HEALTH PROFESSIONS COUNCIL

MANAGEMENT ACCOUNTS
FOR THE PERIOD ENDING 30th June2005
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 three months of the financial year, HPC budgeted an operating deficit of £234,222. The actual result for the year to date period was a surplus of £122,786 a favourable variance of £357,008.

After 3 months, actual income including investment income totalled £2,779,677 (26% of annual budget), with costs at £2,656,891 (26% of annual budget), thus giving the operating surplus of £122,786.

INCOME

Year to date Registration income is £59,456 above budget. It is a little early to be discussing any trends, but 2 of the professions (Chiropodists & Physiotherapists) are showing relatively high favourable variances. This is due to an influx of registrants from international and grandparenting applications towards the end of the last financial year. These registrants' fees would have been included in the carry forward figure for this financial year and actuals higher than budgeted.

Year to date Investment income is £6k 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 £51k favourable variance against budget[1].

DEPARTMENTS

Year to date (YTD) departmental expenditure at £2,656,891 is £240,685 lower than budget.

All departments have YTD savings except Council, Chief Executive and Finance depts. Essentially, new council election costs and costs associated with improving the internal financial controls were under-budgeted.

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 £110k 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. Priority work performed during staff shortages would typically impact overtime costs and/or temp staff costs or be allocated to existing staff, causing lower priority work to be delayed.

Staff Travelling and Subsistence costs are £5.5k under-spend against budget on a YTD basis. The delays in hiring additional Education staff are reflected in reduced travel costs.

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[1] The fund is managed by a professional Fund Manager (Carr Sheppards Crosthwaite, part of the Investec 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.

Council and Committee costs are £13k 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 £38k below budget. Most of this is explained by the recent decision to delay the commencement of the Mezzanine refit, pending further tendering for the work.

Office Service costs are £34k below budget, mostly in printing and stationery costs - explained by delays in sending out Registration Renewal notices (going out in August instead of July).

Computer Services costs are £52k below budget. This is largely in deferment of LISA Registration system enhancements. The over-spend in Internet Maintenance is partly offset by Disaster Contingency (DC) plan under-spends, reflecting that some DC budget should be Internet Maintenance instead.

Communications costs are £26k under-spent against budget. £19k of this is delayed spending on 2005 Annual Report production & distribution, reflecting delays in producing and publishing the final annual financial accounts compared to budget-phasing. Although Advertising is £33k over-spent against budget, this is mostly a timing difference.

The £55k 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 £93k over-spend against budget includes £23k Kingsley Napley[2] legal expenses under-budgeted (annual budget also likely to be under-budgeted by an even larger amount), £59k Other Professional Fees (Council Election costs under-budgeted) and £23k Pension Administration costs (delays in obtaining a budgeted refund on the legacy closed pension fund to offset the pension management cost).

BALANCE SHEET

Net Assets since 1 April are up £60k; comprising a £1,051k increase in fixed assets (mostly acquisition of the Stannary St building), reduction in Working Capital of £1,547k, reduction in deferred income (were mostly renewals paid in advance, now recognised as period income) of £1,056k and taking out a short term loan of £500k.

The reduction in Working Capital of £1,547k comprised a reduction in cash balances of £1,351k, increase in creditors of £224k, increase in debtors and prepayments of £28k (largely insurance premiums and utility costs prepaid).

The Net Assets balance of £965k is represented by the Capital Grant Receivable (being progressively released to the Income and Expenditure Account) of £293k, Accumulated Funds of £672k (£550k at the beginning of the financial year plus the 122k net surplus for the year to date).

<u>Liquidity Ratio</u> (ratio in most companies should be 1.5 plus)
Current Ratio (current assets divided by current liabilities) = 1.18, Annual Budget Current Ratio = 4.43

<u>Debt to Current Assets Ratio</u> (ability to repay loans with current assets – should be less than 1)
Ratio = 0.29, 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 Activity movements (assets purchases and sales). The net cash movement was a reduction in cash of £1,351k.

The net cash outflow from Operating Activities for to June 30th was a decrease of £715k, mostly in decreases in deferred renewals income (prepaid fees) offset by increased creditors.

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

[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 Generally Accepted Accounting Principles (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.

Other cash movements totalling £636k were the cash inflow when the £500k loan was acquired, the cash outflow of £1,094k (Stannary St purchase and minor IT purchases) and net purchases of investments by the Fund Managers (from cash holdings).

CONCLUSION

Overall, HPC's current position is solid and base funds are supplemented by a £0.5M loan to cover the purchase of adjoining property in expectation of further work expansion. However, it is still early in the financial year to extrapolate our likely final results (the quantum of all the likely overs and unders).

Further work needs to be done to model cash-flow forecasts (to drive debt repayment) and better understand which are fixed and volume-driven costs. We also need to review cost increases against income sources and examine the budget in the context of an updated Five Year Plan.

Simon Leicester
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July 2005