HEALTH PROFESSIONS COUNCIL

MANAGEMENT ACCOUNTS
FOR THE PERIOD ENDING 30th September 2005
VARIANCE COMMENTARY

INTRODUCTION
These accounts have been compared to budget version 3, which was agreed by the Finance and Resources Committee on 23rd March 2005. The format of the management accounts is the same as last financial year.

DETAILED SUMMARY
After six months of the financial year, HPC budgeted an operating deficit of £396,322. The actual result for the year to date period was a surplus of £466,603 a favourable variance of £862,925.

After 6 months, actual income including investment income totalled £5,746,826 with costs at £5,078,465, thus giving the overall surplus of £668,361.

INCOME
Year to date Registration income is £258,642 above budget. Three professions have a favourable variance of over 15%. Grandparenting income for Chiropodists, Clinical Scientists and Paramedics is significantly higher than budgeted and makes up the majority of the £116k, £28k and £52k favourable variances. This has a knock-on effect of increasing registrant assessor costs. Paramedics have also had a relatively large amount of readmission income in September due to the lapsing process for this profession in September.

It is a little early to say whether all of the variances are permanent and some analysis will be needed to be carried out to distinguish between permanent and timing differences for registration income.

Year to date Investment income is £2k above budget, but over the course of the year may fall below budget depending on the timing of loan repayment and capital expenditure commitments. Unrealised gains on investments (UK and International shares and fixed interest product portfolio) accounted for a £134k favourable variance against budget[1].

DEPARTMENTS
Year to date (YTD) departmental expenditure at £5,078,465 is £585,775 lower than budget.

All departments have YTD savings except Chief Executive, Registration and Finance depts. Registration printing and stationary and improving the internal financial controls were under-budgeted. Some of the registration printing and stationary overspends are due to timing and will be investigated.

Favourable variances in other depts include delaying the Mezzanine refit, deferring some LISA Registration project costs, delays in some staff permanent appointments (Education, F2P, Comms depts), premature budgeting of potential early retirement costs (budget-phasing error) and premature budgeting of some Comms costs.

In summary, some variances will remain as consistent under or over-spends against budget (permanent differences), while other variances currently appearing, will disappear by financial year end, either through tactical re-allocation during the year (line re-allocations, bottom line-neutral for the budget-holder) or simply because the timing of the spend is difficult to determine precisely (timing differences). Making these distinctions is difficult to do early in the year.

OVERHEADS
The “Overhead Total” schedule provides a breakdown of HPC-wide costs by type of cost, rather than by department. Overall YTD Payroll costs are £115k below budget. This reflects the delays in some permanent appointments compared to budget and delays in potential early retirement costs occurring. Delays in permanent staff hires typically impact salary, national insurance and staff recruitment costs.

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[1] The fund is managed by a professional Fund Manager (Carr Sheppards Crosthwaite, part of the Rensburg Sheppards Group) with an investment mandate to seek a balanced return from income and capital growth. Unrealised gains are gains on revaluation of the portfolio to current market valuation. If sold, such gains become realised as a profit on sale.

Staff Travelling and Subsistence costs are £34k under-spend against budget on a YTD basis. The delays in hiring additional Education staff are reflected in reduced travel costs.

Council and Committee costs are £72k under-spent against budget. Likely reasons are a lower than expected meeting attendance rate and delays in some expense claims made, compared to budget. Also the HPC's AGM was cancelled in July and deferred until later in the year.

Property Services costs are £47k below budget. Most of this is explained by the recent decision to delay the commencement of the planned Mezzanine refit beyond March 2006. Instead, the £47k will be spent in the next few months on 22-26 Stannary St basic refit to ease current office space pressures. The 22-26 Stannary St refit had been planned to commence from April 2006, so has in effect, been brought forward.

Office Service costs are £16k below budget, mainly in the cost areas of room hire and office equipment under £1K. These areas are difficult to predict on a monthly basis and hence the favourable variances could just be timing variances.

Computer Services costs are £116k below budget. This is largely in deferment of LISA Registration system enhancements (project dependencies) and a change in the pattern of how Digital Steps bills HPC (was upfront, now progress billing).The over-spend in Internet Maintenance is partly offset by Disaster Contingency (DC) plan under-spends. The Disaster Contingency actual costs are less than budgeted.

