

Financial strategy 2020-2021

Financial strategy

1. Summary

- 1.1. This financial strategy was first approved by Council in March 2019 and updated in March 2020. It is consistent with our organisational strategy for 2020-2025 and is intended to guide our financial management for the period to 2025.
- 1.2. Our new organisational strategy includes an ambitious programme of work across the five years, building on our core business, to ensure that we regulate well, support our professions, and influence the context for learning and care. Underpinning that work, we also need to ensure that our organisation is fit for the future, with the right infrastructure and capabilities to fulfil our ambitions.
- 1.3. We are financed by the fees paid by nurses, midwives and nursing associates. We are very conscious of the impact that increases in our fees can have on our registrants. We do face significant financial risks, which could mean that we have to increase our fees: particularly, the risk of increasing inflation combined with static fee income.
- 1.4. But overall, we are fortunate to be in a strong and privileged financial position. Nurses, midwives and nursing associates are required by law to pay their registration fees in order to practise their professions, and this makes for a highly secure source of income. We also have strong reserves, built up through careful financial management since we last increased our fee in 2015.
- 1.5. We have both a responsibility and an opportunity to use these funds well. This financial strategy seeks to more actively use our strong financial position to invest in modernising our systems, improving services and efficiency, to make financial investments that will protect us from inflation, and to manage financial risks.
- 1.6. The strategy also emphasises the importance of medium and long term¹ planning, and an enabling and collaborative internal approach to the use of resources, alongside appropriate financial controls.
- 1.7. The goals of the financial strategy are to enable the investment we need to deliver our new organisational strategy, while also achieving financial sustainability² and value for money³, for the benefit of registrants and the

¹ In this strategy, short term means within one to two years, medium term means from the third to fifth years, and long term means after more than five years.

² Sustainability in our context means the registration fee should be affordable by registrants, and stable over time. With the income provided by registrant fees, our budgets must be balanced over the medium and long term. We must also have access to sufficient working capital and longer term financing.

³ Value for money is defined as the optimal use of resources to achieve the intended outcomes.

public, keeping registration fees affordable and stable over time. We will promote trust and confidence in our finances and the value for money we provide through transparency and integrity in our financial conduct.

2. Framework of authorities

Financial governance

- 2.1. Our Council is the NMC's governing body. Council's responsibilities are set out in the Nursing and Midwifery Order 2001, and the Scheme of Delegation. Council's financial responsibilities include
 - 2.1.1. approving the financial strategy, reserves policy, and investment policy
 - 2.1.2. approving the budget
 - 2.1.3. reviewing financial performance during the year
 - 2.1.4. agreeing the top level system of internal control, including the Financial Regulations
 - 2.1.5. approving the annual report and accounts.
- 2.2. The Chief Executive and Registrar is appointed as Accounting Officer by the Privy Council. The responsibilities of an Accounting Officer are set out in HM Treasury's rules, Managing Public Money⁴, Chapter 3.

Our status as a public body

- 2.3. We are a public body, established by statute. Although our closest relationship within government is with the Department of Health and Social Care and our accounts are consolidated into the DHSC's group accounts, we are independent and not controlled by DHSC or any other government department. We are accountable to Parliament through the Privy Council. We take into account the principles in Managing Public Money.
- 2.4. We are subject to the Public Contracts Regulations and our policies and processes comply with those Regulations in full. We follow the Treasury's Financial Reporting Manual in the preparation of our statutory accounts, to the extent that it clarifies or builds on the financial reporting requirements in the Charities Statement of Recommended Practice (SORP)⁵.

Our charitable status

- 2.5. Our objectives are charitable and we are registered as a charity with the Charity Commission in England and Wales and the Office of the Scottish Charity Regulator⁶. Council members are the trustees of the NMC with

⁴ <https://www.gov.uk/government/publications/managing-public-money>

⁵ Statement of Recommended Practice: Accounting by Charities
http://charitiessorp.org/media/619101/frs102_complete.pdf

⁶ We will also be registered with the Charity Commission for Northern Ireland when it begins to register non-Northern Ireland bodies

responsibilities under charity law very similar to their responsibilities under the Scheme of Delegation⁷.

- 2.6. As a registered charity we benefit from business rates relief worth over £1m a year and exemption from corporation tax on our charitable income, investment income and capital gains.

