



Subject Financial outturn 2021
Purpose To Note
From Director of Resources

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1. Summary

This paper sets out the year end outturn for financial year ending 31 December 2021.

The financial statements have now been reviewed by the Board's external auditors. The statements were also presented to the Audit and Risk Assurance Committee (ARAC) at its meeting on 20 April 2022. There were no issues raised as part of the audit or raised with the ARAC of a material concern.

Attached at **Annex A** is a summary, which includes the year-end outturn and variances against the 2021 budget.

The retained surplus at the year-end was £496k prior to any adjustments for areas of expenditure carried forward in 2022. This is a positive outcome given the potential £222k planned deficit for 2021.

This is as a result of the Government grant, deferring IT development projects whilst a fundamental review was undertaken into our IT estate infrastructure and strong performance of our investment portfolio. There have also been savings in relation to employee costs as a result of a number of hard to recruit roles.

2. Recommendation

It is recommended that the Board:

- i. Notes the content of this paper.

3. Confidential Session

4. 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.

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

5. Operation Income

- 5.1** The operating income as at 31/12/21 was £5,832k ([Annex A, Column C](#)) against a budget of £5,511k ([Annex A, Column D](#)).
- 5.2 Annual Retention Fee** – At the time of setting the annual retention fee for 2021, the estimated number of Architects on the Register was lower than the actual number as at 31/12/2020 and so c42,700 Architects paid their 2021 fees.
- 5.3 Entry/re-entry to the Register** - For new applications and those returning to the Register, fewer than anticipated joined the Register and those joining came on to the Register later in the year and will have paid a reduced retention fee.
- 5.4 £321k increased income** – ARB was successful in being awarded a Government grant of £700k over two years to support our work on the development of new international routes to registration and Mutual Recognition Agreements (MRAs) (i.e., 1 April 2020 to 31 March 2021 and 1 April 2021 to 31 March 2022), which we were notified of in January 2021 after the original budget and fees were agreed. The grant agreement was signed on 31 March 2021. This meant that funds previously set aside for this work can now be released into general reserves totaling a further £321k saving.

6. Operating Expenditure

- 6.1** The operating expenditure as at 31/12/21 was £5,273k ([Annex A, Column C](#)) against a budget of £5,768k ([Annex A, Column C](#)).
- 6.2 Staff costs** – The Board, in April 2021, agreed a permanent increase in headcount of seven full time posts.
- 6.3** We experienced a challenging job market during 2021. According to the latest Recruitment and Employment Confederation / KPMG Report on Jobs, there is an all-time record low in availability of staff and the imbalance of staff and jobs has led to significant upward pressure on starting salaries, “at the fastest rates in 24 years of data collection”.
- 6.4** The cost of recruitment is payable upon placement of an individual and therefore posts that were not filled by the 31 December 2021 will have to be met within 2022.
- 6.5 Premises** – The additional spend within this area was in relation to changes made to the office to facilitate collaborative working, environmental impact reduction and health and safety in relation to Covid. These costs were partially offset against savings made in relation to the procurement of a new telephone system.
- 6.6 Postage, Telecommunications and Printing** – Efficiency savings were made in the final quarter of the year because of re-tendering for the annual retention fee invoice and a change over from a traditional telephone system to VOIP.
- 6.7 Public and Professional Awareness** – Due to Covid restrictions we were unable

to reschedule a number of the planned consumer shows. We had also planned an audit of our website, however due to the workload and a number of hard to fill roles within the communications area, the audit has been postponed to 2022.

- 6.8 Professional Services and Legal Costs** – When setting the budget for 2021, the outcome of the government grant application was unknown. Costs for the formation of the new international routes to registration and the development of future MRA/MOUs were therefore factored into the budget. It is likely that the underspend will be required in 2022 due to delays to the finalisation of all the required legislation.
- 6.9 Professional Conduct, title and regulation** – We had one exceptionally complex and lengthy PCC case lasting 23 days, which had an unusually high impact on our overall budget.
- 6.10 Banking/Payment processing and sundry items** – Following the re-negotiation of credit card processing fees and the drive to move registrants to online services generated a saving within this area.
- 6.11 Prescription/Qualifications** – The work continues to be carried out remotely as opposed to in person and generates savings as a result. The licence of the Prescription portal and development work was covered within the IT and Digital spend heading below.
- 6.12 IT and Digital** – A number of developments were paused whilst a fundamental review was undertaken into our IT estate infrastructure. The development work will be carried out during 2022 and the underspend has been ringfenced within reserves.

7. Investments

- 7.1** During 2021, the Board's investments performed strongly leading to a decision that dividends being paid on the closure fund will be withdrawn from the portfolio to support the organisational transformation in 2022 and beyond.
- 7.2** Strong performance also increased the value of the portfolio and combined with the restructuring of the portfolio increased its value by £757k.
- 7.3** It is important to note that the increased value is at a point in time (31/12/2021) and the value can decrease. This is known as the unrealised profit value and is represented within the reserves as such.
- 7.4** Corporation Tax is payable in relation to ARB's investment portfolio only. A provision is created for the tax on the unrealised profits as well as the profits generated from the sale of assets and income generated.

8. Reserves

8.1 Operating Reserves

Taking into account the retained surplus for 2021, the operational reserves stand at £2.8m. This is approximately five months of budgeted operating costs and therefore meets the Board's Reserves Policy (which is a minimum of four months budgeted operating costs). The level of reserves is set considering the risks faced by ARB in terms of a decline in income or increase in expenditure and the time that would be taken to return ARB to a balanced budget by reducing

costs or adjusting the annual registration fee.

8.2 DLUHC Closure Fund

The Framework Agreement with the DLUHC requires ARB to maintain its assets at a sufficient level to cover its liabilities if ARB were to be wound up. At 31 December 2021 this is estimated to be c£4m. The major elements of this reserve relate to:

- a significant shortfall in income in the period following notice of closure by the DLUHC resulting from an inability to collect all registration fees due during that period; and
- redundancies, lease termination costs and costs associated with winding up existing regulatory cases.

As these funds are not required in the foreseeable future, they are placed in an investment portfolio. Income generated from the portfolio is withdrawn and used to support the operating activities of ARB to keep the annual fee as low as possible.

8.3 Designated Reserves

At 31 December 2021, designated reserves consist of a Maintenance Reserve (£68,000 – set up to cover the regular cost of redecoration of the offices in accordance with the terms of the lease).

In addition, a further £1m has been designated for projects that were budgeted for in prior years but where these projects run over several years, such as our IT investment. All the projects are currently ongoing and funds drawn down as and when required. Where efficiency savings are made, funds will be returned to general reserves for utilisation by the Board.

8.4 Revaluation Reserve

At the 31 December 2021, the revaluation reserve represented the closing market value less historic cost value of ARB's investments (accumulated unrealised gains).

This value can decrease as well as increase and is dependent on market performance.

9. Risk Implications

The Senior Leadership Group closely monitor any impact on workloads and financial resources and will report to the Board where appropriate, to ensure the Board is kept up to date.

10. Communication

ARB's Financial Statements are published annually and in line with statutory requirements, so we will not be proactively promoting the content of this paper. However, we will promote (at relevant points) ARB's commitment 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 and minimising the retention fee; we will build this message into our

communications when the retention fee is set later this year.

11. Equality and Diversity Implications

None currently identified in relation to reporting of the outturn for 2021. We will continue to consider this position on an ongoing basis especially when setting the budget and annual fee for 2023.