



Subject Management Accounts and Year-End Forecast 2019
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 25 March 2019, including the year-end forecast for 2019.

Attached at **Annex A** are the management accounts summary, which includes the year-end forecast and variances against the 2019 budget approved budget. This shows a forecasted surplus at the year-end of £169k (**Annex A, Column F**) compared with to a budgeted surplus of £143k (**Annex A Column G**), an increase in the surplus of £26k.

The reasons for the change in forecast are:

- When setting the budget for the annual fee in September 2018, the number of registrants paying the fee was estimated at 39,814. The Register continued to grow during the remainder of 2018 and fewer than anticipated architects were removed for non-payment, resulting in approximately 40,074 fee payments for 2019.
- An increase in the number of those registrants requiring a certificate to enable them to register in other EU states.
- Additional expenditure in relation the on-going review of the procedures and criteria in relation to qualifications.

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. Income

ARB does not receive any funds from Government and has no powers to borrow any funds such as the taking out of loans. Therefore, its running costs are funded by an annual fee levied on the profession as well as charging a fee for first registration, those re-joining the Register and those sitting the prescribed examination.

The annual retention fee for 2019 is £111, which was the first increase in the annual fee since 2015 when it was set at £107.

The year-end forecast is currently estimated at £5,011k (**Annex A, Column F**) against a budget of £4,973k (**Annex A, Column G**), resulting in a £34k (**Annex A, Column H**) increase in income. Below is a summary of some key factors in this movement.

- **Annual Retention Fee:** £28k increased income – When setting the budget for the annual fee in September 2018, the number of registrants paying the fee was estimated at 39,814. The Register continued to grow during the remainder of 2018 and fewer than anticipated registrants were removed for non-payment, resulting in approximately 40,074 fee payments for 2019.
- **Entry/Re-entry to the Register:** £4k reduction in income - The number of applications is broadly in line with the budget. However, this slight drop in income is as a result of less registrants being removed from the Register for non-payment of the 2019 annual fee. Volumes are kept under review especially with all of the unknowns around exiting the EU.
- **EU Certificates and Sundry Receipts:** £10k increase in income – Certificates are issued to enable registrants to register in other EU states. There are usually between 90 and 100 certificates issued annually, however, during the first 3 months of the year 310 have been issued. This increase is related to the pending UK exit of the EU.

iii. Operating Expenditure and One Off Business Plan Items

ARB's largest area of spend is in relation to its staff costs for its 29 employees (26 permanent and 3 fixed term roles). The second area of high spend is in relation to professional conduct and regulation, with expenditure including that of the Professional Conduct Committee, Investigations panel and associated legal costs.

The year-end forecast is currently estimated at £4,540k (**Annex A, Column F**) against a budget of £4,532k (**Annex A, Column G**), resulting in a £8k (**Annex A, Column H**) overspend.

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

- **Professional Services and Legal Advice:** £8k overspend is predicted due to the ongoing work in relation to the Procedures and Criteria review. Further funds maybe required but will be reviewed at the next key mile stone of the project and an update will be provided to the Board.

iv. Investments

The Boards current attitude to its investment risk is 'medium' based on a three to five year time horizon. Those funds not required in the short term for operational activities are put into ARBs investment portfolio. The Boards investment portfolio is managed by Quilter Cheviot.

All other funds (those required within the short term) are spread across ARB's 3 bank accounts.

v. Capital and One Off Costs

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 and reported to the Board.

vi. Reserves

Operating Reserves

Taking into account the forecasted budget surplus, the Operational reserves are estimated to stand at £1.7m at the year end. This is approximately 4.5 months of operating costs and therefore meets the Boards Reserves Policy. However, it should be noted that any unanticipated expenditure would need to be funded from these reserves and so the amount held may fluctuate over time.

MHCLG Closure Fund

ARB is required by Ministry of Housing, Communities and Local Government (MHCLG) to hold in reserves the estimated cost of the closure of ARB. This reserve sits around £3.6m are sufficient to meet the MHCLG requirements.

MHCLG have said that in the event we need further contingency around the UK's exit from the EU, Hackitt and the progression of MRA's that they would be in agreement for ARB to use up to £1m. A plan to re-build the use of these reserves would need to be agreed by the Board.

ARB is required by the Ministry of Housing, Communities and Local Government (MHCLG – ARB's sponsoring government department), to hold in reserves the estimated cost of the closure of ARB. This reserve sits around £3.6m and as it is not required in the foreseeable future is place in an investment portfolio along with other funds not required in the short term.

Designated Reserves

At 31 December 2018, designated reserves represented the IT renewal fund (£59,000 - to cover the cost of ensuring that the organisation's computer systems remain up to date and efficient), the Election Fund (£30,000 – set up to cover the cost of the triennial election of ARB Board) is no longer required and transferred back to operational reserves and the Maintenance Reserve (£58,000 – set up to

cover the regular cost of redecoration of the offices in accordance with the terms of the lease).

In addition a further £440,000 has been designed for projects that were budgeted for in prior years but where these projects run over several years, such as systems developments, paperless projects and delivering of the periodic review recommendations.

Contingency Fund

The Board also set aside a £200k provision to support some of the work in relation to:

- Hackitt Review (£17k spent)
- UK's departure from the EU (£94k spent)
- Mutual Recognition Agreements (MRAs) (£10k spent)

Spend to date on these work streams is £121k, leaving £79k within the designated contingency fund. 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 to the Board.

5. Resource implications

The forecasted year-end surplus will be transferred to reserves. It should be noted that holding these levels of reserves was a factor when the Board made the decision in September 2018 to increase the annual fee to £111 in order to re-build the operating reserves back up to the Boards reserves policy as well as to fund the additional resources within title regulation.

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 2019. We will continue to consider this position on an ongoing basis especially when setting the budget and annual fee for 2020.