3. Sustainability

- 3.1. Sustainability in the context of our finances means the registration fee should be affordable and stable over time. It requires budgets that are balanced over the medium and long term, and access to working capital and longer term financing, including an appropriate level of reserves or other source of financing.

4. Effective financial management and value for money

- 4.1. Our objective is to ensure through good financial management that registrants' money is well spent.

Planning and budgeting

- 4.2. We will maintain a rolling three year business plan and budget, linking resources to outputs and outcomes. Planning and budgeting over a three year period enables more effective delivery and value for money. It also enables us to see the financial impact of medium term capital projects, and to model the possible impacts of financial risks such as changes in the number of nurses, midwives and nursing associates on the register, or changes in the rate of inflation.
- 4.3. For our finances to be sustainable, our budget for recurrent, core business expenditure⁸ must not exceed our recurrent operating income.
- 4.4. Our overall budget, including non-recurrent or project costs, must be balanced over the medium and long term⁹. However, our overall budget does not need to balance every year.
- 4.5. To deliver our organisational strategy for 2020-2025, we need a significant programme of investment in new services, our people and our systems. As set out below, we want to maintain the registration fee at £120 for as long as possible. Therefore we propose to fund our investments partly from reserves.
- 4.6. In order to fund non-recurrent or project costs, we can reasonably set deficit budgets and accept negative cash flows over the short term, provided that we have sufficient cash and reserves to fund the deficits, provided that the budget deficit is the result of those non-recurrent or project costs, and that we

⁷ See Charity Commission guidance "The essential trustee (CC3)"

<https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3>

⁸ Including depreciation

⁹ In this strategy, short term means within one to two years, medium term means from the third to fifth years, and long term means after more than five years

have plans for the overall budget to return to balance in the medium and long term.

- 4.7. If our planning and budgeting shows that our operating income cannot cover our recurrent, operating, core business costs over the short term, or our total costs over the long term, then we will need to take steps to correct the position. In the first instance, we would look for further options to reduce costs, including the possibility of reducing the scope of our services. If those options were not viable or were not sufficient, we would need to consider a fee increase.

Efficiency programmes in business plans and budgets

- 4.8. To promote value for money, we will target and track efficiencies through the business planning, budgeting and financial reporting processes, both from change programmes and from continuous improvement activities.

Business cases for major projects and significant investments

- 4.9. When we invest significant amounts of registrants' money in a project, we need to ensure we are making the right choice from the available options, which we expect to provide the best value for money. We do this through business cases that are proportionate to the scale of the investment, based on the Treasury's Green Book¹⁰.
- 4.10. Projects relating to our regulatory functions will often not have a positive *financial* return, for example if their purpose is to improve services to registrants or the public, but we need to test and be able to demonstrate that our chosen option is better value for money than the alternatives, including doing nothing. We also need, as part of the impact assessment, to consider their financial and economic impacts on the wider healthcare system. Projects relating to our corporate support functions should normally have a positive financial return. For all significant projects, we will identify the expected benefits at the outset and track the realisation of those benefits.

Approach to procurement

- 4.11. Value for money is also assured by our procurement policy and processes. We are subject to the Public Contracts Regulations, and our own processes go further, requiring competition for all contracts over £10k in value, and formal tenders for all contracts over £100k in value. However, value for money is not just about getting the lowest price: it is more important to buy the right product or service to meet our needs. Our procurement department supports budget holders in drawing up the specification for tenders, evaluating proposals, and managing contracts, all of which are key to achieving value for money.

10

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf

- 4.12. Our procurement policy also aims to ensure that our purchasing and our supplier relations reflect our values, so that our environmental impact is minimised, and our suppliers treat their own employees fairly.

Approach to financial control

- 4.13. Financial controls are the rules and processes that help to ensure that we collect our income, protect our assets, and that our spending is effective.

Income controls

- 4.14. One of our main points of contact with nurses, midwives and nursing associates is when they pay our fees. The process is normally quick and simple, but if registrants' payments' fail for any reason, they are at risk of being removed from the register and prevented from practising. This has a potentially severe impact on the individual and runs contrary to our aim to support nurses, midwives and nursing associates to work.
- 4.15. Like every organisation, we need processes and controls to ensure that we receive the income we are due. But paying the registration fee is a precondition for legally practising as a nurse, midwife or nursing associate, which means that we are at much less risk than most organisations of our customers failing to pay us.
- 4.16. One of our values is that we are kind, and we will show compassion and understanding for registrants who may be in financial difficulty. Within the limitations of the Fees Rules¹¹ and our systems, we will provide flexibility to support registrants and avoid as far as possible them being removed from the register for non-payment. We will seek reform of our Fees Rules in due course to enable greater flexibility.

