



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 or on 020 7580 5861

1. Summary

The purpose of the paper is to inform the Board of ARB's financial position at 31 October 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.

The overall forecasted surplus at the year-end is currently £433k (£436k reported September 19) (**Annex A, Column F**) compared with a budgeted surplus of £143k (**Annex A Column G**), an increase in the **surplus** of £290k. 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.

Between September and the December 2019 Board meeting, there have been the following changes in the forecast:

There has been an increase in the number of those individuals requiring a certificate to enable them to register in other EU states as well as an increase in the number of applications being received via the EU route resulting in an increased forecasted income of £57k. This increase is related to the pending UK exit of the EU.

We previously reported that because of the inability of the Professional Conduct Committee to hear cases between January and June as a result of the change to the Act, there was a risk of an underspend of up to £250k as cases became blocked as a result of hearing unavailability. Because we have managed to list more cases in the later months of the year than was initially feared, I can now report that the underspend is now anticipated to be £170k. The backlog is anticipated to have been cleared by Spring of 2020.

2. The Board should note the following:

- Note the changes since the September report to the Board
- Overall there is likely to be additional income over the budget of £109k for the year.
- The anticipated £170k potential underspend within Professional Standards area
- Business Plan items are progressing and any unspent funds will be rolled over into 2020 to complete the projects.
- 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 £5,083k ([Annex A, Column F](#)) against a budget of £4,977k ([Annex A, Column G](#)), resulting in a £106k ([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:** £42k increase in income - The number of UK applications is broadly in line with the budget. However, the increase in income is as a result of an unanticipated increase in the number of individuals applying for registration under the EU mutual recognition regime, which we consider to be directly related to the UK exiting the EU and this regime potentially ceasing.
- **Prescribed Examinations:** £8k additional income in relation to a higher number of referral to lead examiners and scrutiny fees for those candidates who are not eligible to sit the examination. The costs associated with this process are covered within staff and examination cost budget headings.
- **EU Certificates and Sundry Receipts:** £26k increase in income – Certificates are issued to enable individuals to register in other EU states. There are usually between 90 and 100 certificates issued annually, however, during the first 10 months of the year 683 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 £4,480k ([Annex A, Column F](#)) against a budget of £4,660k ([Annex A, Column G](#)), resulting in a £180k ([Annex A, Column H](#)) underspend.

There are currently 2 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 31/10/19			Full Year Forecast		
	Per m	Fixe d	Actual	Budget	Variance	Forecast	Budge t	Variance
			£000	£000	£000	£000	£000	£000
Corporate	6		363	383	20	485	485	0
Registration	8		329	331	2	418	418	0
Professional Standards	6	2	352	371	19	453	463	10
Qualifications Recruitment, Temporary Staff, Training	5	1	291	309	18	390	390	0
			118	116	(2)	139	139	0
Hackitt Review	0	1	19	19	0	22	22	0
Total Employee costs	25	4	1,472	1,529	57	1,906	1,916	10

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. The new team member started with us in 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. The year to date variances is that of timing and will be fully utilised by the end of the financial year.

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.

vi. **Professional Conduct and Regulation:** We previously reported that because of the inability of the Professional Conduct Committee to hear cases between January and June as a result of the change to the Act, there was a risk of an underspend of up to £250k as cases became blocked as a result of hearing unavailability. Because we have managed to list more cases in the later months of the year than was initially feared, I can now report that the likely underspend is anticipated to be £170k. The backlog is anticipated to have been cleared by Spring of 2020.

The primary reason for this backlog was the absence of the PCC from January until

Continuation of agenda item 11

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, 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 £1.9m at the year end. This is approximately 4.9 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). As agreed by the Board at its September 2019 meeting, some of these funds will be utilised during Qtr4 of 2019 to accommodate the additional members of staff.

In addition, a further £440,000 has been designated for projects that were budgeted

Continuation of agenda item 11

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. Where efficiency savings are made, funds will be returned to general reserves for utilisation by the Board

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 (£47k spent)
- UK's departure from the EU (£127k spent)
- Mutual Recognition Agreements (MRAs) (£11k spent)

Spend to date on these work streams is £185k, leaving £15k within the designated contingency fund.

As reported in September 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. Funds not spent during 2019 will be ring-fenced for 2020.

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. Unspent funds for the Public Awareness role, Contingency fund and professional standards cases will be set aside within reserves for 2020 to mitigate risks associated with these areas of work.

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.