Financial statements

The financial statements are prepared in accordance with the Financial Reporting Manual 2021/22, published by HM Treasury, and comprise:

Statement of Comprehensive Net Expenditure

A statement of CQC's performance, summarising income and expenditure for the year.

Statement of Financial Position

A snapshot of CQC's assets and liabilities as at the end of the financial year.

Statement of Cash Flows

The movements in cash during the year.

Statement of Changes in Taxpayers' Equity

The movements to reserves in the year.

Notes to the financial statements

Additional details to the numbers included within the 4 financial statements.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2022

Statement of Comprehensive Net Expenditure (annual report and accounts 2021 to 2022)
20230703-statement-of-comprehensive-net-expenditure.ods

File title
Statement of Comprehensive Net Expenditure

Notes 1 to 21 in notes to the financial statements form part of these financial statements.

Statement of Financial Position

as at 31 March 2022

Statement of Financial Position (annual report and accounts 2021 to 2022)
20230703-statement-of-financial-position-1.ods
File title
Statement of Financial Position (annual report and accounts 2021 to 2022)

Notes 1 to 21 in notes to the financial statements form part of these financial statements.

Statement of Cash Flows

for the year ended 31 March 2022

Statement of Cash Flows (annual report and accounts 2021 to 2022)
20230703-statement-of-cash-flows.ods
File title
Statement of Cash Flows

Notes 1 to 21 in notes to the financial statements form part of these financial statements.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2022

Statement of Changes in Tax Payers' Equity (annual report and accounts 2021 to 2022)

20230703-statement-of-changes-in-taxpayers-equity.ods
File title
Statement of Changes in Tax Payers' Equity

Notes 1 to 21 in notes to the financial statements form part of these financial statements.

Ian Trenholm

Chief Executive

4 July 2023

Notes to the financial statements

1. General information

CQC is a non-departmental government body established under the Health and Social Care Act 2008. Information about our role and purpose can be found on the who we are page. The address of our registered office and principal place of business is provided on the page for our Newcastle office. We are accountable to the Secretary of State for Health and Social Care for discharging our functions, duties and powers effectively, efficiently and economically. DHSC carries out this role on the Secretary of State's behalf on a day-to-day basis.

1.1 Basis of accounting

Under the Health and Social Care Act 2008, the Secretary of State for Health and Social Care has directed CQC to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

These financial statements have been prepared in accordance with the Financial Reporting Manual (FReM) 2021/22, issued by HM Treasury, as interpreted for the health sector in the DHSC Group Accounting Manual (GAM) 2021/22. The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of CQC for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. These have been applied consistently in dealing with items considered material in relation to the accounts.

Accounting policies are unchanged compared with those in the 2020/21 financial statements, and no new accounting standards have been adopted in year.

The financial statements are presented in £ sterling and all values are rounded to the nearest thousand except where indicated otherwise in accordance with the FReM.

1.2 Going concern

CQC's annual report and accounts have been prepared on a going concern basis. The main source of funding for CQC is income from fees charged to registered providers. The associated credit risk is managed through the management of receivables and regular cash flow reporting, see note 8. In addition, grant-in-aid funding is drawn from DHSC to fund non-chargeable activities and capital expenditure.

1.3 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets at fair value to the extent required or permitted under the FReM as set out in accounting policies.

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of CQC accounting policies, management is required to make various judgements, estimates and assumptions. These estimates and associated assumptions are based on historical experience and other factors that are relevant. Actual results may differ from those estimates. The estimates and underlying assumptions are continually reviewed. Throughout 2021/22 CQC continued to experience a level of operational impact due to COVID-19 pandemic, although to a lesser extent than 2020/21. If this has impacted our accounting judgements or uncertainty of our estimates, we have provided details in the appropriate note.

Areas of significant judgement include:

- *IAS 19 Employee Benefits*: the most significant judgements relate to the valuation of CQC's share of assets and liabilities in 13 local government pension schemes (LGPS). The underlying assumptions are reviewed on an ongoing basis by the fund actuaries. Financial assumptions are based on market expectations at the Statement of Financial Position date and demographic assumptions reflect the best estimate of the likely future timing of future benefit payments. Key assumptions used are detailed in note 5.2. The value of assets and liabilities are sensitive to changes in discounts rates, a sensitivity analysis is found in note 5.10.
- *IAS 36 Impairments:* management make judgements on whether there are any indications of impairment to the carrying amounts of CQC's non-current assets (see accounting policy note 1.14, note 6 and note 7).
- *IFRS 9 Financial Instruments:* the expected credit loss of receivables is determined by probabilities calculated using historic collection data for groups of receivables (see accounting policy note 1.19 and note 9).
- *Indexation of non-current assets:* intangible assets and property, plant and equipment are revalued annually using indices published by the Office for National Statistics (see accounting policy notes 1.12 and 1.13, note 6 and note 7).

1.5 Operating segments

Net expenditure is analysed in the Operating Segments note (note 2) and is reported in line with management information used within CQC.

1.6 Operating income

Operating income relates directly to the operating activities of CQC and includes revenue from contracts with customers and government's non-cash apprenticeship training grant.

In the application of *IFRS 15 'Revenue from Contracts with Customers'*, several practical expedients offered in the standard have been employed. These are as follows:

- CQC will not disclose information regarding performance obligations as part of a contract that has an original expected duration of 1 year or less;
- CQC is to similarly not disclose information where revenue is recognised in line with the practical expedient offered in the standard where the right to consideration corresponds directly with value of the performance completed to date; and

The main source of revenue from contracts with customers for CQC is income from annual statutory fees charged to all registered providers of regulated activities in accordance with the Health and Social Care Act 2008 (as amended). This revenue is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer and is measured at the amount of the transaction price allocated to that performance obligation. The FReM has adapted the definition of a contract to include legislation, such as the Health and Social Care Act 2008 (as amended), which enables CQC to receive cash from another entity. Statute requires CQC to perform the continual task of maintaining the register of providers of regulated activities over the whole period of registration, and without being registered it is unlawful for a provider to operate. Fees are charged in accordance with the current fees scheme, published with the consent of the Secretary of State for Health and Social Care, which has been effective from 1 April 2020 and remained unchanged in 2021/22. Fees are invoiced on the anniversary of initial registration. Revenue is recognised equally over the 12-month period of registration that the fee covers as performance obligations are satisfied. In cases of voluntary de-registration, fees are refunded to registered organisations in accordance with the fee rebate scheme detailed on CQC's website.

Where statutory fees are paid and exceed the value of performance obligations satisfied at the end of the accounting period the income is deferred (note 11).

Payment terms are standard reflecting cross-government principles. Statutory annual fees are payable within 30 days of the invoice date otherwise the provider can opt to pay in equal instalments by direct debit.

The value of the benefit received when CQC accesses funds from the government's apprenticeship service are recognised as income in accordance with IAS 20, Accounting for Government Grants. Where these funds are paid directly to an accredited training provider, non-cash income and a corresponding non-cash training expense are recognised, both equal to the cost of the training funded.

1.7 Employee benefits

1.7.1 Short-term employee benefits

Salaries, wages and employment-related payments, including payments arising from the apprenticeship levy, are recognised in the period in which the service is received from employees, and CQC becomes obligated to pay them. The cost of annual leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period.

1.7.2 Retirement benefit costs

NHS pensions

Past and present employees of CQC are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable CQC to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to CQC of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

For early retirements, other than those due to ill-health, the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to expenditure at the time CQC commits itself to the retirement, regardless of the method of payment.

The schemes are subject to a full actuarial valuation every 4 years and an accounting valuation every year.

Local government pensions

Some employees are members of the Local Government Pension Scheme (LGPS), which is a defined benefit pension scheme that is administered through 13 active pension funds. Employees who were members of the LGPS in a predecessor organisation to CQC were permitted to keep their legacy arrangements when their employment transferred to CQC on 1 April 2009. Membership to LGPS is closed to new CQC employees.

