HEALTH PROFESSIONS COUNCIL

MANAGEMENT ACCOUNTS
FOR THE PERIOD ENDING 31st December 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 nine months of the financial year, HPC budgeted an operating deficit of £96,986. The actual result for the year to date period was a surplus of £865,389 a favourable variance of £962,374.

After 9 months, actual income including investment income totalled £8,641,789 with costs at £7,482,340, thus giving the overall surplus of £1,159,449.

INCOME
Year to date Registration income is £428,649 above budget. Three professions have a favourable variance of over 15%. Grandparenting income for Chiropodists & Clinical Scientists is significantly higher than budgeted and makes up the majority of the £193k and £51k favourable variances. This has a knock-on effect of increasing registrant assessor costs. Paramedics have also had a relatively large amount of readmission income due to the lapsing process for this profession in September and makes up the majority of the £75k favourable variance.

After nine months it seems that there are some permanent favourable variances in particular re-admission fees and grandparenting fees. Whilst international scrutiny fees have an unfavourable variance at present (£131K), this is likely to improve in the final 3 months. This is due to the grand-parenting process finishing, enabling more resources to be used to process international applications.

Year to date investment income is £6k above budget. Unrealised gains on investments (UK and International shares and fixed interest product portfolio) accounted for a £189k favourable variance against budget[1].

DEPARTMENTS
Year to date (YTD) departmental expenditure at £7,482,340 is £517,272 lower than budget.

All departments have YTD savings except Chief Executive, Registration and Finance depts. Spending on Registration printing & stationary, and improving the internal financial controls were under-budgeted. Some of the registration printing and stationery overspends have been investigated and are a permanent adverse variance. This was due to a change in the design in the certificates and issue of authentication cards.

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

OVERHEADS

[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.

The "Overhead Total" schedule provides a breakdown of HPC-wide costs by type of cost, rather than by department. Overall YTD Payroll costs are £106k 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.

Staff Travelling and Subsistence costs are £42k 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 £75k under-spent against budget. Likely reasons are a lower than expected meeting attendance rate and delays in some expense claims made, compared to budget.

Property Services costs are £22k 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 £40k under-spend 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. Some minor work has been carried out in 22-26 Stannary St and represents the adverse variance of 18k in repairs and maintenance.

Office Services costs are £78k below budget, mainly in the cost areas of printing & stationery, and postage. Printing and stationery for the Secretariat budget was over-budgeted and at this point it looks likely that there are some permanent favourable variances within the postage budget.

Computer Services costs are £95k below budget. This is largely in deferment of LISA Registration system enhancements (project dependencies) and a change in the pattern of how Digital Steps Ltd bills HPC (was upfront, now altered to 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 £169k under-spent against budget. About £15k of this favourable variance is delayed spending on 2005 Annual Report production & distribution. The Annual Report delays reflect delays in producing and publishing the annual financial statements (a key section in the Annual Report), compared to budget-phasing. In explanation, producing and publishing the Annual financial statements was delayed by the fraud events of 2005. The fraud delayed the March 2005 annual audit since new external auditors were appointed to perform the audit. In addition, changes to financial provisions were subsequently made, Annual Report commentary had to be re-written in light of the fraud discovery and potential, additional Employment-tax liability analysed (unrelated to the fraud). Within Comms, there is likely to be some permanent favourable variances.

The £202k 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 £273k over-spend against budget includes £167k Kingsley Napley[2] legal expenses under-budgeted (the annual budget also likely to be under-budgeted by an even larger amount). This is offset by a £129k under-spend for legal advice from Bircham Dyson Bell. Other overspends are £286k Other Professional Fees (Council Election costs under-budgeted and Baker Tilly Fraud/Internal Control-related Audit work) and £19k 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 £45k under spent. Some of this a timing difference, the rest will be a permanent favourable variance.

BALANCE SHEET

Net Assets since 1 April are up £971k; comprising a £909k increase in fixed asset cost (mostly acquisition of the 22-26 Stannary St building and some disposals of computer equipment), decrease in Working Capital of £292k and a decrease in deferred income of £407k.

The decrease in Working Capital of £58k comprised a reduction in cash balances of £523k, decrease in creditors of £283k and a decrease in debtors and prepayments of £51k.

The Net Assets balance of £1,876k is represented by the Capital Grant Receivable (being progressively released to the Income and Expenditure Account) of £167k, Accumulated Funds of £1709k (£550k at the beginning of the financial year plus the 1,159k net surplus for the year to date).

<u>Liquidity</u> (a suitable ratio in most companies is about 1.5 plus)

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

Current Ratio (current assets divided by current liabilities) = 0.75, Annual Budget Current Ratio = 0.9

$$\text{Ratio} = \frac{\text{Investments + Current Assets}}{\text{Creditors + Deferred Income}}$$

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 Activity movements (assets purchases and sales). The net cash movement was a reduction in cash of £524k.

The net cash outflow from Operating Activities from 1st April 05 to 31st December was an increase of £561k, mostly due to the surplus over expenditure (taking off depreciation), offset by a reduction in creditors and deferred income.

Other cash movements totalling £1,084k were the cash inflow and outflow when the £500k NatWest loan was acquired and paid back, the cash outflow of £1,098k (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 at present is a good one. HPC continues to make surpluses which have raised its reserves to £1,876k. Some of the favourable expenditure variances are permanent and are contributing to the overall surplus combined with the permanent favourable income variances.

The indicators are that HPC will more than meet the budgeted surplus at the end of the financial year, increasing its overall reserves. As a final note, individual year surpluses/deficits and Reserves levels need to be considered in the context of a longer time horizon than one year, since investment in enabling infrastructure and service improvements happens in a "lumpy" way over time. Similarly fee rises do not occur on an annual basis, renewal cycles are two years and the timing of renewal cycles (affecting income patterns) vary across the professions.

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January 2006

[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.