



Subject	2015 Financial Outturn		
Status	Open Session		
Purpose	For Note		
From	Marc Stoner, Financial Controller		
History	Parent Committee	First submitted	Revision Number
	N/A		1

If you have any queries on this paper, please contact Marc Stoner on 020 7580 5861

---

### 1. Purpose

To inform the Board of ARB's financial position for year ending 31 December 2015.

### 2. Recommendations

The Board note the contents of this paper.

### 3. Terms of Reference

Under the Board's Scheme of Decision Making, the Board approves the annual financial statements and approves additional capital expenditure over £30,000. Management accounts go directly to the Board for noting.

### 4. Open

### 5. Contribution to the Boards Purpose and Objectives

In delivering the Act, ARB's objectives are:

Protect the users and potential users of architects' services

Support architects through regulation

The prudent financial management of ARB enables the delivery of all of ARB's statutory requirements and objectives.

### 6. Key Points

- i. As shown in **Annex A (Column C)**, the surplus, including capital spend and carry forward, for the financial year ending 31 December 2015 is £659k, against an agreed budget surplus/deficit of £0k (**Annex A, Column D**) for 2015.
- ii. Throughout the year, we have kept the Board informed of the additional income and underspend. At the November 2015 Board meeting it was reported (shown in **Annex A, Column G**) that the anticipated surplus at the year-end would be £459k, the actual year end outturn is £200k higher at the year-end.  
Summarised below are the reasons for any change of £10k+ between the November

2015 forecast and the final year end position (See [Annex A, Column K](#)):

### **Operational Activities – changes from November Forecast to Year End Actual Income**

- The Board approved a revised investment strategy during 2015 as a consequence so additional dividends and profits totalling £48k were realised.

### **Expenditure**

- Staffing costs - continued savings as a result of temporary staff being used during the retention fee period and holding vacancies whilst waiting for the outcome of the Periodic Review. There were also savings in PAYE, cost of recruitment and Pensions resulting from the above factors.
- Board Expenses and Prescription/Qualifications – underspend due to lower than anticipated claims for Committee attendance and reading time, and lower than expected use of advisors.
- Professional Services and Legal Advice - Lower than expected general legal and professional advice was required during the last quarter of 2015.
- Professional Conduct and Regulation - we estimated there would be a higher number of cases heard in the latter part of 2015. Owing to a number of factors such as adjournments, case delays and the resolution of a case via a consent order, there were fewer cases actually heard.
- Technology & Digital Spend - A requirement, under International Accounting Standards is to capitalise IT development costs, (staffing, software and hardware). This calculation is carried out at the year end, in conjunction with the external audit team. These items are depreciated over three years, with 2/3rds of the funds being held in reserves. This is an accounting adjustment only and therefore, does not represent physical cash available in reserves (more information is provided under capital spends at the end of this report).

### **Non Operational costs and unrealised profit on investment calculation**

- Carry forward of business plan items and depreciation adjustments at the year end (see 6v below for further details)
- Corporation Tax - £32k reimbursement due to HMRC requirement that Corporation tax is paid on both realised and unrealised profits on investments at the year-end. The Board changed its investment policy during the year and some of the profits were realised or re-invested in other funds.
- Unrealised Profits on investments - £100k reduction, which is the estimated loss of ARB's investments if they were crystallised at the year-end. This is an accounting adjustment only but must be shown in the Financial Statements and is used to calculate corporation tax payable.

- iii. This next section details the variances ([Annex A, Column E](#)) between the 2015 budget ([Annex A, Column D](#)) to the final outturn figure for 2015 ([Annex A, Column C](#)):

#### **Operating Variances – Full year outturn against approved budget**

##### **Income**

The year-end outturn for 2015 is £4,417k against a budget of £4,002k, resulting in a £415k increase in income against the budget. This is made up as follows:-

- New registrants and those re-joining the Register - £238k increased income - the number on the Register continues to increase significantly above the assumptions made when the budget was set (September 2014). There were 1,824 removals for non-payment of the retention fee in January 2015 which is approximately 600 more removals than anticipated when setting the budget, 72% of whom have now re-joined the Register. Combined with an increased number on the Register as at 1 January 2015, when the retention fee was payable, has led to the increase in income. The size of the Register increased around 10% from the end of 2014 to the end of 2015.
- Prescribed Exam - £114k increase - The number of candidates applying to sit the prescribed exam also significantly increased during 2015. 147 candidates sat the exam in 2015, against a budget of 101 candidates (101 candidates for 2014). Any additional income is offset against expenditure. This process is self-financing and other expenditure is included within the operating costs (e.g., staff and office costs).
- Dividends and bank interest - £63k increase - During the year, the Board made a change to its investment strategy, in order to protect the capital, to invest in Gilts (UK Sovereign debt), Corporate Bonds and Equity funds rather than just UK and overseas fixed interest holdings. This realised profits on the fixed holding which were subsequently reinvested.

iv. **Expenditure**

The year-end outturn for 2015 is £3,373k against a budget of £3,717k, resulting in a £345k underspend.

- Staff costs - £215k underspend. During the first six months of 2015, we were carrying five vacancies (Registrar, Qualifications Executive and three Registration Administrators). The Registrar post was recruited to in July 2015 and the Qualifications Executive in August 2015. This recruitment then resulted in the role of Head of Registration/Deputy Registrar becoming vacant, with the duties being carried out across the organisation. The three Registration vacancies were being covered by temporary/fixed term contracts and other work being undertaken by the staff across the organisation. This will not be an on-going underspend as we begin to rebuild resources in all areas. The use of temporary staff results in lower pension contributions and training.

Additionally we carried one member of staff on long term absence; this role was being covered through temporary part time resources covering communications, with the Human Resource function currently being outsourced. This was eventually concluded, with the individual taking retirement.