Accounting actuarial valuations are carried out at each Statement of Financial Position date. The scheme assets and liabilities attributable to those employees can be identified and are recognised in CQC's accounts. The assets are measured at fair value, and the liabilities at the present value of the future obligations. Charges recognised in the Statement of Comprehensive Net Expenditure are detailed below:

Charged to staff costs:

- Current service cost – the increase in liabilities because of additional service earned in the year.
- Past service cost – the increase in liabilities arising from current year decisions, the effect of which relates to the years of service earned in earlier years.
- Administration expense – charges representing the cost of administering the fund.
- Gains or losses on settlements and curtailments – the result of actions to relieve the liabilities or events that reduce the expected future service or accrual of benefits of employees.

Charged to other expenditure:

- Net interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid which is offset by the expected increase in fair value of scheme assets.

Charged to other comprehensive expenditure:

- Actuarial gain or loss on assets and liabilities – the extent to which investment returns achieved in year are different from interest rates used at the start of the year.

Full actuarial valuations are carried out every three years, which determine the contributions payable for the following 3 financial years. The next full valuation will be based on 31 March 2022 to set rates for the 3 years from 2023/24.

Other pension schemes

CQC employees that are not eligible to join the NHS Pensions Scheme are enrolled in the National Employment Savings Trust (NEST). The scheme is accounted for as if it were a defined contribution scheme: the cost to CQC of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

1.8 Other expenses

Other operating expenses are recognised when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration payable.

1.9 Grants receivable

Grants received, including grant-in-aid received for revenue and capital expenditure is treated as financing and credited to the general reserve.

1.10 Grants payable

Where grant funding is not intended to be directly related to activity undertaken by a grant recipient in a specific period, CQC recognises the expenditure in the period in which the grant is paid. All other grants are accounted for on an accruals basis.

1.11 Apprenticeship levy

CQC is required to pay an apprenticeship levy amounting to 0.5% of the total pay bill, less an allowance of £15,000. The levy is recognised as an expense and included as an additional social security cost within the financial statements.

It is expected that apprenticeship funding will be passed directly to training providers. Where a CQC employee receives training funded by the levy, CQC will recognise a non-cash expense in the period in which the training occurs. An additional non-cash income amount, equal to the costs paid directly to the training provider, is also recognised.

1.12 Value added tax

Irrecoverable value added tax (VAT) is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.13 Intangible assets

1.13.1 Recognition

Intangible assets are non-monetary assets without physical substance, which are capable of sale separately from the rest of CQC's business or which arise from contractual or other legal rights.

They are capitalised if:

- it is probable that future economic benefits will flow to, or service potential will be supplied to CQC
- it is expected to be used for more than one financial year

- the cost of the item can be measured reliably, and either:
    - the item has a cost of at least £5,000, or
    - collectively, a number of items have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control.
- the total cost of the asset capitalised only includes costs which are permitted by *IAS 38 Intangible Assets*.

Software that is integral to the operating of hardware, for example an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software that is not integral to the operation of hardware, for example application software, is capitalised as an intangible asset.

Expenditure relating to IT software and software developments, including CQC's website, is capitalised if the asset has a cost of at least £5,000 or considered part of a collective group of interdependent assets with a total cost exceeding £5,000 and has a useful life of more than 1 year.

General IT software project management costs are not capitalised.

1.13.2 Measurement

Intangible assets are initially recognised at cost. The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the criteria for recognition are initially met. Where no internally generated intangible asset can be recognised, the expenditure is recognised in the period in which it was incurred.

Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. All assets are revalued annually, at the end of the reporting period on 31 March, using the appropriate producer price index (PPI) as published by the Office for National Statistics

An increase arising on revaluation is taken to the revaluation reserve except when it reverses an impairment for the same asset previously recognised in expenditure, in which case it is credited to expenditure to the extent of the decrease previously charged there. A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset, and thereafter to expenditure. Gains and losses recognised in the revaluation reserve are reported as other comprehensive net expenditure in the Statement of Comprehensive Net Expenditure.

1.14 Property, plant and equipment

1.14.1 Recognition

Expenditure on office refurbishments, furniture and fittings, office equipment, IT equipment and infrastructure are capitalised if:

- it is held for use in delivering services or for administrative purposes
- it is probable that future economic benefits will flow to, or service potential will be supplied to CQC
- it is expected to be used for more than 1 financial year

- the cost of the item can be measured reliably, and either:
    - the item has cost of at least £5,000, or
    - collectively, a number of items have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control.

1.14.2 Measurement

All property, plant and equipment is measured initially at cost, representing the cost directly attributable to acquiring the asset and bringing it to the location and in the condition necessary for it to operate in the manner intended by management. Assets that are held for their service potential and are in use are measured subsequently at their current value in existing use.

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Assets are restated at current value each year using the appropriate producer price index (PPI) as published by the Office for National Statistics.

Revaluations and impairments are treated in the same manner as for intangible assets, note 1.12.2.

1.15 Amortisation, depreciation and impairments

Non-current assets are depreciated or amortised from the date that they are brought into use. Assets under development are not amortised.

Depreciation and amortisation is charged to write off the costs or valuation of property, plant and equipment and intangible assets, less any residual value, on a straight-line basis over their estimated useful lives. The estimated useful life is the period over which CQC expects to obtain economic benefits or service potential from the asset. This is specific to CQC and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year-end, with the effect of any changes recognised on a prospective basis.

Estimated useful lives:

Category	Asset type	Estimated asset life
Intangible assets	IT software developments	Over the estimated life of the asset, or 15 years, whichever is shorter.
Intangible assets	Software licences	Over the term of the licence
Intangible assets	Website	Over the estimated life of the asset, or 15 years, whichever is shorter.
Property, plant and equipment	Information technology	Up to 7 years
Property, plant and equipment	Furniture and fittings	Up to 15 years in line with the lease term of the property in which the asset resides.

At each financial year-end, CQC checks whether there is any indication that its property, plant and equipment or intangible assets have suffered an impairment loss. If there is indication of such an impairment, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount. Intangible assets not yet available for use are also tested for impairment annually at the financial year-end.

Impairment losses that arise from a clear consumption of economic benefit are taken to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure.

1.16 Leases

CQC applies *IAS17 'Leases'* and recognises leases as either operating or finance leases. Leases are classified as finance leases when the risks and rewards of ownership are transferred substantially to the lessee; all other leases are operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. CQC has no finance leases.

1.17 Provisions

Provisions are recognised when CQC has a present legal or constructive obligation as a result of a past event, it is probable that CQC will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties.

Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rates.

Early retirement provisions are discounted using HM Treasury's pension discount rate of minus 1.30% (2020/21: minus 0.95%) in real terms. All other provisions are subject to 3 separate discount rates according to the expected timing of cash flows from the Statement of Financial Position date:

- a short-term rate of 0.47% (2020/21: minus 0.02%) for expected cash flows up to and including 5 years
- a medium-term rate of 0.70% (2020/21: 0.18%) for expected cash flows over 5 years up to and including 10 years
- a long-term rate of 0.95% (2020/21: 1.99%) for expected cash flows over 10 years.

All percentages are in real terms.

1.18 Contingent liabilities and contingent assets

A contingent liability is:

- a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of 1 or more uncertain future events not wholly within the control of CQC, or
- a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation, or the amount of the obligation cannot be measured sufficiently reliably.

A contingent liability is disclosed unless the possibility of a payment is remote.

A contingent asset is a possible asset that arises from past events and the existence of which will be confirmed by the occurrence or non-occurrence of 1 or more uncertain future events not wholly within the control of CQC. A contingent asset is disclosed where an inflow of economic benefits is probable.

Where the time value of money is material, contingent liabilities and contingent assets are disclosed at their present value.

1.19 Cash and cash equivalents

Cash is cash-in-hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.20 Financial assets

Financial assets are recognised when CQC becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are de-recognised when the contractual rights have expired or when the asset has been transferred and CQC has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

Financial assets are initially recognised at fair value plus or minus directly attributable transaction costs for financial assets not measured at fair value through profit or loss. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices, where possible, or by valuation techniques.

Financial assets are classified into the following categories: financial assets at amortised cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit and loss. The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in IFRS 9, and is determined at the time of initial recognition.

