

The FtP Case Backlog was built up over several years when balancing the budget was given a higher priority to case progression, i.e. the number of Final hearings was limited by the budget rather than the number of Hearings required to conclude the cases in a timely manner. This built a contingent liability that will be realised as the backlog of cases is concluded. Reducing the FtP case backlog will result in HCPC setting deficit budgets, in the short-term, using the cash from pre-paid registrant fees to fund the deficit. This will mean that HCPC will need to set surplus budgets in the medium term to rebuild the reserves.

C. Increase in International Scrutiny Fees and Related Fee Income

The Registration budget and the HCPC registrant forecast is based upon receiving 3,833 international applications this financial year. In Q1, HCPC received 1,430 international applications which is 36% more than forecast.

The NHS is continuing to recruit internationally and with the lifting of travel restrictions it is expected that international applications will continue to be received in quantities above the budgeted amount.

A working group has been established and will be reviewing the Registrant forecast numbers.

Appendix 1 - Timetable for 2022/23 Budget

Beginning of October	Budget setting process kicks off
2 November	ELT review first draft of budget
Early November	Internal meeting – all budget holders meet with ELT to present workplans and budgets for 2022-23 Drafting Corporate Plan 2022-23 content commences
24 November	**Council seminar** - to show the 5 year plan and get feedback / buy in
End of 2021	By the close of the calendar year we aim to have developed our income projections (including sensitivity analysis for income and FtP volumes) and a budget in draft
3 February 2022	**Council meeting** - Corporate Plan 2022-23 draft content discussion
Early February 2022	**People and Resources Committee** - first review of budget
8 March 2022	**People and Resources Committee** - recommend budget to Council
24 March 2022	**Council meeting** - Approve budget and Corporate Plan 2022-23

Appendix 2

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.

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[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].

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

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[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.

[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 <u>not</u> covered.

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 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 class 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 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

[6] We currently bank with Barclays (rated A/A-1 by S&P March 2021), Lloyds (rated A+/A-1 by S&P June 2020), Natwest (rated A-2/BBB by S&P July 2021) and Santander (rated A/A-1 by S&P June 2020).

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

Appendix 3

Procurement Policy

1. Introduction

1.1. The Procurement Policy is approved by the Council and is consistent with the Financial Regulations and the Scheme of Delegation.

1.2. The policy applies to the purchase of all goods, services and works by or on behalf of the HCPC.

1.3. The policy applies to all those involved in procurement activities for or on behalf of the HCPC (referred to as Persons), which may include Council and Committee members, Partners or other suppliers as well as HCPC employees.

1.4. The policy sets out the standards which Persons must adhere to in relation to procurement activities. Procedures setting out the application of the policy are included within the Procurement Manual on the Finance Department intranet site.

1.5. The policy aims to ensure that all procurement activities conducted by the HCPC:

- achieve good value for money;
- are conducted in a fair, objective and transparent manner;
- are compliant with relevant law and regulation;
- effectively manage commercial risk; and
- meet the short and long-term objectives of the business.

2. Responsibilities

Budget holders

2.1. Budget holders must familiarise themselves with the policy and the related procedures. Where budget holders have delegated responsibility for procurement activities to members of their teams or other Persons, the budget holder must ensure all persons involved in the procurement are also familiar with the policy and the procedures.

2.2. Budget holders are responsible for ensuring that all procurement funded from their budgets complies with the policy and achieves good value for money.

Relationship owner

2.3. The relationship owner is normally the main HCPC contact with the supplier. The relationship owner can be the budget holder or the role can be delegated by the budget holder. The role of the relationship owner is to manage the supplier's performance. In particular, in accordance with HCPC's Information Security Management System manual, the relationship manager is responsible for the ensuring that the supplier has appropriate data security controls in place and that the supplier's responsibilities in relation to data security are documented within the contract[7].

Tender panel members

2.4. Members of a tender panel are responsible for familiarising themselves with the policy and the related procedures, and evaluating bids in accordance with the policy. Guidance on the composition of the tender panel is included in the Procurement Manual.

Chair of the Council, Chief Executive, Executive Directors

2.5. The Chair of the Council, the Chief Executive and the Executive Directors are responsible for familiarising themselves with the policy and related procedures as they approve and sign off the high value commitments.

