

Subject Management Accounts and Year-End Forecast 2018

Purpose To Note

From Marc Stoner – Head of Finance and Resources

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1. Summary

The purpose of the paper is to inform the Board of ARB's financial position at 31 October 2018, including the year-end forecast for 2018.

Attached at **Annex A** is the management accounts summary, which includes the year-end forecast and variances against the 2018 budget. This shows a forecasted surplus at the year-end of £103k (**Annex A, Column G**) compared with a budgeted surplus of £76k (**Annex A Column H**).

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. Whilst there are variances showing in the year to date figures (**Annex A, Column E**), this is related to timing differences as opposed to actual under/over spends. Any actual variances are detailed below.

ii. Operating Income

The year-end forecast is currently estimated at £4,722 (**Annex A, Column G**) against a budget of £4,671k (**Annex A, Column H**), resulting in £51k additional income (£17k in Qtr2) (**Annex A, Column I**).

- **Annual Retention Fee:** £38k increased income - When setting the budget for the annual fee in September 2017, the number of registrants paying the fee was estimated at 38,457. The Register continued to grow during the remainder of 2017 and fewer than anticipated architects were removed for non-payment, resulting in approximately 38,779 fee payments for 2018.
- **Entry/Re-entry to the Register:** £17k decrease in income - The number of applications is lower than budgeted in September 2017. We estimate there will be a reduction of approximately 120 applications by the end of the financial year.

- **Prescribed Examinations:** £28k increase in income due to an increase in those sitting the exam and those being referred to the lead examiner. However, this additional income will be offset against an increase in expenditure.
- **EU Certificates and Sundry Receipts:** £2k increase in income due to an increase in the requests for EU certificates. These certificates are issued to assist the registrant gain recognition in other EU states.

iii. **Operating Expenditure and One Off Costs**

The year-end forecast is currently estimated at £4,469k (**Annex A, Column G**) against a budget of £4,351k (**Annex A, Column H**), resulting in a £118k (£99k Qtr 2) (**Annex A, Column I**) overspend.

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

- **Employee costs:** £15k overspend – overspend in relation to recruitment costs and induction of new staff. There has been a higher than anticipated staff turnover during the year.
- **Premises costs:** £6k overspend in relation to electricity, insurance and service costs in relation to ARB premises.
- **Professional Services and Legal Advice:** £66k overspend - The estimated costs of the on-going criteria review are estimated to be £35k in 2018 (Funded from reserves). Funds were set aside to cover some of these costs in prior years, so overall and therefore unlikely to impact on the budgeted outturn. Costs of £31k incurred in relation to the Property strategy review as required as part of the Periodic Review outcomes and the pending break clause in the lease.
- **Title misuse:** £4k forecasted underspend – this is the estimated amount of costs we anticipated being recovered from title misuse prosecutions during 2018. It should be noted that there remains £5,800 owed to ARB in costs by a misuse of title offender. The individual will now start to pay £60 per month.
- **Prescribed Examinations:** £20k increase in costs, based on demand outlined under income.
- **IT & Digital Spend -** £15k overspend (funded from reserves) – due to a number of power outages (nation grid related) in recent months, work was required to the server room to upgrade the uninterrupted power supply.

iv. **Investments**

Dividends and Bank Interest: £45k increase in forecasted income – Following the change to the Boards investment portfolio in November 2017, additional dividends are anticipated during 2018.

v. Business Plan – capital spend

There are currently no variances to report and projects are progressing. The low level of spend is down to both timing of invoices and completion of work. Any underspends as a result of timing of delivery will be set aside within reserves at the year end and reported to the Board.

vi. Reserves

Taking into account the forecasted budget surplus and the ring fencing of £200k contingency (EU exit/MRA/Hacket), the operating reserves are estimated to stand at £1,329k at the year end. This is approximately 3.6 months of operating costs and therefore falls slightly below the Boards Reserves Policy.

As part of the 2019 budget setting, consideration was given to the level of reserves to build back to the Boards policy of holding 4 months' worth of operating costs.

There are currently sufficient funds to meet the MHCLG requirements to hold the cost of closure.

Also contained within the reserves are the funds being held for various projects carried forward and therefore the spend associated with these projects wont impact on the Boards reserves policy.

The planned transfer to reserves of the annual £10k for the election fund is no longer required due to the planned changed to the Boards constitution.

5. Resource implications

The forecasted year-end surplus will be transferred to reserves. 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.

There are a number of items of work on the horizon that are not included within the above forecasted outturn as the scope/cost is not yet known. However, the Board have set aside £200k provision to support some of the work in relation to:

- Hackett Review
- UK departure from the EU
- Mutual Recognition Agreements (MRA's).

The spend to date on these funds is £91k, with a forecast spend of £170k by the end of the year. This will leave approximately £30k to carry forward in to 2019. It maybe that some additional funds will be required to be set aside to fund any further work in 2019 and a separate paper will be bought back in December 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 currently identified in relation to reporting of the forecasted outturn for 2018 or for the 2019 approved budget. We will continue to consider this position on an ongoing basis especially when setting the budget and annual fee for 2020.