



Subject 2017 Financial Outturn
Purpose For Note
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1. Summary

The purpose of the paper is to inform the Board of ARB's financial position for year ending 31 December 2017.

Attached at **Annex A** is the 2017 Outturn summary which shows a surplus at the year-end of £563k (£467k forecast Oct 17) (**Annex A, Column C**) compared to a budgeted surplus of £222k (**Annex A, Column D**). This results in an operating surplus of £341k (£245k forecast in October 17) a change in the underspend of £96k.

The key changes since the October 2017 forecast, reported to the Board at its November 2017, meeting are (**Annex A, Column H**):

Income: Slight increase in the volume of new applications resulting in an additional £22k of income. There was also a lower number sitting the examinations in November, however, the decrease in income is offset by lower costs.

Staff costs – Additional underspend of £49k - Delayed on-boarding of 2 new staff members until 2018 and holding 1 vacancy. Therefore, recruitment costs and other associated costs have been deferred to 2018.

Printing and Consumables – Additional underspend of £20k - Lower print and postage costs for the Annual Fee invoice and fewer Professional Conduct Committee (PCC) cases meaning less printing and copying of case bundles. Encouraged use of the ARB intranet rather than paper bundles for Committee meetings.

Board Expenses – Increased costs of £15k - Higher number of claims submitted in the last few months of the year than anticipated as well claims for other ad hoc meetings.

Professional Services and Legal Advice – Increased costs of £34k - Additional advice was sought in relation to IR35 legislation and the cost of the criteria review (which will be covered from within reserves set aside in 2016).

However, £24k of the costs associated with the criteria review is being covered from 2016 reserves reducing the overspend to £10k.

Professional Conduct and Regulation – Decrease in forecast savings of £25k - Whilst a higher underspend was previously forecast, this underspend was reduced due to a late upsurge in work at the end of the year.

Investments - £58k additional income - Gains on investments partly due to the change in the Boards Investment Strategy, agreed November 2017 and the value of the Investments on 31 December 2017.

Business Plan/One off costs - £37k underspent, although £24k will offset the cost of the criteria review.

2. Open

3. Contribution to the Boards Purpose and Objectives

In delivering the Act, ARB's objectives are:

Protect the users and potential users of architects' services

Support architects through regulation

The prudent financial management of ARB enables the delivery of all of ARB's statutory requirements and objectives.

4. Key Points

Below details the variances from the approved budget to the actual outturn in more detail, focusing on those variances of £10k and above.

i. Operational Income

The year end outturn for Income is £4,625k ([Annex A, Column C](#)) compared to a budgeted income of £4,638 ([Annex A, Column D](#)) a decrease in budgeted income of £13k.

- **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:** £34k decrease in income (£56k decrease Oct 17) – the level of registrants joining the register in the 1st quarter of the year remained similar to 2016 levels. However, during the 2nd quarter, we had seen a drop in the number of EU applications of around 42% compared to the same period in 2016. The 2nd half of 2017 saw a drop of 31% in EU applications against the same period in 2016. Over the course of the year, EU applications dropped by 23%, but this was offset by a 13% increase in UK applications. Overall applications, both UK and EU, for the year are estimated to be down approximately 5%.

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:** £21k increase in income (£11k increase Oct 17) 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.

ii. **Operational Expenditure**

The year end outturn for Expenditure was £3,990k (**Annex A, Column C**) compared to a budgeted income of £4,169 (**Annex A, Column D**) a decrease in budgeted Expenditure of £178k.

- **Employee costs** – £49k underspend – We successfully recruited to the Executive Assistant post and the Investigations Officer role during 2017. However, due to notice periods, it was not possible to on-board them prior to the year end as anticipated; therefore any recruitment costs will occur in 2018. Whilst a majority of new starters are joining the pension scheme, they are entering at the lowest level on contribution resulting in lower costs than anticipated.
- **Printing and Consumable** – £20k underspend – Savings on the printing and postage costs of the annual retention fee as well as fewer PCC cases in the last couple of months of the year.
- **Board Expenses** – £16k overspend – Higher than expected expense claims received. Overall there was an increase in the number of additional meetings (such as observing examinations/PCC hearings and induction of new Board members etc). £10k was set aside from reserves to cover such costs.
- **Professional Services and Legal Advice** - £31k overspend – We sought advice in relation to IR35 tax changes which required ARB to assess all of their suppliers. Additional work was carried out where a supplier disputed the outcome. This budget heading also covered the costs of the criteria review, which is being met from prior years reserves (see reserves section below).
- **Professional Conduct and Regulation** – £128k underspend - There was 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. The decrease in forecasted underspend of £25k was reduced due to a late upsurge in work at the end of the year.
- **Title Misuse** - £20k underspend - 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.
- **IT and Digital Spend** - £11k overspend –A requirement, under International Accounting Standards, is to capitalise IT development costs (staffing, software and hardware). This calculation is carried out at the year end, in conjunction with the external audit team. These items are depreciated over three years, with 2/3rds of the funds being held in reserves. This is an accounting adjustment only and therefore, does not represent physical cash available in reserves (more information is provided under capital spends at the end of this report).

