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Board meeting	**14/05/2015**
Agenda item	**8**

Subject	**2014 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

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1. Purpose

To inform the Board of ARB's financial position for year ending 31 December 2014.

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.

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. Risk Implications

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

7. 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 2014 is £697k, against an agreed budget surplus/deficit of £0k (Annex A, Column D) for 2014.

ii. At the November 2014 Board meeting it was reported (shown in Annex A, Column G) that the anticipated surplus at the year-end would be £233k, a change of £464k at the year-end.

Detailed below are the reasons for the change between the November 2014 forecast and the final year end position for variances of £10k and above (See Annex A, Column H):

Operational Activities – changes from November Forecast to Year End Actual

Income

- Income – £25k additional income due to increased numbers of on to the Register during November and December.
- The Board approved a revised investment strategy during 2014 and so additional dividends and profits totalling £54k were realised in diversifying the investment portfolio. This generated an additional £32k over the anticipated income for the year.

Expenditure

- Staffing costs – additional £86k increase in the underspend as a result of flexibility of staff to cover vacancies and long term absence, attracting the correct calibre of candidates to fill fixed term contacts and using internal resources for the recruitment process, lower than anticipated incentive scheme payments and uncertainty around the Periodic Review. There were also savings in PAYE and Pension resulting from the above factors.
- Office costs – £15k overspend due to repairs to the floor being treated as repairs rather than capital spends. This results in a saving within capital costs.
- Other Administration Costs – £11k underspend due to lower banking costs as a result of discontinuing using PayPal as a payment option during the 2015 retention fee collection.
- Prescribed examinations - £34k underspend. Additional expenditure was anticipated as a result of additional candidates sitting the exam during the year. However, due to efficiencies made in the recruitment exercise and the examiners and independent examiners training (November 2014) alongside lower than anticipated costs for accommodation, travel and subsistence, spend was reduced.
- Prescription/Qualifications – £23k underspend due to lower than anticipated claims for Committee attendance and reading time, and lower than expected use of advisors.
- Technology & Digital Spend - £99k underspend - A requirement, under International Account 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 3 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 spends at the end of this report).
- Deprecation - £16k overspend due to capitalisation calculation of IT and

Digital spend referred to above.

Non Operational costs and unrealised profit on investment calculation

- Corporation Tax - £34k overspend due to HMRC requirement that Corporation tax is paid on both realised and unrealised profits on investments at the year-end.
- Unrealised Profits on investments - £194k of income, which is the estimated profit of ARBs investments if they were crystallised at the year-end. This is an account adjustment only but must be shown in the Financial Statements and used calculated corporation tax payable.

Business Plan and One off Projects

- Efficiencies of £22k achieved in delivering the Business Plan and One-Off Development expenditure for 2014.

iii. This next section details the variances (Annex A, Column E) between the 2014 budget (Annex A, Column D) to the final outturn figure for 2014 (Annex A, Column C):

Operating Variances – Full year outturn to approved budget

<u>Income</u>

The year-end outturn for 2014 is 4,111k against a budget of £3,872k, resulting in £239k of additional income against the budget. This is made up as follows:-

- The number of new registrants and those re-joining the Register increased above the assumptions made when the budget was set.

  There were a higher number of removals for non-payment of the retention fee in January 2014 than budgeted for, 71% of have now re-joined the Register. This income partly offsets the reduced retention fee income and associated costs of processing the applications. A higher number than anticipated joined the Register during the last 2 months of 2014, increasing further the anticipated income.
- A higher than anticipated number of candidates sitting the Prescribed Exam. The 2014 budget was based on 80 candidates. There were 101 candidates who sat the exam during 2014.
- The Board approved a revised investment strategy during 2014 leading to additional dividends and profits totalling £54k. This generated an additional £32k over the anticipated income for the year.

iv. <u>Expenditure</u>

The year-end outturn for 2014 is £3,292k against a budget of £3,600k, resulting in a £308k underspend.

- Staff costs – £147k underspend despite a number of pressures within the area of staffing. During 2014 two members of the team were on long term absence, one of which has now left the organisation. The post currently being covered by temporary staff due to recruitment challenges. The role of the other member of staff on long-term absence costs are now met by ARBs insurance. The role is being covered through a part time resource covering communications, with the Human Resource function currently outsourced.

- Throughout the year we have carried a number of vacancies, including a permanent Registrar. The throughput of work has been managed through interim arrangements internally, temporary resources where appropriate and on-going commitment and flexibility of the team overall to ensure delivery. Temporary resources are secured, as and when required, but filling vacancies has been challenging, due to DCLG expectations that we only offer roles on fixed term contacts during the Periodic Review.
- It was also anticipated that additional resources maybe required during 2014, including the role of Governance Secretary, to assist in the implementation of any changes resulting from the outcome of the Period Review. The outcome is not now expected until mid-2015, at which time the role of Governance Secretary will be considered again.
- The pay award and incentive scheme payments made to staff were lower than budgeted for.
- Pension costs are also lower than anticipated due to several members of the staff team not being part of the ARB pension and also opting out of Pension Auto Enrolment.
- Office costs - £20k overspent – cost of repairs and maintenance, including health and safety compliance and accessibility. Significant repairs were also required to the floor, for which the Board are aware of. This work was originally classified as capital, but following discussions with the Boards auditors the work was deemed as repairs and therefore, an underspend is shown within capital spend.
- Board Expenses - £10k underspend based on Board Member claims. Board members are also booking travel well in advance of meetings, which is contributing to the efficiency of the organisation.
- Professional Services and Legal Advice - £65k underspend owing to better insurances terms secured and prudent use of professional services and legal advice. It was also anticipated that there maybe additional costs associated with the Periodic Review, however the additional costs didn’t materialise during 2014 are likely to materialise during 2015.
- Misuse of Title - £18k underspend, net of costs recovered. Higher than anticipated costs awarded by the courts and recovered during 2014.
- Prescription/Qualifications – £23k underspend due to lower than anticipated claims for Committee attendance and reading time, and lower than expected use of advisors.
- Technology & Digital Spend - £99k underspend - A requirement, under

International Account 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 3 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).

- Deprecation - £16k overspend due to capitalisation calculation of IT and Digital spend referred to above.

v. <u>Capital</u>

The year-end outturn for 2014 is £238k, against a budget of £260k resulting in a reduction in expenditure against budget of £22k.

- During 2014, a number of revenue projects, were classified as capital items, in line with International Accounting Standards. This resulted in a requirement to capitalise and depreciate the items over 3 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.
- Due to the timing and delivery of capital projects, it is not always possible to spend the funds allocated within the financial year. This is to ensure value for money is achieved in the delivery of projects. Therefore, funds totalling £120k will be carried forward into 2015 in line with the Scheme of Delegation.

8. Resource Implications

At the November Board meeting, the year end level of reserves, excluding unrealised gains, was forecast at £1,830k, equal to approximately 6 months of 2014 budgeted operating costs. The actual level of reserves as at 31 December 2014 is £2,696k excluding unrealised gains, equal to 8.8 months of the 2014 budgeted operating costs.

The increase in the level of reserves is as a direct result of savings within expenditure, timing of capital projects and the need to capitalise IT development costs. Excluding the IT capitalisation changes, which is not physical cash held, and the rollover of capital spend the level of reserves would be 8 months of operating costs. This means that the Boards reserves policy was met during 2014.

It is unlikely the organisation can sustain the low levels of staff resourcing throughout 2015. 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 2016 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.