



**Subject** Management Accounts and Year-End Forecast 2019  
**Purpose** To Note  
**From** Marc Stoner – Head of Finance and Resources

If you have any enquiries on this paper, please contact Marc Stoner at [marcs@arb.org.uk](mailto:marcs@arb.org.uk) or on 020 7580 5861

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## 1. Summary

The purpose of the paper is to inform the Board of ARB's financial position at 30 June 2019, including the year-end forecast outturn 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.

Overall the forecasted surplus at the year-end is £436k (**Annex A, Column F**) compared with a budgeted surplus of £143k (**Annex A Column G**), an increase in the **surplus** of £293k (£31k May 2019). The planned £143k budgeted surplus was agreed by the Board in September 2018 in order to re-build its operating reserves to the approved reserves policy of holding a minimum of 4 months operating costs.

The significant change between May and July is in relation to Professional Conduct and Regulation where we are experiencing issues in relation to delays in scheduling cases. Further information can be found in Section 5 (vi) below.

The breakdown of the variation between income and expenditure is as follows:

**Income** is currently estimated at £5,018k (**Annex A, Column F**) against a budget of £4,977k (**Annex A, Column G**), resulting in a £41k additional income (**Annex A, Column H**) as a result of:

- 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.

Operational expenditure is currently estimated at £4,383k (**Annex A, Column F**) against a budget of £4,635k (**Annex A, Column G**), resulting in a £252k (**Annex A, Column H**) underspend as a result of:

- A current staff vacancy, which we hope to have someone in post by August 2019.
- Additional costs in relation the on-going review of the procedures and criteria in

relation to qualifications.

- We are predicting an underspend in the region of £250k in the area of Professional Standards. The level of this underspend is by no means certain at this mid-year point, as it is almost entirely dependent on the number of Professional Conduct Committee (PCC) cases that can be listed between now and the end of the year. Further information can be found in section 5 (vi) of this paper.

There are currently no variances to report in relation to business plan items and taxation.

Additional background information can be found in section 5 below.

## 2. The Board should note the following:

- Overall there is additional income over the budget of £41k
- The £250k potential underspend within Professional Standards and Regulation.
- There will be an underspend within the employee costs of £10k as a result of a vacancy during the year. This is for a 2 year fixed post and the £10k will be set aside for use in 2020/21 to complete the 2 year contract.
- There is a £8k overspend within Professional Services in relation to the review of the Criteria and Procedures. This overspend will be offset by additional income referred to above.
- Business Plan items are progressing and any unspent funds will be rolled over into 2020 to complete the projects (an update on the progress of the Business Plan will be provided as part of Agenda Item 8).
- That a further £40k will be required in order to deliver any outcomes of the UK leaving the EU. Currently this can be covered within the existing operational budget through the additional income and savings within other budget headings. (see Section 5(iv) below)
- That the Board's current reserves policy is being met.

## 3. Open

## 4. 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.

## 5. 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 was set at £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 £5,018k ([Annex A, Column F](#)) against a budget of £4,977k ([Annex A, Column G](#)), resulting in a £41k ([Annex A, Column H](#)) increase in income. Below is a summary of some key factors in this movement.

- **Annual Retention Fee:** £30k 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 fewer 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:** £15k 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 6 months of the year 427 have been issued. This increase is related to the pending UK exit of the EU.

iii. Operating Expenditure and One Off Business Plan Items

The year-end forecast is currently estimated at £4,383k ([Annex A, Column F](#)) against a budget of £4,635k ([Annex A, Column G](#)), resulting in a £252k ([Annex A, Column H](#)) underspend.

There are currently 3 areas of expenditure where a variance to budget was identified and are outlined below in more detail.

- iv. **Employee costs:** ARB's largest area of spend is in relation to its staff costs for its 29 employees. This budget contains all of the costs associated with ARB's employees, including salaries, contractual benefits, training and the cost of recruitment.

The Board asked for a breakdown of the staff costs across the various departments, this can be found in the table below.