Purchase Order authoriser or contract signatory

2.6. The act of authorising a Purchase Order in the HCPC purchasing system or signing a paper contract binds HCPC to the contract. The person who authorises the PO or signs the contract is responsible for obtaining prior assurance that this policy and the associated procedures have been followed. If the PO authoriser/contract signatory has not been involved in the procurement he/she should ask for briefing before signing in enough detail (relative to the value of the procurement) to understand the purpose of the procurement and the rationale for the selection of the supplier.

The Procurement function within the Finance Department

2.7. Procurement is responsible for advising Council, the Executive Management Team and budget holders on the policy, and for supporting HCPC's procurement activities.

3. Compliance with the policy

3.1. Our procurement is subject to audit by both our internal and external auditors. The Procurement function within Finance will also periodically check compliance with the policy. The policy will be covered within the induction process for budget holders. Breaches of the policy may be regarded as misconduct or gross misconduct.

4. Legislation

4.1. As a public body, the HCPC is subject to the Public Contracts Regulations 2015 (the Regulations) as updated or amended from time to time. Procurements with a total value greater than the thresholds which apply to the Regulations must be carried out in compliance with the Regulations and applicable case law.

[7] See HCPC ISMS Document A15

4.2. The 2015 Regulations incorporate UK-specific requirements designed to improve the access of small businesses to public sector contracts, known as the “Young Reforms”. Other legislation also applies; see section 9 below.

5. Value thresholds

5.1. Under the Regulations and this policy, requirements vary according to the value of the contract. The thresholds in this policy are stated including VAT, because HCPC is not VAT-registered so cannot recover any VAT. The thresholds in the Regulations are stated excluding VAT, but the approximate VAT-inclusive value is shown in table 2.

5.2. The value of a contract must be measured as the aggregate amount HCPC expects to pay the supplier over the lifetime of the contract. Contracts must not be artificially disaggregated or shortened in order to avoid the application of the Regulations or this policy. If there is any doubt in respect of the value of the contract, Procurement must be consulted.

5.3. The level of authority required to sign the contract varies according to whether the contract was anticipated and specified within the annual budget, or whether the contract is for a new supply of goods or services that was not anticipated within the budget. Each year’s budget will include a list of contracts that are expected to be tendered or retendered during the coming year. Contracts that were included on this list can be signed at a lower level of authority than contracts which were not anticipated within the budget.

5.4. The role of the person signing the contract is to ensure that our procurement policy has been complied with. Unless there is no evidence that the policy has not been complied with, the contract signatory should accept the choice of supplier.

5.5. Procedures including flowcharts and templates are included within the Procurement Manual on the Finance Department intranet site.

5.6. In the case of any uncertainty the application of this policy or which procurement route should be followed, advice should be sought from Procurement.

Table 1 Procurement routes and value thresholds

Total estimated contract value including VAT[8]	**Method of selection**	**Internal authorisation level – who can approve the selection of the supplier**	**Contract listed within budget / Procurement Plan?**	**Method of acceptance / Commitment Authorisation**
£0 - £5,000	Competition with evidence of comparison of at least two suppliers, or use of a framework agreement	Budget holder, HoF, Executive Director,	N/A	Approved PO
£5,001 - £25,000	Competition with minimum of three written quotations, or use of a framework agreement	Budget holder, HoF Executive Director,	N/A	Contract signed by Executive Director
£25,001[9] - £150,000	Use of a framework agreement, or formal written tender in compliance with the UK Public Sector Procurement Regulations	Tender Panel makes final selection. Executive Director	Yes	Contract value up to and including £100k, contract signed by the Executive Director Contract value over £100k, contract signed by the Chief Executive.
			No	Contract signed by Chief Executive with the approval of the Chair of Council
> £150,001	Use of a framework agreement, or formal written tender in compliance with the UK Public Sector Procurement Regulations	Budget holder must involve Procurement at the outset and throughout the process. Legal advice required if a framework agreement is not used Tender Panel makes final selection.	Yes	Contract value up to and including £250k, contract signed by the Chief Executive.
				Contract value over £250k, contract signed by Chief Executive with the approval of the Chair of Council
			No	Contract signed by Chief Executive with the approval of the Chair of Council

[8] This is the aggregated value (i.e. the total contract value, not just an annual value).

