



Subject	Reserves Policy		
Status	Open Session		
Purpose	For Decision		
From	Marc Stoner		
History	Parent Committee	First Submitted	Revision Number
	N/A		1

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1. Purpose

To consider a recommendation to amend the Reserves Policy.

2. Recommendations

It is recommended that the Board's reserves policy be amended to:

- i. "The Board's reserves policy is to hold a minimum of the estimated wind-up costs, assessed annually. When calculating this figure, unrealised profit on investments will be included in the calculation";
- ii. The operating reserves fund should not drop below 4 months operating costs; and
- iii. Reclassify capital carry forward (ring fenced project / committed spend), and depreciation as a designated reserve, rather than inclusion in the operational reserve.

3. Terms of Reference

Under the Scheme of Decision making, the Board determines the policy on ARB's reserves.

4. Open Session

5. Contribution to the Board's Purpose and Objectives

In delivering the Act, ARB's objectives are:

Protect the users and potential users of architects' services; and

Support architects through regulation

Having appropriate financial planning mechanisms and an adequate reserves policy in place enables the Board to deliver its strategic aims, and provides confidence to suppliers and stakeholders that ARB is prudently managing its financial affairs.

Having in place an appropriate policy also demonstrates the organisations sustainability and capacity to manage unforeseen, or planned for financial events.

6. Key Points

Current Reserves Policy

- i. The current reserves policy is to hold the higher of the following:
 - A minimum of four months' budgeted expenditure. When calculating this figure any unrealised profit on investments will be excluded from the calculation, or;
 - Estimated wind-up costs, assessed annually. When calculating this figure, unrealised profit on investments will be included in the calculation.

- ii. The reserves are made up of the following funds:
 - **Operational reserve** - consisting of prior years' accounting adjustments, capital spend carried forward (ring fenced projects / committed spend) and contributions/surpluses to reserves.
 - **Designated reserve**, consisting of:
 - IT renewal fund – set aside to cover cost of equipment replacement. The fund is anticipated to contain £35k at the end of 2015.
 - Maintenance reserve - set aside to cover costs of cyclical maintenance. The fund is anticipated to contain £19k at the end of 2015 (this fund is currently being rebuilt, following the utilisation of £15k approved by the Board in May 2015 for re-decoration and maintenance within the Weymouth Street offices).
 - Election Fund, this covers the cost of the election of 7 Board members every 4 years. The fund is anticipated to contain £45k at the end of 2015, depending on the timing of and payment of the 2016 elections.
 - Revaluation Reserve – this contains the unrealised profit on investments.

- iii. The Framework Agreement with the Department of Communities and Local Government (DCLG) requires ARB to have provision to meet the costs of winding up the organisation. In 2012, agreement was reached with DCLG that ARB would build the reserves up to cover those liabilities over the following couple of years.

- iv. The level of reserves at the end of 2015 is anticipated to be £2,591k, which equates to approximately 7.8 months of operating costs and contains sufficient funds to cover the estimated costs of winding up the organisation as required under the Framework Agreement.

Reserves to meet any wind up costs

- v. The Framework Agreement between the organisation and Department of Communities and Local Government (DCLG) states that ARB is responsible for maintaining its assets at a level sufficient to cover its liabilities if ARB were to be wound-up.

Therefore as part of this year's review of the reserves policy, a comprehensive review of the costs of winding-up the organisation has been calculated. The estimated cost of closure is currently £2,470k

When setting the 2013 budget in September 2012, the Board took the decision the

build-up the reserves over subsequent years. This strategy has delivered the required objective and the Board's estimated liabilities can currently be met by the held reserves.

Attached as **Annex A** is a breakdown items of expenditure associated with the orderly closure of the organisation. The Registrar and the Financial Controller reviewed each cost category; taking into consideration the relevant pressures associated with that cost, and specified the likely cost that we believe to be associated with that element of the wind up.

The following high-level assumptions have been made when formulating the costs illustrated:

- The organisation is given 12 months' notice of the repeal of the Act. Any longer period would incur further costs with the likelihood of no corresponding income.
- DCLG manages carefully the timing of any announcement of the repealing of the Architects Act, to ensure that ARB's income generation through the retention fee for the following 12 months is not jeopardised.

The statutory functions are not being transferred to other organisations.

Our discussions with DCLG in 2012, made it clear that ARB must build up the level of reserves held to ensure it could meet its costs of winding up the organisation. This dispensation to build up the reserves was given so that it did not have a significant impact on the fee in year one. Given that the size of the Register increased significantly during 2014 and 2015, has led to the required reserves levels being built without having to put the fee up significantly.

During August 2015, as part of the DCLG spending review, it was made clear that self-funded bodies need to be self-sufficient, with no monies available by the Department. The proposed change in the reserves policy would accurately reflect ARB's further obligations under the Framework Agreement, as well as giving the Department confidence in ARB's financial management.

Four Months Operating Costs

- vi. Under the Boards existing policy, it is required to hold the higher of the four months operating cost (c£1,337k) or the costs of wind up. However, as the cost of winding up the organisation continues to grow, it is unlikely that four months operating costs will ever exceed the cost of winding up.

Therefore, to ensure the Boards reserves policy fits with its current operating environment, and the requirements by DCLG to hold assets to the equivalent of its wind up costs, the reserves policy should reflect the position.

It remains essential that the organisation is able to access readily available funds in order to meet any urgent/unbudgeted operational needs; therefore, the value of the operational reserves should contain at least a minimum of four months of operating costs.

- vii. The Board are asked to note that the level of reserves will fluctuate from time to

time. This makes sound financial management of its funds available and will ensure that any impact on the profession will be kept to a minimum. If the level of reserves ever breaches the Board's policy, the Board should agree a strategy to bring them back up to the appropriate level.

Anticipated reserves position at the end of 2015.

- viii. **Annex B** outlines what the likely balance of reserves will be at the end of 2015. This calculation demonstrates the Board's ability to meet proposed changes to the reserves policy.

7. Risk Implications

Regular reviews of the Board's reserves policy ensure that the organisation has appropriate reserves in place. This in turn reduces the prospect of the organisation not having the required financial resources available should a risk be realised. It should be noted that in the past, surplus reserves held have been used to fund projects or smooth the retention fee.

8. Resource Implications

As the Board's reserves policy is forecasted to be met at the end of 2015, there will be no impact on the 2016 fee.

Reserves held will continue to be invested in line with the Board Investment policy (agreed July 2015).

9. Communication

Mindful of its responsibilities as a statutory regulator and prudent employer, the proposed amendment to the policy will assist it to crystallise its liabilities in the event that it is wound-up, or to respond to a portfolio of organisational risks should one or more of those risks be realised.

10. Growth Duty Considerations

The proposed policy represents a proportionate and reasonable method of delivering ARB's statutory functions, while meeting Government expectations.

11. Equality and Diversity Implications

None identified.