

## Financial Review

UKAS enjoyed record sales volumes and revenues in 2008/9, surpassing the previous records set in 2007/08 by 5.5% and 9.5% respectively. This coupled with cost management and the FRS17 pension adjustments meant that a profit after tax of £201,000 will be transferred to reserves.

### Accreditation Volume

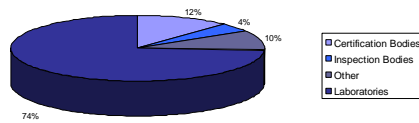
The sales volume for the year was 14,800 days, another record, with most types of work exceeding the previous year's results. New accreditation work for first time and existing customers continued to be strong at 2510 days (up 5%). Ongoing Surveillance and Reassessment work for existing customers also posted an increase, 13% at 11,661 days as a result of the new accreditations and extensions to scopes in earlier years. Recent international agreements ("cross frontier accreditation") caused us to expect and plan for a decrease in the number of days billed for overseas travel for the last two years and this has finally happened. We planned for a 158 day decrease, 22%, but in fact the reduction in the year was 88 days, 12% to 629 days, 4% of total days sold. We have planned for a further reduction of 16% in the current year.

The increased volume was shared across all operating sections except Food and Mechanical. Industrial Chemistry and Construction continue to grow to the extent that they are now both 15% each of the entire business volume. Engineering Inspection and Electrical, Physical, Thermal, (EPT) sections also showed double digit growth of 13% each.

### Turnover

For the year under review we adjusted our day rates in line with price inflation but held the annual accreditation fee and other fees for the second year in succession and further held these charges in 09/10. Even with this however, ongoing fees for the majority of customers were lower than the RPI increases since 2005/6.

Customer Breakdown 2008/9



The additional volume (see above) and slight adjustments to prices increased our accreditation revenues by £544,000 and £483,000 respectively. This was improved further by an increase in development income, £24,000 to £193,000, an increase in charged travel and subsistence, £278,000 to £1,763,000 and a slight increase in income from Training & Other Contracts £65,000. The overall effect on Turnover was an increase, year on year, of £1.2m (9%) to £13.8m.

#### Costs and Gross profit

Our aim always is to deliver the majority of our assessment work using our own employees to ensure the quality, consistency and efficiency of our service, whilst of course keeping a tight control over costs. To achieve this, and given the continuing volume growth, we increased the average technical headcount by four during the year to 84 (59% of total staff). This increase and a general wage review in line with price inflation pushed up staff costs by £382,000 to £4.23m compared to the previous year. While this increase should result in a lower demand for subcontractors in the future, subcontractors deliver around one third of all days but the £157,000 increase in their fees over the year from £2.1m to £2.25m reflects a slowing down in prior year's increases. Generally the UKAS business will never be able to totally cover the specialist disciplines required by the market through its own workforce but the proportional cost will continue to fall.

After limiting the price increases for a third year post the restructuring and absorbing the additional costs above, UKAS managed to hold the gross profit margin at 34% of turnover

#### Administrative Expenses

Commercial training revenue declined in the year but UKAS courses are still well received in the market place. As one of the attendees to an ISO 15189 course states, "The course was immensely enjoyable and of huge benefit to me." So while income was down, training and advisory services still generated a positive contribution to fixed costs of £76,000. This business stream is highly sensitive to the economic climate and therefore to the individual take-up of places.

External Affairs made a negative contribution of £11,000 in 2008/09 compared to a positive one of £15,000 in 2007/08, but this was broadly in line with the annual budget forecast of an £8,000 loss. The income rose from the Department for Business Innovation and Skills, (BIS) at the same time as an extra staff member was recruited to provide internal administrative support to the head of the department allowing him to spend more time promoting UKAS's external profile.

Our Corporate Communications programmes continued in 2008/09 again partly supported by BIS. The total spend went up marginally from £511,000 in 07/08 to £516,000 in 08/09 supported by £153,000 and £180,000 respectively by the Department for Innovation, Universities and Skills, (DIUS) and now BIS.

Corporate Services costs rose by 11% to £2.3m due to the following reasons: last year's accounts had a one off benefit from a rates review of £50,000; recruitment and training cost increases of £71,000; outsourcing IT had on costs in the year of £36,000 as the benefits were part year; increased legal and professional fees related to the Clinical Pathology Accreditation (UK) (CPA) acquisition £38,000; and an increase in bad debt provisioning of £27,000. Finally the sub-lease of the ground floor ceased reducing rental income by £77,000 versus prior year.

#### Profits, taxation and reserves.

The mandatory FRS17 pension scheme adjustment for the difference in current service costs and pension scheme costs increased our operating result from £111,000 to £158,000 profit. We also earned interest by placing our surplus funds on short-term deposits with a commercial bank. The reported profit before tax at the end of the full year was £242,000.

The reported results including the FRS17 effect contradict the underlying operating condition of the company. This is because the profit and loss reserve is negative due to the £2,710,000 FRS17 obligation. Before restatement for the FRS17 effects, the reserves carried forward from 2007/08 were £2.9m, the profit after tax for the year (excluding all FRS17 effects) was £124,000 and this has been added to reserves so as to carry forward £3.0m in to 2009/10.

#### Headcount

Headcount increased by seven during the year, split between technical staff (4) recruited to take account of new expanding areas of forensics and Imaging Services Accreditation Scheme (ISAS) and additional management and office support (3) to bolster new activities in Marketing, Communications and Quality Management.

There was some movement in technical staff early in the year but a noticeable lack of movement amongst administration and operational support staff throughout the year as the recession started to bite.

#### Capital Items and cash.

During the year the only capital expenditure was the IT expenditure as part of our three year replacement programme at £8,000.

There was a cash outflow during the year of £234k reducing the cash held at the year end to £1.3m. 2009/10 is going to be a different story with three major investments, ISAS, replacement of the operating system, UBIS, and the acquisition of Clinical Pathology Accreditation (UK) Limited (CPA). Along with the impact of recession this means that cash management is going to be at a premium as our clients start to feel the crunch, taking longer to make payments and debtor's days could start to rise.

The high debtors at the end of 2008/09 were due to March income being at a record high, 11% of the full years' income was generated in a 7% time period. This contributed to the high debt position of £3.3m versus 2008/09's of £2.8m. Obviously at the 1<sup>st</sup> April 2009, March Income was not due or collectable. However, looking forward, Finance has measures in place to significantly resolve this position.

**Alan Hill, Director of Finance**