CQC's only financial assets are trade receivables which are measured at amortised cost.

1.20.1 Financial assets at amortised cost

Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where the cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments.

After initial recognition, these financial assets are measured at amortised cost using the effective interest method, less any impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

1.20.2 Impairment

For all contract assets CQC recognises a loss allowance representing the expected credit loss on the financial asset.

CQC adopts the simplified approach to impairment, in accordance with IFRS 9, and measures the loss allowance for any trade receivables at an amount equal to the lifetime expected credit losses.

Expected credit loss allowances of trade receivables are determined by applying a weighted probability of a loss event occurring during the lifetime of the asset. This includes the probability of the whole amount becoming irrecoverable, part of the amount becoming irrecoverable and full recovery. These probabilities are determined by historic recovery for each category of receivables: income from fees by sector and income from other activities.

HM Treasury has ruled that central government bodies may not recognise stage 1 or stage 2 impairments against other government departments, their executive agencies, the Bank of England, Exchequer Funds, and Exchequer Funds' assets where repayment is ensured by primary legislation. CQC therefore does not recognise loss allowances for stage 1 or stage 2 impairments against these bodies. Additionally, DHSC provides a guarantee of last resort against the debts of its ALBs and NHS bodies (excluding NHS charities), and CQC does not recognise loss allowances for stage 1 or stage 2 impairments against these bodies.

For financial assets that have become credit impaired since initial recognition (stage 3), expected credit losses at the reporting date are measured as the difference between the asset's gross carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in the Statement of Comprehensive Net Expenditure.

1.21 Financial liabilities

Financial liabilities are recognised in the Statement of Financial Position when CQC becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

Non-current payables are discounted when the time value of money is considered material.

1.22 IFRS standards that have been issued but have not yet been adopted

The GAM does not require the following IFRS standards and interpretations to be applied in 2021/22. These standards are still subject to HM Treasury FReM adoption.

IFRS 16 Leases: the standard is effective from 1 April 2022 as adapted and interpreted by the FReM. The standard introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease based on whether the lessee has the right to control the use of an identified asset for a period in exchange for consideration.

CQC applies the definition of a lease in IFRS 16 as adapted and interpreted by the FReM and in accordance with related guidance in the GAM to all lease contracts in existence at 1 April 2022. Therefore, upon transition CQC will recognise the cumulative effects of initially applying IFRS 16 as an adjustment to the opening balances in the Statement of Financial Position.

In preparation for first-time application of IFRS 16 CQC has carried out an implementation project which has shown that the new definition in the standard will not change significantly the scope of contracts that meet the definition of a lease for CQC.

Impact on CQC

IFRS 16 changes how CQC accounts for leases previously classified as operating leases under IAS 17, which were off-Statement of Financial Position.

In applying IFRS 16, for all leases, CQC:

- recognises a right-of-use asset and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;

- recognises depreciation for right-of-use assets and interest on lease liabilities in the Statement of Comprehensive Net Expenditure; and
- separates the total amount of cash paid into a principal portion (presented with financing activities) and interest (presented within operating activities) in the Statement of Cash Flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (those with a term of 12 months or less) and leases of low-value assets (liability of £5,000 or less) CQC will recognise a lease expense on a straight-line basis in the Statement of Comprehensive Net Expenditure.

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 will result in the recognition of right-of-use assets and corresponding liabilities of approximately £9.7m.

IFRS 17 Insurance Contracts: application is required for accounting periods beginning on or after 1 January 2023 but has not yet been adopted by the FReM. Early adoption is not therefore permitted. CQC do not expect adoption of the standard to have a material impact on the Financial Statements.

2. Analysis of net expenditure by activities

2.1 Operating segments

IFRS 8 'Operating Segments' requires operating segments to be identified based on internal reports that are regularly reviewed by the Chief Executive. The Board and ET regularly evaluate CQC's performance using operating segments.

CQC reports performance against each of the operational directorates. These are:

- Adult Social Care (ASC)
- Hospitals
- Primary Medical Services and Integrated Care (PMS)
- Other includes Change; Chief Executive; Digital and Intelligence; Engagement Policy and Strategy; Healthwatch England and Regulatory Customer and Corporate Operations (RCCO).

As we continue to implement our new strategy our reporting to the Board and ET will be updated in 2022/23 to reflect our new operational structure.

Operating income and the Statement of Financial Position by segment is not included as this was not reported to the Board.

	ASC £000	Hospitals £000	PMS £000	Others £000	**2021/22 total £000**	**2020/21 total £000**
Pay costs	40,395	32,813	21,147	80,673	**175,028**	**172,454**
Non-pay costs	682	1,232	725	37,771	**40,410**	**39,710**
Total	**41,077**	**34,045**	**21,872**	**118,444**	**215,438**	**212,164**

Other non-pay costs include central organisational costs such as IT, Premises, Training, Legal costs, recruitment, see note 4.2 for additional details of operating expenditure.

2.2 Reconciliation to Statement of Comprehensive Net Expenditure

The reconciliation below details the non-cash adjustments which are not included within the operating segments analysis presented to the Board and ET.

	2021/22 total £000	2020/21 total £000
Pay costs	175,028	172,454
Non-pay costs	40,410	39,710
Total net expenditure	**215,438**	**212,164**
Items not included within operating segments:		
Staff costs:		
Increase in provision for pension fund liabilities	2,393	819
Depreciation, amortisation and impairment charges	14,162	8,960
Provisions	319	(1,208)
Other operating expenditure:		
Net interest expense on pension scheme assets and liabilities	1,510	1,934

Expected credit loss	(136)	259
Total operating expenditure	**233,687**	**222,928**

2.3 Analysis of net expenditure by funding stream

The table below presents the net position for chargeable and non-chargeable activities by aligning income and funding with their related costs. Chargeable activities are funded by providers through fees. Non-chargeable activities are funded by grant-in-aid and reimbursement for external work.

	2021/22	2020/21	**2020/21**	2020/21	2020/21
	Chargeable activities £000	Non-chargeable activities £000	**Total £000**	Chargeable activities £000	Non-chargeab activities £000
Funding					
Revenue from contracts with customers	(207,909)	(2,822)	**(210,731)**	(205,192)	(1,645)
Grant-in-aid (cash)	–	(26,512)	**(26,512)**	–	(24,653)
Other operating income	(90)	–	**(90)**	(56)	–
Subtotal: funding	**(207,999)**	**(29,334)**	**(237,333)**	**(205,248)**	**(26,298)**

Operating expenditure					
Staff costs	154,626	22,795	**177,421**	152,046	21,614
Purchase of goods and services	33,628	3,509	**37,137**	34,877	1,516
Depreciation, amortisation and impairment charges	12,837	1,325	**14,162**	7,968	992
Provision expenses	319	–	**319**	(1,208)	–
Other operating expenditure	4,559	89	**4,647**	4,225	898
Subtotal: operating expenditure	**205,968**	**27,718**	**233,686**	**197,908**	**25,020**
Finance expenses	–	–	–	7	–
Total expenditure	**205,968**	**27,718**	**233,686**	**197,915**	**25,020**
Net excess of (income)/expenditure[1]	**(2,031)**	**(1,616)**	**(3,647)**	**(7,333)**	**(1,278)**

[1] In agreeing annual budgets, DHSC allows CQC to incur certain non-cash expenses. In 2021/22 these items amounted to £5,411k (2020/21: £2,803k) and, if excluded from expenditure above, this would present an adjusted year to date net surplus of £9,058k – comprising a chargeable surplus of £6,117k and a non-chargeable surplus of £2,941k (2020/21: adjusted net surplus of £11,414k comprising a chargeable surplus of £9,144k and a non-chargeable deficit of £2,270k).

