HEALTH PROFESSIONS COUNCIL

MANAGEMENT ACCOUNTS
FOR THE PERIOD ENDING 28th FEBRUARY 2006
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 eleven months of the financial year, HPC budgeted an operating deficit of £132,091. The actual result for the year to date period was a surplus of £1,025,820 a favourable variance of £893,729.

After 11 months, actual income including investment income totalled £10,691,568 with costs at £9,285,175, thus giving the overall surplus of £1,406,393.

INCOME
Year to date Registration income is £628,506 above budget. Two 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 £210k and £60k favourable variances. This has a knock-on effect of increasing registrant assessor costs.

After 11 months there are some permanent favourable variances in particular re-admission fees and grandparenting fees. Whilst international scrutiny fees have an unfavourable variance at present (£37K), this is likely to continue to improve in the final month. 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 £15k above budget. Unrealised gains on investments (UK and International shares and fixed interest product portfolio) accounted for a £246k favourable variance against budget[1].

DEPARTMENTS
Year to date (YTD) departmental expenditure at £9,285,175 is £248,768 lower than budget.

All departments have YTD savings except Council, Chief Executive, Registration, Finance and depts. A provision for Council and Committee tax cost to HPC has been included in the Council department (£137k) this is an un-budgeted expense. 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. This position hasn't changed in the month of February.

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).

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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.

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 £40k 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 £58k 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 £54k under-spent against budget. Likely reasons are a lower than expected meeting attendance rate and delays in some expense claims made, compared to budget. These favourable variances are offset by additional training expenditure.

Property Services costs are £2k 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 £35k under-spend will be spent in the next few months on 22-26 Stannary St basic refit to ease current office space pressures. The main 22-26 Stannary St refit has been planned to commence from September 2006. Some minor work has been carried out in 22-26 Stannary St and represents the adverse variance of 19k in repairs and maintenance.

Office Services costs are £70k below budget, mainly in the cost areas of room hire and postage. There are some permanent favourable variances within the postage budget and room hire.

Computer Services costs are £109k 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). By the end of the financial year the budget for software systems will be fully spent (timing difference). 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 £174k 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. Within Communications there are some permanent favourable variances.

The £248k 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. These favourable variances are offset by overspends in registration assessors which reflect the increase in grandparenting and international scrutiny fees across the year.

The £370k over-spend against budget includes £266k 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 £255k Other Professional Fees (Council Election costs under-budgeted and Baker Tilly Fraud/Internal Control-related Audit work) and £22k 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 £60k under spent. This is a permanent difference.

BALANCE SHEET
Net Assets since 1 April are up £1,176k; comprising a £911k 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 £13k and a decrease in deferred income of £398k.

The decrease in Working Capital of £13k comprised an increase in cash balances of £109k, increase in creditors of £54k and a decrease in debtors and prepayments of £67k.

The Net Assets balance of £1,919k is represented by the Capital Grant Receivable (being progressively released to the Income and Expenditure Account) of £126k, Accumulated Funds of £1,794k (£387k at the beginning of the financial year plus the 1,406k net surplus for the year to date).

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

The balance sheet as at end of March 2005 has been altered to reflect the fraud investigation and a provision for Council and Committee tax cost to HPC in 2002-05 (£305k).

Liquidity (a suitable ratio in most companies is about 1.5 plus)

Current Ratio (current assets divided by current liabilities) = 0.80, 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 an increase in cash of £109k.

The net cash outflow from Operating Activities from 1st April 05 to 28th February 06 was an increase of £1,150k, mostly due to the surplus over expenditure (taking off depreciation), offset by a reduction in creditors and deferred income.

Other cash movements totalling £1,179k were the cash inflow and outflow when the £500k NatWest loan was acquired and paid back, the cash outflow of £1,100k (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 (cash and surplus) at present is a good one. With a month to go HPC continues to make surpluses which have raised its reserves to £1,919k. Some of the favourable expenditure variances are permanent and are contributing to the overall surplus combined with the permanent favourable income and investment variances.

Richard Ballard
Management Accountant
March 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.