



**Subject** Management Accounts and Year-End Forecast 2017

**Purpose** To Note

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## 1. Summary

The purpose of the paper is to inform the Board of ARB's financial position at 31 October 2017, including the year-end forecast for 2017.

Attached at **Annex A** is the management accounts summary, which includes the year-end forecast and variances against the 2017 budget. This shows a forecasted surplus at the year-end of £467k (£245k Sept 17) (Column G) compared with to a budgeted surplus of £222k (Column H), an increase of £245k.

The reasons for the change in forecast are:

- Lower than anticipated drop in the number of applications experienced during quarter 3/4 giving additional income. Although this is still £56k below budgeted new application and reinstatements income for 2017.
- Higher than anticipated profit from investments sold for cash flow purposes.
- Drop in the number of Professional Conduct Committee (PCC) cases and adjournment of two lengthy PCC hearings from late 2017 into 2018

## 2. Open

## 3. Contribution to the Board's Purpose and Objectives

In delivering the Act, ARB's objectives are to:

Protect the users and potential users of architects' services and support architects through regulation.

To manage the organisation's finances prudently whilst delivering ARB's statutory requirements and objectives.

## 4. Background

### i. Income

The year-end forecast is currently estimated at £4,711k (£4,697k Sept 17) (**Annex A, Column G**) against a budget of £4,659k (**Annex A, Column H**), resulting in a £52k (**Annex A, Column I**) increase in income.

- **Annual Retention Fee** – £38k increased income - When setting the budget for the annual fee in September 2016, the number of registrants paying the fee was estimated at 36,985. The Register continued to grow during the remainder of 2016 and fewer than anticipated architects were removed for non-payment,

resulting in approximately 37,329 fee payments for 2017.

- **Entry/Re-entry to the Register** – £56k decrease in income (£68k decrease Sept 17) – the level of registrant’s joining the register in the 1st quarter of the year remained similar to 2016 levels. However, during the 2<sup>nd</sup> quarter, we had seen a drop in the number of EU applications of around 42% compared to the same period in 2016. During the 3<sup>rd</sup> quarter, the EU reduction was 33%. Overall applications, both UK and EU, for the year are estimated to be down approximately 12%.

As previously reported, the numbers re-joining the register are lower than anticipated due to the reduced number of removals for non-payment of the retention fee as outlined above.

- **Prescribed Examinations:** £11k reduction in income due to lower than anticipated numbers for November. This is offset by a reduction in Prescribed Examiner expenses.
- **EU Certificates & Sundry Income** - £4k increased income – Increase in the number of EU certificates being issued and sale of the PDF Register and copyright income.
- **Dividends and Bank Interest** - £76k increased income – Following the change to the Boards investment portfolio in November 2016, the revised portfolio continued to perform well. During September and October we realised £500k for cash flow purposes which resulted in additional profit being realised.

ii. **Expenditure**

The year-end forecast is currently estimated at £3,957k (£4,115k Sept 17) (**Annex A, Column G**) against a budget of £4,150k (**Annex A, Column H**), resulting in a £245k (**Annex A, Column I**) underspend.

Detailed below are the key variances which result in the forecasted underspend:

- **Employee costs** – Whilst no underspend is being forecast, this is subject to the successful recruitment and appointment of the Executive Assistant post (currently being covered by a fixed term contract) and the vacant Investigations Officer role. Given the close proximity to the year end, any notice period of the individuals we might recruit may delay their start date into the new year.
- **Office costs** – £10k overspend (£10k Sept 17). It was reported at the May 2017 Board meeting that we expected a £7k overspend in relation to Business Rates due to the revaluation. However, due to an error at the Valuation Office, the valuation rate has been subsequently amended resulting in a £13k underspend. We have created more useable meeting space by using the hot desk area more effectively. The cost of the work was £23k which the Registrar approved under her authority, as set out in the Scheme of Decision Making and reported to the Board in July 2017.
- **Professional Conduct and Regulation** – £153k underspend (£0 Sept 17). There has been an unexpected drop in the number of PCC cases generally, but this underspend has been exacerbated by the recent adjournment of two complex cases into 2018 and a lower than anticipated number of cases being heard in November and December. There is a significant amount of work in progress and

no reason to believe that this drop-off is anything more than a temporary fluctuation in workload. In light of the anticipated underspend a more rigorous examination of future caseload will be undertaken to ensure that financial forecasts are as accurate as they can be. The Head of Finance along with the Board External Auditors are exploring how the cost of the deferred cases are treated in the year-end financial statements as they will either be treated as a provision or the surplus moved to reserves and ring fenced for use in 2018.

- **Title misuse** - Title misuse - £33k underspend, including £5k of cost awarded by those cases that reached the prosecution stage. While the number of misuse of title investigations has remained consistent with previous years, the majority of these have been closed successfully in 2017 without the need for expensive prosecutions. There are two cases listed at the Magistrates' Courts in December.
- **Prescribed Examination** - £11k underspend, due to lower than anticipated number wishing to sit the exam. This is offset against a decrease in income.

iii. **Capital and One Off Costs - Variances**

There are currently no variances to report and projects are progressing. Any underspends as a result of timing of delivery, will be set aside within reserves at the year end.

iv. **Reserves**

The balance of the Operating Reserve Fund, excluding any unrealised gains on investments, as at 1 January 2017 was £4,981k. Taking into account the forecasted surplus, there are sufficient funds to meet the DCLG requirements to hold the cost of closure, leaving approximately 4 months of unallocated reserves, slightly under the Boards policy of 4 months.

Also contained within the reserves are the funds being held for various projects carried forward, as well as those that were deferred awaiting the outcomes of the Periodic Review. Some of these projects are now underway.

**5. Resource implications**

The forecasted year-end surplus will be transferred to reserves to ensure that the Boards reserves policy is met. It should be noted that holding this level of reserves was a factor when the Board made the decision in September 2017 to hold the retention fee at £107.00 for 2018.

**6. Risk Implications**

The Operational Management Group closely monitor the impact on workloads and financial resources and will report to the Board where appropriate, to keep the Board up to date.

**7. Communication**

ARB is committed to seeking cost-saving initiatives to help ensure value for money. Sound budget planning and the prudent management of ARB's financial resources contribute towards maximising cost savings.

**8. Equality and Diversity Implications**

None identified.