Expenditure controls

- 4.17. Controls over expenditure are essential to ensure that our spending is effective for our regulatory and charitable purposes. Effective financial controls prevent improper use of funds and ensure financial information is accurate, relevant and reliable. They support management in making good planning and financial decisions, and ensure value for money, accountability and transparency.
- 4.18. The risk of improper use of funds and errors cannot be absolutely eliminated, and excessive controls are inefficient and tend to drive the wrong behaviours in terms of customer service, innovation and risk management. Therefore financial controls must be appropriate and proportionate. Controls must reach the appropriate threshold level, to reduce the risk of loss to an acceptable level, but beyond that threshold level, further increases in controls reduce value for money and employee satisfaction. Determining the appropriate level of control is a matter of judgement reflecting the organisation's risk appetite.

¹¹ Our Fees Rules are set via secondary legislation

- 4.19. We want to trust and empower employees to be responsive and innovative in delivering excellent services to nurses, midwives and nursing associates and the public. We will keep processes and controls under review to ensure they are appropriate and proportionate, and we will promote a culture of customer focus, collaboration and business partnering in Finance and Procurement's support for the rest of the organisation.

Collaboration

- 4.20. We will maintain a collaborative approach to financial management where budget holders are trained in financial management and encouraged to work in partnership with each other and Finance to ensure the best allocation of resources across the organisation. While providing constructive challenge, Finance will work with a premise of trust in the good faith and competence of budget holders, and with the objective of enabling budget holders to spend funds well.
- 4.21. Similarly, in our work with suppliers, we aim to build partnerships with a fair allocation of risk and benefit, which deliver value for money in the long term.
- 4.22. We will also look for opportunities to work with other organisations, and other health and social care regulators in particular. We will share expertise and good practice and improve value for money through joint activities such as joint procurement where practical.

Approach to outsourcing

- 4.23. In deciding whether to provide services in house or to outsource them, our overall objective is to achieve the optimum value for money. This includes consideration of:
- 4.23.1. The technical complexity and level of specialism of the service. Generally, the more technically complex and specialist a service is, the more difficult it is to maintain a cost effective in house capability to deliver it.
 - 4.23.2. The external market for the provision of the service. Services with more developed external markets, for example catering services, will normally provide better value for money from outsourcing. Conversely, some services may be so technically complex or specialist that the external market for them is limited.
 - 4.23.3. Economies of scale. Organisations often contract out services because their own demand for them is not enough to support an efficient in house service, or the service can be provided more efficiently by a large specialist contractor.
 - 4.23.4. The period over which the services will be needed, and the variability of demand/workload over that period. A short term, one off service, or a service with uneven demand will be more difficult and less cost effective to provide in house.

- 4.23.5. The degree of independence required. Services where a high level of independence from management and objectivity are required are usually better outsourced, since an external firm is more able to provide independent advice, and more likely to be seen as independent.
 - 4.23.6. The sensitivity of the service will be relevant, including data security considerations, although whether those factors make it more or less appropriate to contract out may vary from one service to another.
 - 4.23.7. Risks and benefits relating to a change from in house to contracted out or vice versa. Risks of moving to outsourced provision may include loss of corporate memory, loss of accountability, or a drop in service levels arising from the change and consequential loss of trust in the organisation.
- 4.24. We will evaluate services using these criteria and others that are relevant to the particular service. If we conclude that contracting out is likely to provide better value for money overall, we will procure the service in compliance with the Public Contracts Regulations and the guidance on outsourcing in Managing Public Money¹². As each significant contracted out service comes up for renewal, we will re-evaluate it to assess whether contracting out remains appropriate, or whether it should be brought back in house.

5. Transparency and integrity

- 5.1. All our financial conduct and decision making must be informed by the fact that we are funded by the registrants' fees. We need to ask ourselves if the financial decisions we take can be positively and confidently presented to nurses, midwives and nursing associates as a good use of their money¹³.
- 5.2. Our Council's Code of Conduct commits members to the seven principles of public life (the Nolan principles): selflessness, integrity, objectivity, accountability, openness, honesty and leadership¹⁴. We apply these principles in our financial management. In particular:
 - 5.2.1. We will publish our expenditure transactions and our key financial policies under our Freedom of Information publication scheme. Council and Executive members' remuneration and expenses will be published annually in the Annual report and accounts.
 - 5.2.2. Council receives a quarterly report from the Executive, which is published on our website, and includes financial and operational management information, key performance indicators, and the corporate risk register.