3. Income

3.1 Revenue from contracts with customers

	2021/22 total £000	2020/21 total £000
Income from fees:		
NHS trusts	(60,529)	(57,453)
Adult social care – residential	(65,947)	(65,704)
Adult social care – community	(23,139)	(23,472)
Independent healthcare – hospitals	(4,040)	(3,984)
Independent healthcare – community	(7,218)	(6,884)
Independent healthcare – single specialty	(1,000)	(935)

Dentists	(8,420)	(8,377)
NHS GP practices	(37,616)	(38,383)
Subtotal: income from fees	**(207,909)**	**(205,192)**
Income from other activities	(2,822)	(1,645)
Total revenue from contracts with customers	**(210,731)**	**(206,837)**

Income from other activities includes reimbursement for services performed in addition to our regulatory activities. This includes income in relation to the National Guardian's Office, jointly funded by CQC, NHS England and NHS Improvement, and the provision of inspection services to the Office for Standards in Education, Children's Services and Skills (Ofsted), the Home Office and Defence Medical Services.

The total balance of contract liabilities at 31 March 2021, £18,665k has been recognised as operating income in 2021/22 (2020/21: £19,797k).

3.2 Other operating income

	2021/22 total £000	2020/21 total £000
Apprenticeship training grant (non-cash)	(90)	(56)
Total other operating income	**(90)**	**(56)**

4. Operating expenditure

4.1 Staff costs

	2021/22 total £000	2020/21 total £000
Wages and salaries	137,361	137,259
Social security costs	13,970	13,961
NHS pension costs	20,661	20,912
LGPS pension costs	3,448	4,131
Other pension costs	75	68
Apprenticeship levy	638	640
Termination benefits	3,014	387
Less capitalised staff costs	(2,419)	(2,557)
Less recoveries in respect of outward secondments	(1,720)	(1,960)
Increase in provision for pension fund liabilities	2,393	819
Total staff costs	**177,421**	**173,660**

More detailed disclosure of our staff costs is included in the people report.

4.2 Other operating expenditure

	2021/22 total £000	Represented 2020/21 total £000
Purchase of goods and services		
Establishment	20,718	20,219
Professional fees	7,962	4,544
Rentals under operating leases	536	4,365
Premises	2,771	2,589
Training and development	1,486	1,497
Supplies and services	845	1,347
Travel and subsistence	2,437	923
External audit fee (statutory work)	173	170
Consultancy	135	659

Insurance	74	80
Subtotal: purchases of goods and services	**37,137**	**36,393**
Depreciation, amortisation and impairment charges		
Amortisation of intangible assets	6,424	4,337
Depreciation of property, plant and equipment	2,960	2,518
Impairment of intangible assets	4,361	2,057
Impairment of property, plant and equipment	417	48
Subtotal: depreciation, amortisation and impairment charges	**14,162**	**8,960**
Provision expense	**319**	**(1,208)**
Other operating expenditure:		
Experts by Experience	1,866	1,408
Net interest expense on pension scheme assets and liabilities	1,510	1,934
Business rates paid to local authorities	1,154	1,984
Irrecoverable debts	116	88

Apprenticeship training grant (non-cash)	90	56
Grants to other bodies	52	443
Other	(5)	(1,049)
Movement in expected credit loss provision	(136)	259
Subtotal: other operating expenditure	**4,647**	**5,123**
Total other operating expenditure	**56,265**	**49,268**

5. Pension costs

During the year CQC's employees were able to participate in 1 of the following contributory pension schemes:

- NHS Pension Scheme
- Local Government Pension Scheme (LGPS)
- National Employment Savings Trust (NEST).

Both the NHS Pension Scheme, which is the principal pension scheme for staff recruited directly by CQC, and NEST are not designed to run in a way that would allow CQC to identify its share of the underlying scheme assets and liabilities. See note 1.3 in the People Report, page 71, for additional details of the NHS Pension Scheme and NEST.

LGPS is a multi-employer defined benefit scheme, as described in IAS 19 Employee Benefits. Due to legacy arrangements from predecessor organisations CQC has active members in 13 local pension funds that are part of LGPS at 31 March 2022.

Valuations of CQC's assets and liabilities in each LGPS as at 31 March 2022 have been prepared in accordance with IAS 19. The results relating to each LGPS are disclosed in note 5.1 below. The Teesside results have been prepared using the assumptions and membership data from the 2022 triennial valuation. All other funds are prepared using the rolled forward data from the 2019 valuation, see note 20.

The Statement of Financial Position shows net pension assets totalling £9.3m (31 March 2021: £3.9m) and net pension liabilities of £44.5m (31 March 2021: £85.8m) relating to CQC's membership in the LGPS.

The present value, the related current service cost and past service cost were measured using the projected unit credit method. This means that the current service cost will increase as the members of the scheme approach retirement.

The actuarial assessment of each obligation was carried out at 31 March 2022 by:

Pension fund	Actuary
Avon	Mercers Ltd.
Cambridgeshire	Hymans Robertson LLP
Cheshire	Hymans Robertson LLP
Cumbria	Mercers Ltd.
East Sussex	Barnett Waddingham
Essex	Barnett Waddingham

Greater Manchester	Hymans Robertson LLP
Merseyside	Mercers Ltd.
Shropshire	Mercers Ltd.
Suffolk	Hymans Robertson LLP
Teesside	Hymans Robertson LLP
West Sussex	Hymans Robertson LLP
West Yorkshire	Aon Hewitt

5.1 Pension assets and liabilities

The pension assets and liabilities attributable to CQC for each local government defined pension benefit scheme are as follows:

Pension fund	Assets 31 March 2022 £000	Re-measurements for change in asset ceilings 31 March 2022 £000	Liabilities 31 March 2022 £000	**Surplus/(deficit) 31 March 2022 £000**	**Surplus/(d 31 March £000**
Funds with a net deficit:					

Avon	5,761	–	(8,109)	**(2,348)**	**(2,443)**
Essex	8,070	(1,537)	(6,542)	**(9)**	**(64)**
Hampshire[2]	–	–	–	**–**	**(2,721)**
Merseyside	9,110	(124)	(8,986)	**–**	**(583)**
Shropshire	3,090	–	(4,157)	**(1,067)**	**(1,212)**
Suffolk	4,495	–	(4,718)	**(223)**	**(806)**
Teesside[3]	372,707	–	(410,963)	**(38,256)**	**(77,973)**
Subtotal: funds with a net liability	**403,233**	**(1,661)**	**(443,475)**	**(41,903)**	**(85,802)**
Funds with a net surplus:					
Cambridgeshire	4,675	(209)	(3,450)	**1,016**	**752**
Cheshire	5,037	(250)	(4,410)	**377**	**16**
Cumbria	5,282	–	(4,304)	**978**	**612**
East Sussex	8,604	(1,268)	(6,089)	**1,247**	**212**

Greater Manchester	23,009	(2,355)	(17,987)	**2,667**	**500**
West Sussex	5,392	(193)	(3,333)	**1,866**	**1,844**
West Yorkshire	14,984	(1,191)	(12,610)	**1,183**	**–**
Subtotal: funds with a net asset	**66,983**	**(5,466)**	**(52,183)**	**9,334**	**3,936**
Total	**470,216**	**(7,127)**	**(495,658)**	**(32,569)**	**(81,866)**

Notes:

[2]Membership in Hampshire ended on 30 April 2021, resulting in a cessation charge totalling £2,299k being paid which was equal to the actuarial assessed pension deficit at that date. Additional GIA funding was provided by DHSC to settle the liability.

[3]The assets and liabilities relating to Teesside are prepared on an IAS19 basis using updated financial and demographic assumptions and membership data following the 2022 triennial valuation exercise. All other funds use rolled forward data from the 2019 valuation. See note 20.

All assets are held at bid value.

Six employees (2020/21: 8) retired early on ill-health grounds during the period. No additional pension costs (2020/21: £nil) were levied on CQC as a result.

For any fund in surplus we are required, in accordance with paragraph 64 of IAS 19 and IFRIC 14[4], to consider the impact of an asset ceiling on the recognition of assets in the Statement of Financial Position. An asset ceiling is the limit above which further increases in net pension assets cease to be recognised for accounting purposes. As active membership in each LGPS is low, and closed to new members, a valuation prepared on a cessation basis is prepared to determine the economic benefit that could be achieved from a refund of surplus on exiting the fund. At 31 March 2022, asset ceilings totalling £7,127k were applied to 8 funds (31 March 2021: 8) to ensure that any surplus presented is limited to the amount that CQC would expect to receive as a refund.