Existing staff members, including temporary and fixed term resources, continue to work extremely flexible. This was demonstrated during the retention fee period, including getting as many people back on the Register as quickly as possible. This is also evidenced with the team having to process the significant increase in exam applicants and the increased volume of those wishing to join the Register.

- Board Expenses - £14k underspend as a result of a lower number of expense claims submitted than anticipated and advance booking of travel. The attendance allowance was also held at £250 per day.
- Professional Services and Legal Advice - £34k underspend - lower than expected legal and professional advice being required and timing issues of projects.
- Professional Conduct and Regulation - £38k underspend - due to a number of factors such as adjournments, case delays and the disposal of a cases via consent orders, there were also fewer cases actually heard.
- Misuse of Title - we continue to successfully recover some of our costs in relation to misuse of title cases. Actual recovery is hard to predict, however during 2015 we have received approximately £12k. The recovered costs are currently offsetting the increased spend in this area due to more complex web based cases.
- Other Administration Costs - £11k overspend - due to increased transaction costs, such as banking and credit card processing, as a result of increased numbers on the Register.
- Prescribed Examinations - £28k overspend - due to the significant increase in applicants wishing to sit the exam and is being offset by the additional income generated. However, the number of exams being undertaken in November was slightly lower than anticipated.
- Prescription/Qualifications - £12k underspend due to lower than anticipated claims for Committee attendance and reading time, and lower than expected use of advisors.
- Technology & Digital Spend - £84k underspend - A requirement, under International Accounting Standards is to capitalise IT development costs, (staffing, software and hardware). This calculation is carried out at the year end, in conjunction with the external audit team. These items are depreciated over three years, with 2/3rds of the funds being held in reserves. This is an

accounting adjustment only and therefore, does not represent physical cash available in reserves (more information provided under capital).

- Depreciation - £20k overspend due to capitalisation calculation of IT and Digital spend referred to above.

v. Business Plan and one off items

The Board allocated £338k for business plan items (£199k), one off projects (£69k) and for IT resilience (£70k).

See table below for breakdown:

Spend	Budget £000	Spent 2015 £000	C/Fwd 2016 £000
Business Plan Items	199	62	137
One-Off Projects	61	7	54
IT Resilience Project	70	64	6
<b>Total</b>	<b>330</b>	<b>133</b>	<b>197</b>

Therefore, of the surplus operating costs £197k will be ring fenced to deliver the projects during 2016.

- In line with International Accounting Standards, at the end of the year we are required to review revenue spend to see if any items of development fall within capital expenditure. We are required to capitalise and depreciate such items over three years. This resulted in a lower than anticipated operating spend within the year, and therefore, a temporary increase in the level of reserves. These funds will be required going forward to cover the cost of annual depreciation and have therefore, been ring-fenced to ensure that it does not impact on the retention fee going forward. This amounts to £88k for 2016.
- As in previous years, due to the timing and delivery of capital and one-off projects, it is not always possible to spend the funds allocated by the Board as part of the budget setting process, within the financial year. This is to ensure value for money is achieved in the delivery of projects/developments. There are also a number of projects, such as Routes to Registration review and Section 14, delayed as a result of waiting for the outcomes of the Periodic Review. Therefore, funds totalling £197k will be ring fenced within the operational reserves for utilisation during 2016.

At the end of the 2015 financial year, the level of reserves was sufficient to cover the estimated wind up costs, as required by the DCLG. The Board reviewed its policy in September 2015, with the next review planned for quarter 3 of 2017.

The table below shows a breakdown of reserves to demonstrate what is committed and what is available for the Board to use:

	Designated £	Operational £	Revaluation £	Total £
Reserves as at 1/1/15	90,000	2,605,641	229,056	2,924,697
2015 Operating Surplus		1,072,406	(96,064)	976,342
Movement in reserves	24,000	(24,000)		0
Reserves as at 31/12/15	114,000	3,654,047	132,992	3,901,039
<b>Committed</b>				
- Building works completed 2016, cfwd from 2015	(15,000)			(15,000)
- Deferred projects - awaiting outcome of periodic review		(256,500)		(256,500)
- Depreciation charge prior years		(177,000)		(177,000)
- DCLG Provision / Windup Provision		(2,470,000)		(2,470,000)
Reserves as at 31/12/15 less committed	99,000	750,547	132,992	982,539
Other adjusted items				
- Revalue of Investments (non-cash items)			(132,992)	(132,992)
- Designated	(99,000)			(99,000)
- Free reserves	0	750,547	0	750,547
Equivalent months of 2016 operating costs				2.26

The Board's reserves policy is to:

- Hold a minimum of the estimated wind-up costs, assessed annually. When calculating this figure, unrealised profit on investments will be included in the calculation;
- The operating reserves fund should not drop below four months operating costs.

## 7. Risk Implications

Continuous assessment of the financial landscape enables the management group to alert the Board should any financial risks arise.

## 8. Resource Implications

The increase in the level of reserves is as a direct result of savings within expenditure, increased income, timing of capital projects and the need to capitalise IT development costs. We are currently in the process of rebuilding staff resources, carefully monitoring the increase in workload and will also need to consider any impact of the outcomes of the Periodic review. Given the current resourcing issues, alongside the need to resource any potential changes coming from the Periodic Review, the higher level of reserves are prudent

in order to mitigate some of the resource risks identified within the Risk Register.

The level of reserves will be taken into consideration when the Board agrees the 2017 retention fee. As the trend continues to show a higher number of applications to the Register, income assumptions will be revised upwards for future years as appropriate.

**9. 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 will contribute towards maximising cost savings.

**10. Equality and Diversity Implications**

None currently identified.