¹² Managing Public Money chapter 7.12

¹³ This relates to the concept of regularity and propriety. See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/212460/Regularity_Propriety_and_Value_for_Money.pdf

¹⁴ <https://www.nmc.org.uk/about-us/governance/the-council/council-governance/>

- 5.2.3. The Code of Conduct for Council members includes conflict of interest and gifts and hospitality policies, and similar policies apply to our employees.

6. Reserves policy

Charity Commission guidance on reserves

- 6.1. The Charity Commission¹⁵ expects charities to develop and publish their reserves policies. The purpose of a reserves policy is to demonstrate sustainability, good stewardship and active financial management by the trustees, including showing that the charity will be able to meet its commitments in the event of a shortfall in income. Charities' reserves policies are often expressed in terms of a target range of free reserves. The term "free reserves" means reserves that are not tied up in fixed assets or restricted for specific purposes.
- 6.2. A target minimum level of free reserves is a source of assurance that the charity's services are sustainable. Conversely, a target maximum level of free reserves acts to ensure that the charity's resources are applied and not simply accumulated to no purpose. By maintaining free reserves within the target range, the charity trustees are more likely to be balancing the interests of their current and future beneficiaries and supporters and exercising good stewardship.
- 6.3. Free reserves are particularly important in the charity sector because they are often the main or the only available source of long term financing and financial security. Charities do not have share capital and often do not have access to borrowing. Charities' income streams are often inherently insecure, for example if they are dependent on a small number of large grants.

Our need for free reserves

- 6.4. We have a highly secure income stream and cash flow. Nurses, midwives and nursing associates are required by law to pay our registration fees in order to practise. They are also required to pay either annually or quarterly in advance, so we hold large cash balances, over and above our free reserves. Provided that our budget is balanced over the medium and long term (see paragraph 4.3 above), these large cash balances and the security of our income stream ensure our financial sustainability. Therefore our need for free reserves is much lower than many other charities.

Target range for free reserves, and lower limit for cash and investments

- 6.5. We will maintain free reserves within a target range. The target minimum level of free reserves will be set so as to ensure our sustainability, taking account of the security of our income stream, our cash and investment balances, and an assessment of the potential financial impact of risks faced by the NMC. The target maximum level of free reserves will be set so as to ensure our

¹⁵ See Charity Commission guidance "Charity reserves: building resilience (CC19)" https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/589406/CC19.pdf

resources are applied effectively, balancing the interests of registrants who finance us through the fees that they pay, and the public who benefit from our work.

- 6.6. The extent to which our cash and investment balances exceed our free reserve balances is dependent on the proportion of registrants paying by quarterly direct debit and the level of the pension deficit. There is a risk that over time, these factors could change.
- 6.7. Therefore, in addition to the target range of free reserves, we will set a minimum level for the aggregate forecast cash and investments balance in the course of the coming financial year. The purpose of this additional limit is to ensure liquidity¹⁶ without the need for borrowing facilities.
- 6.8. Our reserves policy fully complies with the Charity Commission's guidance on reserves as set out in paragraph 6.1. We will continue to publish the policy within our Annual Report and Accounts.
- 6.9. There are no specific requirements that would determine our reserves policy in the Order, or the Scheme of Delegation, or Managing Public Money.

7. Investment policy

- 7.1. The large cash balances that we hold as a product of receiving fees in advance and our free reserves gives us the opportunity to invest funds that are surplus to immediate requirements. We are able to take a long term view and accept some risk.
- 7.2. Our investment policy has been developed consistent with this financial strategy, reviewed by the Investment Committee and approved by Council, and sets out the classes of asset we may invest in and the level of risk we are prepared to take, and ethical investment parameters. Appropriate classes of investment include equities, funds and bonds. While the value of non-cash investments may be volatile and may fall in the short term, over the long term, equities and funds have proven to be the best performing form of investment assets.
- 7.3. We expect that by investing in equities, funds and bonds, we will obtain an above-inflation return over the long term, and thereby avoid or mitigate the need to increase our fees. Therefore we expect that applying part of our cash and reserves in investments will benefit nurses, midwives and nursing associates in the long term.