[9] Note that the 2015 Regulations introduce new requirements that apply when a procurement opportunity with a value above £25k is advertised. If a budget holder intends to advertise a procurement opportunity through any channel, he/she must first check with Procurement

Table 2 UK threshold values as at January 2020

Type of Contract	Threshold excluding VAT	Approx equivalent incl VAT
Services & Supply (includes supply, lease, rental or hire purchase of goods, excluding employment contracts)	£189,330	£227,196
Works (building & engineering, including capital **works)**	£4,733,252	£5,679,902

6. Framework agreements

6.1. Framework agreements are contracts that have been set in compliance with the Public Contracts Regulations. The UK government's procurement service, Crown Commercial Services (formerly the Government Procurement Service), has established a wide range of framework agreements covering almost all the goods and services bought by the public sector.

6.2. Typically, a framework agreement consists of a menu of goods or services or pre-agreed specifications and prices, provided via a standard set of terms and conditions. There may be a number of different suppliers providing the goods and services, but sometimes there is only one supplier.

6.3. HCPC policy is to use framework agreements for all procurements above the relevant threshold values. Use of framework agreements is also strongly encouraged for procurements below the thresholds. The reasons for using framework agreements are:

- We benefit from prices that have been negotiated using the buying power of all central government. We are unlikely to be able to negotiate better prices acting alone
- Terms and conditions have similarly been negotiated using central government buying power and are therefore favourable to the customer, e.g. reasonable notice periods, reasonable supplier warranties, full data protection and FOI commitments by the supplier, appropriate intellectual property rights. It is therefore normally not necessary to engage our own legal advice on framework contracts
- We can have confidence that suppliers will have the capacity and the systems and processes to deliver good quality services consistently
- The framework procurement process is much quicker than conducting our own tender process and, because we do not need to take our own legal advice, it is much cheaper
- The framework procurement process is compliant with public sector procurement legislation, and is recognized as good practice in terms of value for money, and is therefore low risk.

6.4. Procedures within the Procurement Manual on the Finance Department intranet site set out the steps to be followed to enter a contract using a framework agreement.

6.5. The following a purchasing organisations have set framework agreements covering a wide range of goods and services:

6.5.1. Crown Commercial Service – CCS - https://www.crowncommercial.gov.uk/
6.5.2. Eastern Shires Purchasing Organisation – ESPO - https://www.espo.org/
6.5.3. HealthTrust Europe – THE - https://www.healthtrusteurope.com/
6.5.4. London Universities Purchasing Consortium – LUPC - https://www.lupc.ac.uk/
6.5.5. North East Procurement Organisation – NEPO - https://www.nepo.org/
6.5.6. Southern Universities Purchasing Consortium – SUPC - https://www.supc.ac.uk/
6.5.7. Yorkshire Purchasing Organisation – YPO - https://www.ypo.co.uk/

7. Value for money

7.1. Value for money is the optimum combination of whole life costs and quality, on appropriate contractual terms and with appropriate allocation of risk, to meet the HCPC's business needs and requirements.

7.2. HCPC's procurement must achieve good value for money. This is partly about getting the right price, but it is more important to buy the right product. See also section 11 below.

7.3. The extent of competition required depends on the value of the procurement, as set out in Table 1. For procurement of goods or services costing less than £5,000, the potential cost saving achieved from a competitive procurement process is unlikely to be significant and may be outweighed by the extra staff time involved in arranging a competitive process, so competition is not required below the £5,000 threshold but is advisable to check the market price or a price comparison between two suppliers.

7.4. To ensure value for money, contracts need to be retendered at appropriate intervals. For goods and services, contract terms should normally not exceed four years including any options to extend the initial term.

7.5. Prices under framework agreements (see section 6 above) are normally fixed but they meet our requirement for competition because the framework prices have been established through a competitive process.

8. Fairness, objectivity and transparency

Ethics

8.1. All Persons involved in procurement activities are expected to behave ethically at all times. All Persons shall be open, honest, fair and impartial in their dealings with suppliers. In particular Persons must familiarise themselves with and comply with the Anti-Bribery, Gifts and Hospitality Policy and the requirements of the Bribery Act 2010.

8.2. Anyone involved in a procurement who has current or past business or close personal relationships with, or close friends or relatives employed by, potential bidders for HCPC contracts must disclose their interest to Procurement at the outset and may be excluded from the procurement process completely or restricted to a limited role.

Freedom of Information

8.3. The HCPC is subject to the Freedom of Information Act 2000. This means that anyone who makes a valid request for information held by the HCPC will be entitled to receive it - unless all or part of that information can and should justifiably be withheld under the exemptions contained within the Act. All tenderers should be made aware at the beginning of the process that this is the case.