Note:

[4]*IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* is an interpretation of IAS 19 which relates to the recognition of surpluses.

5.1.1 Effect of the asset ceiling

Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest, is shown below:

	2021/22 £000	2020/21 £000
Opening asset ceiling	**4,284**	**3,301**
Re-measurement of net defined pension asset for changes in asset ceiling	2,843	983
Closing asset ceiling	**7,127**	**4,284**

5.2 Actuarial assumptions

5.2.1 Financial assumptions

A summary of the key assumptions used by the actuaries of the pension schemes are as follows:

	Teesside Pension Fund % per annum	Other pension funds % per annum		
Key assumptions used:	2021/225[5]	2020/21	2021/22	2020/21[6]
Discount rate	2.7	2.1	2.6 – 2.8	2.0 – 2.1
Expected rate of salary increases	4.3	3.7	3.3 – 5.0	2.9 – 4.2
Future pension increases	3.3	2.7	3.1 – 3.6	2.7 – 2.9
CPI inflation	3.3	2.7	3.1 – 3.5	2.7 – 2.9

Notes:

[5]The 2021/22 financial assumptions relating to Teesside Pension Fund have been updated following the 2022 triennial valuation. All other funds used rolled forward data from the 2019 valuation. See note 20.

[6]Assumptions relating to Hampshire were not included due to the valuation of assets and liabilities being prepared on a cessation basis. The key assumptions used in this valuation were: discount rate 1.3%, expected rate of salary increases 3.1%, future pension increases 3.1% and CPI inflation 3.1%.

5.2.2 Mortality assumptions

Based on actuarial mortality tables, the average future life expectancies at age 65 are summarised below:

	Teesside Pension Fund	Other pension funds		
Key assumptions used:	2021/22[7]	2020/21	2021/22	2020/21[8]
Retiring today:				
Males	20.9	21.9	20.3 – 23.1	20.5 – 23.3
Females	23.9	23.6	23.0 – 25.3	23.3 – 25.4
Retiring in 20 years:				
Males	21.9	23.3	21.6 – 24.6	21.9 – 24.8

Females	25.5	25.4	25.1 – 27.3	24.7 – 27.4

Notes:

[7]The 2021/22 mortality assumptions relating to Teesside Pension Fund have been updated following the 2022 triennial valuation. All other funds used rolled forward data from the 2019 valuation. See note 20.

[8]Assumptions relating to Hampshire were not included. The key assumptions used in this valuation were; life expectancy of those retiring today were; male 23.1 years, female 25.5 years and those retiring in 20 years were: male 24.8 years, female 27.3 years.

5.3 Charges to net expenditure

Amounts recognised in the Statement of Comprehensive Net Expenditure in respect of these defined benefit pension schemes are as follows:

	2021/22 £000	2020/21 £000
Service costs:		
- Current service cost	5,784	4,910
- Past service cost	94	34
- Administration expenses	76	83

Subtotal: service costs	**5,954**	**5,027**
Net interest expense	1,510	1,934
Amount recognised in net expenditure	**7,464**	**6,961**

Of the expense for the year, the service costs totalling £5.8m (2020/21: £4.9m) have been included in the Statement of Comprehensive Net Expenditure as staff expenditure. Within note 4.1 £3.4m (2020/21: £4.1m) of this is included within LGPS pension costs and represents the amount paid as contributions during the year. The remaining £2.4m (2020/21: £0.8m) is a non-cash adjustment presented as an increase in provision for pension fund liabilities. The net interest expense of £1.5m (2020/21: £1.9m) has been included in other expenditure, note 4.2. The re-measurement of the net defined benefit liability is included as other comprehensive expenditure in the Statement of Comprehensive Net Expenditure.

5.4 Charges to other comprehensive net expenditure

Amounts recognised in the Statement of Comprehensive Expenditure are as follows:

	2021/22 £000	2020/21 £000
The return on plan assets (excluding amounts included in net interest expense)	(41,043)	(78,696)
Other re-measurement losses on plan assets	–	(30)

Actuarial (gains)/losses arising from changes in demographic assumptions	(9,435)	99
Actuarial (gains)/losses arising from changes in financial assumptions	(7,163)	75,175
Actuarial losses/(gains) arising from experience adjustments	3,897	(5,599)
Subtotal: actuarial (gain)/loss in pension schemes	**(53,744)**	**(9,051)**
Re-measurement of net defined pension asset for changes in asset ceiling	2,843	983
Re-measurement of the net defined benefit obligations	**(50,901)**	**(8,068)**

The cumulative re-measurements recognised in reserves since the date of transition to IFRS on 1 April 2008 to 31 March 2022 is £35m (31 March 2021: £86m).

5.5 Amount recognised in the Statement of Financial Position

The amount included in the Statement of Financial Position arising from CQC's obligations in respect of its defined benefit schemes is as follows:

	31 March 2022 £000	31 March 2021 £000

Present value of funded benefit obligations	(495,566)	(514,183)
Fair value of scheme assets	470,216	436,698
Deficit in scheme	**(25,350)**	**(77,485)**
Present value of unfunded benefit obligations	(92)	(97)
Re-measurement of net defined benefit pension asset for changes in asset ceiling	(7,127)	(4,284)
Re-measurement of the net defined benefit obligations	**(32,569)**	**(81,866)**

5.6 Reconciliation of fair value of scheme liabilities

Movements in the present value of defined benefit obligations were as follows:

	2021/22 £000	2020/21 £000
At 1 April	**(514,280)**	**(447,629)**
Current service cost	(5,784)	(4,910)
Administration expenses	(64)	(69)
Interest cost	(10,349)	(10,159)

Contributions from scheme members	(1,039)	(1,132)
Past service costs	(94)	(34)
Re-measurement gains/(losses):		
- Actuarial gains/(losses) arising from changes in demographic assumptions	9,435	(99)
- Actuarial gains/(losses) arising from changes in financial assumptions	7,163	(75,175)
- Actuarial (losses)/gains arising from experience adjustments	(5,022)	5,599
Benefits paid	15,189	14,251
Settlements – scheme cessation	9,187	5,077
At 31 March	**(495,658)**	**(514,280)**

5.7 Reconciliation of fair value of employer assets

Movements in the fair value of the scheme assets were as follows:

	2021/22 £000	2020/21 £000

Assets at 1 April	**436,698**	**361,427**
Interest income	8,839	8,225
Re-measurement gains:		
The return on plan assets (excluding amounts included in net interest expense)	41,043	78,696
Other	1,125	30
Employer contributions – normal	3,560	4,208
Employer contributions – scheme cessation	2,300	2,322
Member contributions	1,039	1,132
Benefits paid	(15,189)	(14,251)
Administration expenses	(12)	(14)
Settlements – scheme cessation	(9,187)	(5,077)
Assets at 31 March	**470,216**	**436,698**
Re-measurements for change in asset ceilings	(7,127)	(4,284)
Net value of assets at 31 March	**463,089**	**432,414**

The cessation charge of £2.3m was funded by DHSC through grant-in-aid in accordance with their guarantee to underwrite any liability as they fall due.

5.8 Fair value of employer assets

The fair value of scheme assets at the Statement of Financial Position date were as follows:

	Quoted assets as at 31 March 2022 £000	Unquoted assets as at 31 March 2022 £000	**Total assets as at 31 March 2022 £000**	**Re-presented Total assets as at 31 March 2021 £000**
Equities	60,827	13,137	**73,964**	**51,095**
Properties	6,268	29,335	**35,603**	**31,732**
Government bonds	3,240	1,394	**4,634**	**4,747**
Other bonds	4,969	816	**5,785**	**6,150**
Managed investment funds: equities	230,246	2,758	**233,004**	**274,870**

Managed investment funds: bonds	6,037	1,153	**7,190**	**7,420**
Managed investment funds: infrastructure	19,158	5,171	**24,329**	**3,583**
Alternatives	1,740	4,487	**6,227**	**7,859**
Cash	61,546	930	**62,476**	**30,605**
Other	11,087	5,917	**17,004**	**18,637**
Total	**405,118**	**65,098**	**470,216**	**436,698**

Assets values, particularly equity holdings, are exposed to market risk resulting from the investment activities of each pension fund. Administering authorities manage and control this risk through investment management which aims to minimise the overall reduction in asset values and maximise the opportunity for gains.