Department	No. of Staff		Actual to 30/6/19			Full Year Forecast		
	Per m	Fix ed	Actual	Budget	Variance	Forecast	Budge t	Varianc e
			£000	£000	£000	£000	£000	£000
Corporate	6		229	235	(6)	485	485	0
Registration	8		201	203	(1)	418	418	0
Professional Standards	6	2	209	226	(17)	453	463	10
Qualifications	5	1	183	189	(6)	390	390	0
Recruitment, Temporary Staff, Training			31	69	(38)	139	139	0
Hackitt Review	0	1	19	19	0	22	22	0
<b>Total Employee costs</b>	<b>25</b>	<b>4</b>	<b>874</b>	<b>941</b>	<b>(68)</b>	<b>1,906</b>	<b>1,916</b>	<b>10</b>

When setting the budget for 2019, the Board approved two additional 2-year fixed term posts to help raise awareness of the Register and deal with an increased level of protection of title regulation. The Public Awareness role did not start in post until mid-February 2019 and left mid-May 2019. We are currently in the process of recruiting to this role but a new team member is not likely to be in post until August 2019. Therefore, a £10k underspend is being reported which will be carried into the 2020 budget to ensure the full 2 years post is fully realised.

In relation to the £38k year to date variance on recruitment, temporary staff and training it is anticipated that this budget will be fully utilised by the end of the financial year. We are about to start the recruitment for a replacement Qualifications Manager as the incumbent is due to leave in August 2019.

Hackitt Review – in order to free up the resources of the Head of Professional Standards to focus on the Hackitt Review, temporary resources were required as well as some further minor staffing changes. The temporary post ceased at the end of June 2019. The cost of the project is being funded from operational reserves. Further information on the overall spend can be found within the [contingency heading](#) of this report.

- v. **Professional Services and Legal Advice:** There is currently a £8k overspend due to the ongoing work in relation to the Procedures and Criteria review. Further funds will be required and further costing will be provided at the next key milestone of the project and an update will be provided to the Board.
- vi. **Professional Conduct and Regulation:** We are predicting an underspend in the region of £250k in the area of Professional Standards. The level of this underspend is by no means certain at this mid-year point, as it is almost entirely dependent on the number of Professional Conduct Committee cases that can be listed between now and the end of the year. This means that the level of underspend at this stage may be between £40k and £350k. The costs are inevitable, but the question of whether they will land in 2019 or 2020 is unclear.

The primary reason for this backlog was the absence of the PCC from January until April, due to a change to Schedule 1 of the Architects Act. Even though the PCC was

reappointed by the new Board at its first meeting, the PCC Rules requirements for notice meant that the proper resumption of cases could not happen until June. The progress of cases until the end of the year is subject to a number of variables which are explained further at **Annex B**, but the main obstacle will undoubtedly be the limited availability of what is a relatively small committee. A new recruitment exercise will happen in the new year, and give the opportunity to expand the size of the PCC if workloads continue to demand it.

**vii. Capital and One Off Costs**

There are currently no variances to report and projects are progressing. Any underspends as a result of the timing of delivery will be set aside within reserves at the year end and reported to the Board. Where efficiency savings are made, funds will be returned to general reserves for utilisation by the Board.

**viii. Reserves**

**Operating Reserves**

Taking into account the forecasted budget surplus, we estimate that the Operational reserves will stand at £1.7m at the year end. This is approximately 4.5 months of operating costs and therefore meets the Board's Reserves Policy. However, it should be noted that any unanticipated expenditure that cannot be contained within the operational budget would need to be funded from these reserves and so the amount held may fluctuate over time. Any additional expenditure, outside of the overall budget, above £30k, needs Board approval and a paper will be brought to a future Board meeting seeking approval.

**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 and is sufficient to meet the MHCLG requirements. As these funds are not required in the foreseeable future, they are placed in an investment portfolio.

MHCLG have said that in the event we need further contingency around the UK's exit from the EU, Hackitt and the progression of Mutual Recognition Agreements that they would be supportive of ARB using up to £1m from these funds. The Board would need to agree a plan to re-build any used reserves.

**Designated Reserves**

At 31 December 2018, designated reserves consisted of the IT renewal fund (£59,000 - to contribute to 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) which is no longer required and will be 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 designated for projects that were budgeted

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for in prior years but where these projects run over several years, such as systems developments, paperless projects and delivery of the periodic review recommendations. All of the projects are currently on going and funds drawn down as and when required.

### ix. Contingency Fund

The Board, at its July 2018 meeting, set aside a £200k provision to support some of the work in relation to:

- Hackitt Review (£46k spent)
- UK's departure from the EU (£112k spent)
- Mutual Recognition Agreements (MRAs) (£10k spent)

Spend to date on these work streams is £168k, leaving £32k within the designated contingency fund.

Given the pending exit date of 31 October 2019, it is likely that a further £40k will be required in order to deliver any outcomes of the UK leaving the EU. Currently this can be covered within the existing operational budget through the additional income and savings within other budget headings.

## 6. 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 Board's 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.

## 8. 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.

## 9. 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.