8.4. Suppliers may seek to prevent HCPC from disclosing information relating to their goods or services or pricing under the exemptions in the Act for confidential or commercially prejudicial information (sections 41 and 43 of the Act). In those cases, advice should be sought from the Information Governance Manager.

Equality and Inclusion

8.5. The HCPC conducts business in accordance with the Equality Act 2010, which requires the HCPC to ensure that it does not discriminate on the grounds of age, disability, gender reassignment, marriage & civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

8.6. The HCPC will require suppliers, where appropriate, to be aligned with HCPC's corporate objectives for equality and inclusion as outlined in HCPC's Equality & Diversity Policy.

8.7. The HCPC will require suppliers and third party contractors, where appropriate, to adhere to any specific obligations or commitments as outlined in the HCPC's Welsh_Language_Scheme.

Regularity and propriety

8.8. Regularity and propriety are standards for the management of public money, which HCPC as a public body must meet. Regularity is defined as: compliant with the relevant legislation (including EU legislation), delegated authorities and following the guidance in *Managing Public Money* published by HM Treasury. Propriety is defined as: meeting high standards of public conduct, including robust governance and the relevant parliamentary expectations, especially transparency[10].

[10] Definitions taken from *Managing Public Money* https://www.gov.uk/government/publications/managing-public-money

8.9. Regularity is therefore a largely objective standard which will normally be met by application of this policy and the associated procedures.

8.10. Propriety is a subjective measure. Although HCPC does not normally receive funds voted by parliament, we are accountable to parliament and must manage our finances to the same standards as other public bodies. To assess whether a given procurement meets the propriety standard, budget holders should ask themselves "could I confidently and openly explain this to registrants, the media and parliament as a good use of registrants' money?" On the other hand, if budget holders find themselves thinking more negatively, e.g. how they could justify or defend the expenditure as a valid use of registrants' money, then it indicates that the procurement may not meet the propriety test.

9. Compliance with law and regulation

Public Contracts Regulations

9.1. As noted above, the HCPC is subject to the Public Contracts Regulations 2015 (the Regulations) as updated or amended from time to time. The 2015 Regulations transpose the 2014 EU Public Contracts Directive into English law. Procurements with a total value greater than the thresholds which apply to the Regulations must be carried out in compliance with the Regulations and applicable case law.

9.2. The Regulations also incorporate UK-specific requirements designed to improve the access of small businesses to public sector contracts, known as the "Young Reforms". The main impact of the Young Reforms on the HCPC is where we advertise a contract with an expected value greater than £25,000. The steps to follow in that case are addressed in procurement procedures.

9.3. HCPC can have reasonable assurance of compliance through the use of an appropriate framework agreement.

Data Protection Act

9.4. In the course of its business, HCPC processes or holds personal data about registrants, employees and others. Under the Data Protection Act, HCPC is the Data Controller in relation to this personal data, and must ensure that it is held and processed in accordance with the eight principles in the Act, which are that personal data must be:

- used fairly and lawfully;
- used for limited, specifically stated purposes;
- used in a way that is adequate, relevant and not excessive;
- accurate;
- kept for no longer than is absolutely necessary;
- handled according to people's data protection rights;
- kept safe and secure; and
- not transferred outside the European Economic Area without adequate protection.

9.5. HCPC's responsibilities under the Act apply equally to services we perform in house and those we outsource to suppliers. HCPC requires suppliers to have information security policies and procedures appropriate to the nature of the HCPC information the suppliers handle. Procurement procedures set out the process for determining the standard of information security we require from the supplier of a given service and, the method of determining whether bidders and existing suppliers meet that standard. Where it is determined following the procedures that a supplier is a Data Processor on behalf of HCPC, then the supplier's responsibilities will be documented within the contract[11].

Freedom of Information Act

9.6. See paragraph 8.3 above

Bribery Act

9.7. See paragraphs 8.1 and 8.2 above.

10. Managing commercial risk

Terms and conditions

10.1. Framework agreement terms and conditions have been negotiated using central government buying power and are favourable to the customer. Some tailoring of the standard terms is normally required; consult Procurement for advice.

10.2. HCPC's standard terms and conditions should normally be used in contracts for ongoing services that are not placed via framework agreements. Invitations to tender should include our terms and conditions so as to pre-empt any discussion over terms and conditions at the contract award stage.

10.3. Our standard terms and conditions ensure a reasonable transfer of risk to the supplier, for example through the clauses on price changes, termination, intellectual property, and supplier's liability.