5.9 Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation of the pension schemes is between 12 and 17 years (Teesside: 16 years).

5.10 Sensitivity analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2022 is set out below. In each case only the assumption specified is altered and all other assumptions remain the same as disclosed in note 5.2.

	Teesside Pension Fund	Other pension funds				
	£000	£000	£000	£000	£000	£000
Adjustment to discount rate	**+ 0.1%**	**Current**	**- 0.1%**	**+ 0.1%**	**Current**	**- 0.1%**
Present value of total obligation	405,019	410,963	416,907	83,552	84,695	85,841
Movement	(5,944)	–	5,944	(1,143)	–	1,146
Adjustment to expected rate of salary increases	**+ 0.1%**	**Current**	**- 0.1%**	**+ 0.1%**	**Current**	**- 0.1%**

Present value of total obligation	411,676	410,963	410,250	84,744	84,695	84,646
Movement	713	–	(713)	49	–	(49)
Adjustment to CPI inflation rate	**+ 0.1%**	**Current**	**- 0.1%**	**+ 0.1%**	**Current**	**- 0.1%**
Present value of total obligation	416,138	410,963	405,788	85,814	84,695	83,578
Movement	5,175	–	(5,175)	1,119	–	(1,117)
Adjustment to life expectancy	**- 1 year**	**Current**	**+ 1 year**	**- 1 year**	**Current**	**+ 1 year**
Present value of total obligation	394,524	410,963	427,402	81,505	84,695	87,916
Movement	(16,439)	–	16,439	(3,190)	–	3,221

5.11 Funding arrangements

The funded nature of the LGPS requires participating employers and employees to pay contributions into the fund calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Funding Strategy Statement of each fund.

Contribution rates for each of the schemes are reviewed at least every 3 years following a full actuarial valuation. The last triennial actuarial valuation was completed as at 31 March 2022 which set the employer contribution rates for 3 years from 1 April 2023 to 31 March 2026. Some of the funds have also levied a cash sum in addition to a percentage of payroll costs as part of the deficit recovery plan. Increases to local government pensions in payment and deferred pensions have been linked to annual increases in the consumer price index (CPI), rather than the retail prices index (RPI).

Contribution rates for 2022/23 range between 0% and 49.2% (17.9% for Teesside Pension Fund) with annual cash sums ranging from £14k to £515k (£nil for Teesside Pension Fund). It is estimated that employer contributions for 2022/23 will total £3,454k (Teesside: £2,239k).

When the active membership in any of the funds falls to zero the administering authority will obtain an actuarial valuation of the current and former employees as at the termination date. CQC would be required to pay any cessation deficit that is determined; however, any surplus would be refunded. DHSC have provided a guarantee to meet the pension deficit liability that falls due.

All LGPS are multi-employer defined benefit plans. CQC's share of the total fund assets is immaterial in all funds except for in the Teesside Pension Fund which at 31 March 2022 was 7% (31 March 2021: 7%).

6. Intangible Assets

2021/22	Information technology £000	Development expenditure £000	Software licences £000	Websites £000	Total £000
Cost or valuation:					
At 1 April 2021	**54,575**	**8,238**	**3,088**	**6,245**	**72,146**
Additions	–	11,586	20	–	**11,606**
Reclassifications	8,808	(8,929)	–	–	**(121)**
Disposals	(407)	–	(198)	–	**(605)**
Impairments charged to revaluation reserve	(123)	–	–	–	**(123)**
Impairments charged to other operating expenditure	(3,153)	–	(335)	–	**(3,488)**
Indexation losses to revaluation reserve	(874)	–	(1)	(18)	**(893)**

Indexation losses to other operating expenditure	(4,445)	–	(223)	(522)	**(5,190)**
At 31 March 2022	**54,381**	**10,895**	**2,351**	**5,705**	**73,332**
Amortisation:					
At 1 April 2021	**40,416**	–	**2,570**	**6,228**	**49,214**
Charged in year	6,092	–	324	8	**6,424**
Reclassifications	(59)	–	–	–	**(59)**
Disposals	(407)	–	(198)	–	**(605)**
Impairments charged to revaluation reserve	(98)	–	–	–	**(98)**
Impairments charged to other operating expenditure	(819)	–	(335)	–	**(1,154)**

Indexation losses to revaluation reserve	(907)	–	(8)	(18)	**(933)**
Indexation losses to other operating expenditure	(2,474)	–	(169)	(520)	**(3,163)**
At 31 March 2022	**41,744**	**–**	**2,184**	**5,698**	**49,626**
Net book value at 1 April 2021	**14,159**	**8,238**	**518**	**17**	**22,932**
Net book value at 31 March 2022	**12,637**	**10,895**	**167**	**7**	**23,706**

Intangible assets are indexed annually using the appropriate producer price index (PPI) published by the Office for National Statistics. During 2021/22 the indices used have fallen by 9% resulting in indexation losses being recognised.

The gross cost of intangible assets that were fully amortised but still in use at 31 March 2022 is £6,001k.

The development expenditure relating to new Regulatory Platform is CQC's most material individual asset with a net book value of £7,251k at 31 March 2022. This development is the digital technology to support the delivery of our new framework and approach.

Research expenditure associated with intangible asset development has been recognised as an expense in note 4 and is categorised by the nature of the spend incurred.

The value of staff costs capitalised within intangible asset additions amounts to £2,419k.

All intangible assets are owned by CQC.

2020/21	Information technology £000	Development expenditure £000	Software licences £000	Websites £000	Total £000
Cost or valuation:					
At 1 April 2020	**45,429**	**9,284**	**2,621**	**7,990**	**65,324**
Additions	–	10,071	487	–	**10,558**
Reclassifications	10,320	(10,320)	–	–	**–**
Disposals	–	–	–	–	**–**
Impairments charged to revaluation reserve	(337)	–	–	(339)	**(676)**

(Impairments) and reversals charged to other operating expenditure	(790)	(801)	(16)	(1,395)	**(3,002)**
Indexation gains to revaluation reserve	(47)	4	(4)	(11)	**(58)**
At 31 March 2021	**54,575**	**8,238**	**3,088**	**6,245**	**72,146**
Amortisation:					
At 1 April 2020	**36,860**	**–**	**2,443**	**7,227**	**46,530**
Charged in year	4,195	–	136	6	**4,337**
Disposals	–	–	–	–	–
Impairments charged to revaluation reserve	(313)	–	–	(321)	**(634)**

(Impairments) and reversals charged to other operating expenditure	(267)	–	(5)	(673)	**(945)**
Indexation gains to revaluation reserve	(59)	–	(4)	(11)	**(74)**
At 31 March 2021	**40,416**	–	**2,570**	**6,228**	**49,214**
Net book value at 1 April 2020	**8,569**	**9,284**	**178**	**763**	**18,794**
Net book value at 31 March 2021	**14,159**	**8,238**	**518**	**17**	**22,932**

The gross cost of intangible assets that were fully amortised but still in use at 31 March 2021 was £7,791k.

Research expenditure associated with intangible asset development has been recognised as an expense in note 4 and is categorised by the nature of the spend incurred.

The value of staff costs capitalised within intangible asset additions amounted to £2,557k.

All intangible assets were owned by CQC.