iii. **Investments and Corporation Tax**

- **Dividends and Bank Interest:** £138k increase in income (£62k increased income Oct 17). The Board's investment portfolio continued to perform well throughout the year which resulted in higher than expected dividends following the change in the Investments Strategy in November 2016. In November 2017, the Board amended its Investment Strategy, as well as raising funds for cash flow purposes, and which resulted in the sale and subsequent profit in order to make the changes to the strategy.
- At the year end, a snap shot is taken of the value of ARB's investment portfolio. This figure is used for preparation of the Financial Statements and is therefore subject to market conditions on the 31 December 2017.

iv. **Business Plan/One off items – Capital Expenditure**

The Board allocated £219k for business plan and one off projects for commencement in 2017. Spend during 2017 was £110k with £72k being carried over to 2018 for project completion and depreciation charges over a three year period.

Overall there was a £37k underspend where projects were delivered more efficiently.

Other points to note:

- As in previous years, due to the timing and delivery of capital and one-off projects, it is not always possible to spend the funds allocated by the Board as part of the budget setting process, within the financial year. This is to ensure value for money is achieved in the delivery of projects/developments. There are also a number of projects, such as Section 14 (including amendments to the Professional Standards Portal following the Section 14 review) which have been delayed as a result of waiting for the outcomes of the Periodic Review.
- In line with International Accounting Standards, at the end of the year we are required to review revenue spend to see if any items of development fall within capital expenditure. We are required to capitalise and depreciate such items over three years. This resulted in a lower than anticipated operating spend within the year and therefore, a temporary increase in the level of reserves. These funds will be required going forward to cover the cost of annual depreciation and have therefore been ring-fenced to ensure that it does not impact on the retention fee going forward.

vi. **Reserves**

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;
- The operating reserves fund should not drop below four months operating costs.
- Reclassify capital carry forward (ring fenced project / committed spend), and depreciation as a designated reserve, rather than inclusion in the operational reserve.

The Ministry for Housing, Communities and Local Government (MHCLG) require the ARB to hold, as a minimum, the estimated costs of winding up the organisation. At the end of the 2017 financial year, the level of reserves was sufficient to cover the estimated wind up costs as required by the MHCLG. The Board reviewed its Reserves policy in September 2017. The next review of the Board Reserves Policy will take place during 2019.

The table below shows a breakdown of reserves to demonstrate what is committed and what is available for the Board to use:

	At 1 January 2017 £	Movement in year £	Transfers between reserves £	At 31 December 2017 £
Operational reserve	4,609,026	795,290	(3,961,000)	1,443,316
MHCLG closure reserve	-	-	3,629,000	3,629,000
<i>Designated reserves</i>				
IT renewal	42,000	7,000	-	49,000
Election	20,000	10,000	-	30,000
Maintenance	41,000	7,000	-	48,000
Deferred projects	-		332,000	332,000
Revaluation reserve	269,080	(50,671)	-	218,409
Total	4,981,106	768,619	-	5,749,725

The Operational reserve stand at £1,443k which is approximately 4.2 months of operating costs and therefore meets the Boards Reserves Policy.

5. Resource Implications

The increase in the level of reserves is as a direct result of savings within expenditure, increased income, profits on investments and timing of capital projects and the need to capitalise IT development costs.

Given the potential changes coming from the Brexit, maintaining a higher level of reserves is prudent in order to mitigate some of the resource risks identified within the Risk Register.

The level of reserves will be taken into consideration when the Board agrees the 2019 retention fee. As the trend continues to show a higher number of applications to the Register, income assumptions will be revised upwards for future years as appropriate.

6. Risk Implications

Continuous assessment of the financial landscape enables the management group to alert the Board should any financial risks arise.

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 will contribute towards maximising cost savings.

8. Equality and Diversity Implications

None currently identified in relation to reporting of the financial outturn for 2017. We will continue to consider this position on an ongoing basis.