10.4. Procurement procedures set out the steps to follow if a supplier seeks to impose their own terms and conditions.

Legal advice

10.5. It may be appropriate to seek legal advice on a procurement issue, but only if the risk on which the advice is taken has a greater potential cost than the cost of the advice itself. Disagreements with suppliers over terms and conditions should be seen in the context of the contract value and the worst case impact of the disputed terms.

[11] See also HCPC Information Security Management System manual document A15

10.6. Budget holders should note that the correct use of Framework Agreements substantially reduces the legal risk, and so legal advice will normally not be required on any procurement via a Framework Agreement.

Business continuity

10.7. The financial failure or lack of capacity of a key supplier could have a significant impact on the delivery of HCPC's functions, and therefore HCPC requires suppliers to have financial and economic standing, and technical capacity and ability appropriate to the nature of the service they will provide to HCPC. Procurement procedures set out the process for determining the level of financial health and capacity we require from the supplier of a given service, and for evaluating the financial health and capacity of bidders for that service. Procurement will also periodically re-evaluate the financial health and capacity of existing suppliers of key services in order to identify business continuity risks.

11. Meeting the objectives of the business

Planning and specification

11.1. Retendering of existing contracts is planned on the basis of the expiry dates recorded in the suppliers' database. Procurement and Relationship Owners are jointly responsible for identifying expiry dates and planning the retender process.

11.2. Tendering for new goods and services is planned primarily on the basis of the major projects portfolio, which will capture most new procurement by value. Project managers are responsible for discussing requirements and routes to market with Procurement.

11.3. Budget holders who intend to purchase new goods or services are responsible for advising Procurement in advance so that Procurement can support the tender process from the outset.

11.4. To achieve value for money it is essential to buy the right product. The specification is therefore a key part of any invitation to tender, and it must be accurately and completely incorporated into the contract.

Managing contracts

11.5. The Relationship Owner is responsible for managing the supplier's performance under the contract, and ensuring that the supplier delivers to the agreed specification, so that HCPC achieves value for money.

11.6. Contracts that are above £25,000 in value and/or have been assessed as high risk in terms of our requirements for information security or supplier financial health should be subject to a documented review at least annually.

Recording

11.7. All contracts made by or on behalf of the HCPC must be documented in writing. For contracts below £10,000 in value that do not involve the supplier in handling HCPC information, an HCPC purchase order (PO) will normally be sufficient documentation. By sending the PO to the supplier, we offer to purchase the goods or services under the terms and conditions referenced on the PO. By delivering the goods or services, the supplier accepts our offer.

11.8. Contracts above £10,000 should be signed by both parties to ensure clarity over the terms and conditions. If the supplier will handle HCPC information, a signed contract including appropriate obligations on the supplier is required regardless of the value: see paragraph 9.5.

11.9. All contracts above £10,000 must be recorded in the suppliers' database and in each Department Procurement folder. Contracts above £25,000 are disclosed proactively under our Freedom of Information publication scheme.

11.10. The process to set up a new supplier (which is essential before a new supplier can be paid) includes confirmations that the contract has been recorded, that the appropriate selection process was followed, and that the data security and business continuity requirements have been met.

11.11. Contracts will be retained on the supplier's database and in each Department Procurement folder in accordance with the HCPC's Document Retention Policy. Procurement will retain copies of all tender documents and relevant correspondence for procurements over £25.000.

11.12. Budget holders are responsible for retaining documents for procurements under £25,000. Documents retained must include:

- 11.12.1. the invitation to tender;
- 11.12.2. all tenders submitted;
- 11.12.3. the evaluation of bids;
- 11.12.4. all correspondence with successful and unsuccessful bidders;
- 11.12.5. and should be stored in the suitable subfolder under each department procurement folder.
- 11.13. Documents must be retained until the end of the financial year of the contract term. .

12. Exceptions

12.1. If a budget holder considers that an exception to this policy needs to be made in relation to a procurement with a value greater than £5,000, he/she must consult Procurement before any commitment is made to a supplier.

12.2. An exception form must be completed by the budget holder to document the reason for the exception and approved by Procurement and the relevant Executive Director with the adequate commitment authority.

12.3. Legal advice will be required on any proposed exception to policy in relation to a procurement above £150,001.

13. Further information

13.1. Advice on any aspect of this policy can be obtained from Procurement and the Head of Finance. Further guidance is available on the Finance Department section of the HCPC intranet.