6.1 Movement in revaluation reserve: intangible assets

	2021/22 £000	2020/21 £000
Balance at 1 April	**207**	**234**
Net gain on indexation of intangible assets	40	16
Impairments charged to reserve	(25)	(42)
Transfers between reserves for intangible assets	–	(1)
Balance at 31 March	**222**	**207**

7. Property, plant and equipment

2021/22	Information Technology £000	Furniture and fittings £000	Total £000
Cost or valuation:			
At 1 April 2021	**15,939**	**3,308**	**19,247**
Additions	2,656	81	2,737
Reclassifications	–	121	121

Disposals	(4,092)	(28)	(4,120)
Impairments transferred to other operating expenditure	(2,860)	(787)	(3,647)
Impairments transferred to revaluation reserve	(170)	(6)	(176)
Indexation (losses)/gains to revaluation reserve	(72)	88	16
Indexation (losses)/gains to other operating expenditure	(165)	12	(153)
At 31 March 2022	**11,236**	**2,789**	**14,025**
Depreciation:			
At 1 April 2021	**9,769**	**3,146**	**12,915**
Charged in year	2,910	50	2,960
Reclassifications	–	59	59
Disposals	(3,852)	(28)	(3,880)
Impairments transferred to other operating expenditure	(2,594)	(735)	(3,329)

Impairments transferred to revaluation reserve	(152)	(4)	(156)
Indexation (losses)/gains to revaluation reserve	(57)	86	29
Indexation (losses)/gains to other operating expenditure	(63)	9	(54)
At 31 March 2022	**5,961**	**2,583**	**8,544**
Net book value at 1 April 2021	**6,170**	**162**	**6,332**
Net book value at 31 March 2022	**5,275**	**206**	**5,481**

All property, plant and equipment are owned by CQC.

Property, plant and equipment are indexed using the appropriate producer price index (PPI) published by the Office for National Statistics.

2020/21	Information Technology £000	Furniture and fittings £000	Total £000
Cost or valuation:			
At 1 April 2020	**11,989**	**3,217**	**15,206**

Additions	4,064	–	4,064
Disposals	–	–	–
Impairments transferred to other operating expenditure	(58)	(1)	(59)
Impairments transferred to revaluation reserve	(57)	–	(57)
Indexation gains to revaluation reserve	1	92	93
At 31 March 2021	**15,939**	**3,308**	**19,247**
Depreciation:			
At 1 April 2020	**7,587**	**2,791**	**10,378**
Charged in year	2,242	276	2,518
Disposals	–	–	–
Impairments transferred to other operating expenditure	(11)	–	(11)
Impairments transferred to revaluation reserve	(49)	–	(49)

Indexation gains to revaluation reserve	–	79	79
At 31 March 2021	**9,769**	**3,146**	**12,915**
Net book value at 1 April 2020	**4,402**	**426**	**4,828**
Net book value at 31 March 2021	**6,170**	**162**	**6,332**

All property, plant and equipment were owned by CQC at 31 March 2022.

7.1 Movement in the revaluation reserve: property, plant and equipment

	2021/22 £000	2020/21 £000
Balance at 1 April	**127**	**129**
Net (loss)/gain on indexation of property, plant and equipment	(13)	14
Impairments charged to reserve	(20)	(8)
Transfers between reserves for property, plant and equipment	(33)	(8)

Balance at 31 March	**61**	**127**

8. Financial instruments

Liquidity risk

The main source of CQC's cash is fees paid by registered providers which funds our chargeable activities. Additional cash is provided by DHSC as grant-in-aid to fund our non-chargeable activities and capital expenditure. CQC has no borrowings.

CQC manages liquidity risk through regular cash flow forecasting to ensure that enough funds are available to cover working capital requirements. During the year neither the COVID-19 pandemic or the transition period following the United Kingdom's exit from the European Union have had a material impact on CQC's liquidity. This risk was mitigated throughout the financial year with regular reporting to the ET and considered as part of our decision making.

Credit risk

Credit risk arises from cash and cash equivalents and receivable balances. CQC monitors its receivables balances closely, particularly the collection of fees, and all undisputed debts that have reached 61 days past due. All overdue receivables are regularly reported by income source, fees by sector and non-fees, to the ET.

Where internal recovery processes have been exhausted, debts are sent to an external debt collection company or recommendation of enforcement action is made against the provider for non-payment of fees under Health & Social Care Act 2008.

Regulation 13 of the CQC (Registration) Regulations 2009 requires that a provider must take all reasonable steps to meet the financial demands of providing safe and appropriate services and have the financial resources needed to provide and continue to provide the services described in the statement of purpose to the required standards. New provider applications must be supported by a statement from an accredited financial specialist such as an accountant or bank. A notice of proposal to refuse a registration application can be based on financial viability due to the inadequacy of financial planning.

The maximum exposure to credit risk at the reporting date is the fair value of each of the receivables mentioned above. CQC does not hold any collateral as security.

Market risk

CQC has no material exposure to currency or commodity risk. All material assets and liabilities are denominated in sterling. Except for cash and cash equivalents, CQC has no interest-bearing assets or borrowing subject to variable interest rates. Income and cash flows are largely independent of changes in market interest rates.

8.1 Financial assets

	31 March 2022 £000	31 March 2021 £000
Trade and other receivables with DHSC group bodies	843	3,984
Trade and other receivables with other bodies	9,371	9,247
Cash at bank and in hand	61,357	42,725

Total	**71,571**	**55,956**

8.2 Financial liabilities

	31 March 2022 £000	31 March 2021 £000
Trade and other payables with DHSC group bodies	3,265	408
Trade and other payables with other bodies	21,707	18,490
Other financial liabilities	30	47
Total	**25,002**	**18,945**

9. Trade receivables and other current assets

	31 March 2022 £000	31 March 2021 £000
Trade and other receivables:		
Contract receivables	8,787	13,161
Other receivables	2,675	2,837

Expected credit loss	(1,266)	(2,781)
Deposits and advances	18	14
Subtotal: Trade and other receivables	**10,214**	**13,231**
Other current assets:		
Prepayments	4,633	3,710
Subtotal: other current assets	**4,633**	**3,710**
Total	**14,847**	**16,941**

There were no amounts falling due after more than 1 year.

The expected credit loss relating to contract receivables totals £1,222k (31 March 2021: £2,636k) and other receivables totals £44k (31 March 2021: £145k).

Deposits and advances include advance salary payments and staff loans, these total £5k and £13k (31 March 2021: £2k and £12k). Staff can apply for advance payments on salary and loans up to a maximum of £5k for rail season tickets.

9.1 Movement in expected credit loss

	2021/22 £000	2020/21 £000
Balance at 1 April	2,781	**3,794**

Recognition of expected credit loss allowance	357	569
Changes to expected credit loss allowances	175	264
Provision utilised due to write-off	(1,379)	(1,272)
Provision reversed as unused (e.g. settlement of receivable)	(668)	(574)
Balance at 31 March	**1,266**	**2,781**

10. Cash and cash equivalents

	2021/ 22 £000	2020/ 21 £000
Balance at 1 April	**42,725**	**46,619**
Net change in cash and cash equivalent balances	18,632	(3,894)
Balance at end of period	**61,357**	**42,725**
The following balances at the end of the period were held at:		
Government banking service and cash in hand	61,357	42,725
Total balance at end of period	**61,357**	**42,725**

11. Trade payables and other current liabilities

	31 March 2022 £000	31 March 2021 £000
Amounts falling due within 1 year:		
VAT	(521)	(565)
Other taxation and social security	(3,693)	(4,998)
Trade payables	(6,065)	(5,561)
Other payables	(3,689)	(2,995)
Accruals	(12,412)	(9,021)
Capital creditors – intangible assets	(1,371)	(800)
Capital creditors – property, plant and equipment	(1,435)	(3)
Total trade and other payables	**(29,186)**	**(23,943)**
Current pension liabilities	(16)	(16)
Fee income in advance	(18,641)	(18,665)

Total current trade payables and other current liabilities	**(47,843)**	**(42,624)**
Amounts falling after more than one year:		
Pension liabilities	(14)	(31)
Total non-current trade payables and other non-current liabilities	**(14)**	**(31)**

Trade payable days at 31 March 2022 were equivalent to 20 days (31 March 2021: 20 days) purchases, based on the daily average amount invoiced by suppliers during the year. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter interest is charged on the outstanding balance at various interest rates.