Communications costs are £189k under-spent against budget. £15k of this favourable variance is delayed spending on 2005 Annual Report production & distribution, reflecting delays (new auditors) in producing and publishing the final annual financial accounts compared to budget-phasing. Advertising is £58k under-spent against budget, this is a timing difference.

The £127k under-spend against budget for Partners is mainly due to lower actual recruitment and training costs for partners and less approval visits to date than budgeted.

The £132k over-spend against budget includes £151k Kingsley Napley[2] legal expenses under-budgeted (annual budget also likely to be under-budgeted by an even larger amount). This is offset by a £81k timing difference for legal advice from Bircham Dyson Bell. Other overspends are £114k Other Professional Fees (Council Election costs under-budgeted and Baker Tilly Audit work) and £23k Pension Administration costs (delays in obtaining a budgeted refund on the legacy closed pension fund to offset the pension management cost). Professional Liaison Groups are currently £37k under spent. This is a timing difference and costs will be incurred in the second half of the year.

BALANCE SHEET

Net Assets since 1 April are up £543k; comprising a £906k increase in fixed asset cost (mostly acquisition of the 22-26 Stannary St building and some disposals of computer equipment), increase in Working Capital of £58k, increase in deferred income of £51k and taking out a short term loan, £464k of the original £500k loan remaining unpaid.

The increase in Working Capital of £58k comprised a reduction in cash balances of £227k, decrease in creditors of £296k and a decrease in debtors and prepayments of £11k.

The Net Assets balance of £1,448k is represented by the Capital Grant Receivable (being progressively released to the Income and Expenditure Account) of £230k, Accumulated Funds of £1218k (£550k at the beginning of the financial year plus the 668k net surplus for the year to date).

Liquidity Ratio (a suitable ratio in most companies is about 1.5 plus)
Current Ratio (current assets divided by current liabilities) = 3.06, Annual Budget Current Ratio = 4.43

Debt to Current Assets Ratio (ability to repay residual loans with current assets – should be less than 1)
Ratio = 0.17, Annual Budget Ratio = 0.

CASH FLOW

The Cash Flow Statement[3] indicates the cash movement from 1st April to the current month, broken down into three types, Operating Activity movements, Finance Activity movements and Capital

[2] The legal firm HPC uses for Fitness to Practice cases

Activity movements (assets purchases and sales). The net cash movement was a reduction in cash of £227k.

The net cash outflow from Operating Activities from 1st April 05 to September 30th was an increase of £453k, mostly due to the surplus over expenditure (taking off depreciation), offset by a reduction in creditors.

Other cash movements totalling £680k were the cash inflow when the £500k loan was acquired, the cash outflow of £1,095k (22-26 Stannary St purchase and minor IT purchases) and net purchases of investments by the Fund Managers (from cash holdings).

CONCLUSION
Overall, HPC's operating position is solid. Base funds are supplemented by a £464k residual bank loan, with interest currently being charged at 6.5% per annum. This loan was made to cover the purchase of an adjoining property (22-26 Stannary St) in expectation of further work expansion. Subject to meeting the 05/06 HPC Operating budget by financial Year End, we expect to be able to repay the residual loan, in full by financial Year End.

Although YTD expenditure is currently tracking 10% below budget, further analysis has yet to be carried out to separately distinguish timing differences from permanent differences making up the underspend. This also applies to registration income. The early signs are that some of the income and expenditure favourable variances are permanent and will contribute to HPC meeting the operational budget for the year.

Richard Ballard
Management Accountant
October 2005

[3] The cash movement when compared with the Income/Expenditure Statement can often be significantly different. This is because the Income/Expenditure Statement uses accrual accounting principles to recognise income and expenditure, in accordance with UK Generally Accepted Accounting Principles (UK GAAP). Income and expenditure are not necessarily the same as cash inflows and cash outflows, for a given period. To arrive at the cash movement, all non cash items, e.g. depreciation, are removed and balance sheet movements taken into consideration.