8. Defined benefit pension scheme

- 8.1. Our main pension scheme, which has been offered to new starters since November 2013, is a defined contribution or "money purchase" scheme. Employer contributions to the scheme are within a fixed range so there is very

¹⁶ Our investments will be equities, funds and bonds capable of being liquidated within 14 days, so can be treated as a liquid asset and combined with cash for this purpose

little financial risk to the NMC. Pensions are one of the most effective ways for individuals to save for their retirement so we will continue to promote the scheme and encourage maximum uptake by employees.

- 8.2. We also have a defined benefit scheme, where pension is based on employees' final salary and number of years of service. This scheme closed to new starters in November 2013. The defined benefit scheme carries significant financial risks: changes in life expectancy, interest rates or investment performance of the scheme assets could all have significant impacts on our net pension deficit.
- 8.3. The NMC makes additional contributions to the scheme, over and above our normal employer contributions, under a Recovery Plan with the intention of eliminating the deficit by 2026.
- 8.4. The high level of financial risk inherent in a defined benefit pension scheme was a primary reason why we closed the scheme to new entrants in 2013. There are other options to reduce the financial risk further. We could make further payments into the scheme, or we could sell the scheme to an insurer.
- 8.5. The first of those options, making further payments, would only reduce financial risk if the new funds were invested in order to hedge the risk on the liability side. For example, the scheme trustees could invest in long term bonds, which would hedge against the risk of an increase in the liability resulting from a fall in bond yields. However, by making further payments into the scheme we would be limiting our own opportunity to make positive returns on those funds through our own investments.
- 8.6. The second option, selling the scheme, would completely eliminate our risk, but it would only become an option if the scheme were to be closed to new accrual of benefits, and it would be extremely expensive.
- 8.7. Therefore we propose to continue with the present approach of making additional employer contributions. The potential impact of the financial risk within the scheme is manageable within our reserves, and the risk will diminish gradually over time.

9. Fees policy

- 9.1. Our fees are set by secondary legislation. Any change in fees requires the Council's approval to start the process, a public consultation on our proposed changes, approval by the Privy Council, and a statutory instrument approved by the Westminster Parliament via the negative procedure. The process takes a minimum of six months from the point of Council approval to the new fees taking effect. Nurses, midwives and nursing associates would pay the new fee from the point of their next annual renewal of registration following the change, so there is a lag before the full effect of any change is felt in our income.

- 9.2. Our renewal fee has been £120 per year since February 2015¹⁷. It had been £76 until February 2013, and £100 from February 2013 to February 2015. The last two increases, which represented nearly 60 percent in the space of two years, were very unpopular with nurses and midwives. The government has stated that fee rises should be kept to a minimum¹⁸.
- 9.3. We intend that the fee should be affordable by nurses, midwives and nursing associates. We should avoid large, sudden increases in the fee: registrants are more likely to be able to manage small, more regular increases, than infrequent but large increases. Council will continue to review the need for fee changes each year, using our rolling three year budget to identify when fee increases are necessary and plan for them so as to minimise the impact on registrants.
- 9.4. In the medium and longer term, we expect that investment in new systems and continuous improvement of our processes will produce cost savings, offsetting the impact of inflation. Also, through our new investment policy (see section 7 above), we expect to earn an above-inflation rate of return on a portfolio of surplus funds, initially around £30m.
- 9.5. The Order enables us to generate other sources of income “in connection with the exercise of its functions”. We will take advantage of opportunities to generate other income that are consistent with our values and our role as a professional health regulator, so as to supplement registrants’ fees and help keep them at the current level.
- 9.6. Provided registrant numbers remain stable and inflation remains low, we aspire to use the cost savings and investment income referred to above to keep our budget balanced over the medium to long term, and maintain the registration fee at the current £120 level for as long as possible.
- 9.7. However, because the risks to our budget related to inflation and registrant numbers are significant, we will continue to review the registration fee annually, as part of the budget setting process.

¹⁷ Note that while the registration fee remains fixed at £120, it is falling in real terms.

¹⁸ *Promoting professionalism, reforming regulation* consultation paper, paragraph 4.25

https://consultations.dh.gov.uk/professional-regulation/regulatory-reform/supporting_documents/Promoting%20professionalism%20reforming%20regulation.pdf