12. Provisions for liabilities and charges

	2021/22	2021/22	**2021/22**	2020/21	2020/21	**2020/21**
	Leased property dilapidations £000	Other £000	**Total £000**	Leased property dilapidations £000	Other £000	**Total £000**
Balance at 1 April	**521**	**466**	**987**	**1,931**	**407**	**2,338**

Provided in year	–	709	**709**	–	466	**466**
Provisions not required written back	–	(386)	**(386)**	(1,374)	(300)	**(1,674)**
Provisions utilised in year	(44)	(66)	**(110)**	(43)	(107)	**(150)**
Change in discount rate	(4)	–	**(4)**	–	–	**-**
Unwinding of discount	–	–	**-**	7	–	**7**
Balance at 31 March	**473**	**723**	**1,196**	**521**	**466**	**987**

12.1 Analysis of expected timings of discounted cash flows

	2021/22	2021/22	**2021/22**	2020/21	2020/21	**2020/21**

	Leased property dilapidations £000	Other £000	**Total £000**	Leased property dilapidations £000	Other £000	**Total £000**
Not later than 1 year	144	723	**867**	–	466	**466**
Later than 1 year and not later than 5 years	329	–	**329**	521	–	**521**
Later than 5 years	–	–	**–**	–	–	**–**
Balance at 31 March	**473**	**723**	**1,196**	**521**	**466**	**98**

Leased property dilapidations are the costs that would be payable on the termination of the leases.

Other provisions include costs relating to ongoing legal cases, tribunals and judicial reviews estimated at £0.5m (31 March 2021: £0.5m) and also in respect of employment termination costs totalling £0.2m (31 March 2021: £nil).

Provisions falling due up to five years have been discounted by a factor of minus 0.47% (2020/21: 0.02%) in accordance with HM Treasury guidance.

13. Reconciliation of movements in the Statement of Cash Flows

13.1 Adjustment for non-cash transactions

	Note	2021/22 £000	2020/21 £000
Depreciation, amortisation and impairment charges	4.2	14,162	8,960
Increase in provision for pension fund deficit	4.1	2,393	819
Net interest expenses on pension scheme assets and liabilities	4.2	1,510	1,934
Provisions expense	4.2	319	(1,208)
Finance expense: Unwinding of discount on provisions	12	–	7
Total adjustment for non-cash transactions		**18,384**	**10,512**

13.2 Movement in trade and other payables

	Note	2021/22 £000	2020/21 £000
Increase/(decrease) in trade and other payables	11	5,243	(7,253)
Less (increase)/decrease in capital creditors – intangible assets	11	(571)	798
Less (increase)/decrease in capital creditors – property, plant and equipment	11	(1,432)	182
Total movement in trade and other payables		**3,240**	**(6,273)**

13.3 Purchase of intangible assets

	Note	2021/22 £000	2020/21 £000
Additions	6	(11,606)	(10,558)
Increase/(decrease) in capital creditors – intangible assets	11	571	(798)
Total purchase of intangible assets		**(11,035)**	**(11,356)**

13.4 Purchase of property, plant and equipment

	Note	2021/22 £000	2020/21 £000
Additions	7	(2,737)	(4,064)
Decrease in capital creditors – property, plant and equipment	11	1,432	(182)
Total purchase of property, plant and equipment		**(1,305)**	**(4,246)**

14. Movements on reserves

	General reserve £000	Revaluation reserve £000	Retained earnings £000	Total £000
Balances at 1 April 2020	**(86,500)**	**363**	**25,825**	**(60,312)**
Increase/(decrease) in the year	25,699	(29)	(1,936)	**23,734**
Balances at 1 April 2021	**(60,801)**	**334**	**23,889**	**(36,578)**

Increase/(decrease) in the period	60,511	(51)	(112)	**60,348**
Balance at 31 March 2022	**(290)**	**283**	**23,777**	**23,770**

General reserve

The general reserve reflects the total assets less liabilities of CQC which are not assigned to another special purpose reserve. The balance includes CQC's annual net excess of income or expenditure (see note 2.3) and any actuarial gains or losses arising from the assessment of CQC's share of assets and liabilities in LGPS pension funds (see note 5.4).

Revaluation reserve

The revaluation reserve is a capital reserve used when an asset has been revalued but for which no cash benefit is received. Revaluations are completed annually to reflect their fair value at the reporting date.

Retained earnings

The retained earnings reserve was initially created during 2016/17 to reflect the recovery of amortisation, depreciation and impairments as an element of the fees charged to providers. £10,710k was transferred into the reserve this year reflects the depreciation, amortisation and impairments relating to assets that support the regulatory functions where costs can be recovered from providers. During the year £10,823k was utilised to fund capital expenditure resulting in a net utilisation of £113k.

15. Capital commitments

Contracted capital commitments at 31 March 2022, not otherwise included within these financial statements:

	31 March 2022 £000	31 March 2021 £000
Intangible assets	416	1,128
Property, plant and equipment	62	126
Total	**478**	**1,254**

16. Commitments under operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

	31 March 2022 £000	31 March 2021 £000
Buildings:		
Not later than 1 year	2,287	2,432
Later than 1 year and not later than 5 years	5,429	7,778
Later than 5 years	2,706	3,596
Total	**10,422**	**13,806**

Other:		
Not later than 1 year	50	76
Later than 1 year and not later than 5 years	–	99
Later than 5 years	–	–
Total	**50**	**175**

CQC leases buildings for its own use as office space under memorandum of term occupancy (MOTO) agreements. The obligations include any contingent rent implicit in the agreements.

There were no future minimum lease payments due under finance leases at the Statement of Financial Position date (31 March 2021: none).

17. Other financial commitments

CQC has entered non-cancellable contracts in addition to operating leases and capital commitments. The total payments to which CQC is committed are as follows:

	31 March 2022 £000	31 March 2021 £000
Not later than 1 year	27,985	19,244

Later than year and not later than 5 years	30,560	13,464
Later than 5 years	–	–
Total	**58,545**	**32,708**

18. Contingent liabilities

CQC has the following contingent liabilities:

	31 March 2022 £000	31 March 2021 £000
Backdated VAT charges	313	325
Employment tribunals and legal advice	916	463
Total	**1,229**	**788**

Due to the nature of the contingent liabilities it is difficult to accurately determine the final amounts due and when they will become payable.

19. Related party transactions

CQC is a non-departmental public body sponsored by DHSC. DHSC is regarded as a related party. During the year CQC has had a significant number of material transactions with DHSC, and with other entities for which DHSC is also regarded as the parent department. We also have transactions with all NHS foundation trusts and NHS trusts as each are charged an annual statutory fee as providers of regulated activities.

In addition, CQC had transactions with other government departments and other central and local government bodies. Most of these transactions have been with the NHS Pension Scheme relating to our pension costs, HMRC for social security costs and the Government Property Agency in respect of rent for office space.

No material related party transactions were noted with members of the Board and ET other than remuneration and expenses as disclosed in the remuneration report.

20. Events after the reporting period date

In accordance with IAS 10, events after the reporting period are considered up to the date on which the Financial Statements are authorised for issue.

LGPS triennial actuarial valuation: a valuation of all funds was completed at 31 March 2022 and has been treated as an adjusting event in relation to the material Teesside fund. The IAS 19 valuation used in these Financial Statements for Teesside is based on the 2022 valuation rather than the 2019 valuation, which is the basis of all other funds. Teesside accounts for approximately 80% of the assets and liabilities recognised by CQC and has also seen a material change in its membership profile in the 3-year period between valuations. The impact of using the 2022 valuation for Teesside reduced the net deficit by £4,805k (increase in assets of £3,365k and reduction in liabilities of £1,440k). The other funds have experienced immaterial changes to their membership profiles over this period and therefore the triennial valuation is treated as a non-adjusting event. It has been announced that the maternity investigations programme, part of the Healthcare Safety Investigation Branch currently, hosted by NHS England will move to be hosted by CQC from 1 October 2023. This will be accounted for as an adsorption transfer in 2023/24.

21. Authorised date for issue

CQC's Annual report and accounts are laid before Parliament. The authorised for issue date is the date of the Comptroller and Auditor General's audit certificate. The Accounting Officer authorised these financial statements for issue on 4 July 2023.