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| | **Board Meeting** | **12/05/2017** |
| | **Agenda item** | **19** |

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|---|---|
| **Subject** | **2016 Financial Outturn** |
| **Purpose** | **For Note** |
| **From** | **Marc Stoner, Head of Finance and Resources** |

**If you have any queries on this paper, please contact Marc Stoner at marcs@arb.org.uk or on 020 7580 5861**

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## 1. Summary

To inform the Board of ARB's financial position for year ending 31 December 2016.

## 2. Open

## 3. 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

## 4. Key Points

i. As shown in **Annex A** (**Column C**), the surplus, which includes realised profits on investments and items carried forward in to 2017, is £956k against an agreed budget surplus/deficit of £0k (**Annex A, Column D**) for 2016.

ii. At the November 2016 Board meeting it was reported (shown in **Annex A, Column G**) that the anticipated surplus at the year-end, based on actuals to October 2016, would be £296k prior to any capital items being carried into 2017.

Summarised below are the reasons for any variances of +£10k between the November 2016 forecast and the final year end position (See **Annex A, Column H**):

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

**Income**

- The Board approved a revised investment strategy in July and November 2016, resulting in additional dividends and profits being realised.

**Expenditure**

- Staffing costs - continued savings as a result of temporary staff being used during the retention fee period and timing of new appointments/vacancies. There were also savings in PAYE, cost of recruitment and pensions resulting from the above factors.

- Professional Conduct and Regulation – A number of cases near the year end went over their estimated listing time. However, these were all concluded within the year.
- Prescribed exams – Due to the recruitment process and transitional arrangements following changes to the tenure of examiners and Independent Examiners during 2016, a decision was taken to defer the training of examiners from October 2016 to March 2017. This underspend will be ring-fenced in reserves to cover the costs of training/induction costs in 2017.
- Technology and 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 3v below for further details).
- Investments – the Board made several changes to its investment strategy during the year, with a final decision being taken in November 2016. This resulted in selling a number of portfolios which resulted in the realisation of profits due to the timing of the sale.
- Corporation Tax – Higher than anticipated due to the windfall on the above profits on investments.

A summary of the changes between the November Board meeting and the final year end outturn can be found in **Annex B**.

iii. This next section details the variances (**Annex A, Column E**) between the 2016 budget (**Annex A, Column D**) to the final outturn figure for 2016 (**Annex A, Column C**):

Operating Variances – Full year outturn against approved budget

**Income**

The year-end outturn for 2016 is £4,590k against a budget of £4,318k, resulting in a £272k increase in income against the budget. This is made up as follows:-

- **Annual Retention Fee** – £137k increased income. When setting the budget for the annual fee in September 2015, the number of registrants paying the fee was estimated at 34,300. The Register continued to grow during the remainder of 2015, fewer architects resigned and a lower number of architects were removed for non-payment, resulting in approximately 35,600 fee payments for 2016.
- **Entry/Re-entry to the Register** – the number of new entrants has increased by 10% compared to 2015. However, the numbers re-joining the Register have decreased by 25% compared to 2015. This is due to a decrease in the number of

removals for non-payment of the retention fee. The growth in the Register is continually monitored to ensure sufficient resources are available to deal with increased demand.

- **Prescribed Exam Fee** - £41k increased income. This is due to the significant increase in applicants wishing to sit the exam.
- **Dividends and bank interest** - £95k increase - During the year, the Board made a number of 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 2016 is £3,805k against a budget of £4,033k, resulting in a £227k underspend. A summary of the key variances over £10k are listed below.

- **Staff costs** – £98k underspend - We appointed a Head of Registration in June 2016 and in September 2016, 2 Registration Administrators were appointed (which had been previously covered by temporary/fixed term contracts with other work being undertaken by the staff across the organisation). We also recruited for a Qualifications Executive & Investigations Manager; however we were unable to have them in place by the end of the year.
- **Office costs** – £17k underspend. Following conclusion of the rent negotiations, a saving of £31k was realised. However, additional spend of approximately £14k was required due to the accessibility lift developing a number of failures and general office maintenance.
- **Professional Services and Legal Advice** - £54k underspend. Lower than anticipated use of professional advice services, successful conclusion of the rent negotiations and timing of advice is relation to EU issues such as the 4+2 requirement.
- **Professional Conduct and Regulation** – £37k overspend - A number of cases near the year end went over their estimated listing time. However, these cases were all concluded within the year.
- **Technology & Digital Spend** – 37k 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 is provided under capital spends at the end of this report).

v. **Business Plan and one off items**

The Board allocated £268k for business plan and one off projects for commencement in 2016, the spend was £167k with £101k being carried over to 2017. A number of the projects were depreciated over 3 years and £57k is ring-fenced within reserves for future year charges.

Of the surplus operating costs, £158k will be ring fenced to deliver the projects during 2017.

- 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 (including amendments to the Professional Standards Portal following the Section 14 review) which have been delayed as a result of waiting for the outcomes of the Periodic Review.
- 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.

## vi. Reserves

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.

The DCLG require the ARB to hold, as a minimum, the estimated costs of winding up the organisation. At the end of the 2016 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 1/1/16 | 114,000 | 3,654,047 | 132,992 | 3,901,039 |
| 2016 Operating Surplus | 0 | 943,979 | 136,088 | 1,080,067 |
| Movement in reserves | 24,000 | (24,000) | | 0 |
| **Reserves as at 31/12/16** | **138,000** | **4,574,026** | **269,080** | **4,981,106** |
| **Committed** | | | | |
| - Deferred projects - awaiting outcome of periodic review | | (256,500) | | (256,500) |
| - Depreciation charge prior years | | (68,000) | | (68,000) |
| - DCLG Provision | | (2,470,000) | | (2,470,000) |
| Reserves as at 31/12/15 less committed | 138,000 | 1,779,526 | 269,080 | 2,186,606 |
| Other adjusted items | | | | |
| - Revalue of Investments (non-cash items) | | | (269,080) | (269,080) |
| - Designated | (138,000) | | | (138,000) |
| - Free reserves | 0 | 1,779,526 | 0 | 1,779,526 |
| Equivalent months of 2017 operating costs | | | | 5.20 |

## 5. Resource Implications

The increase in the level of reserves is as a direct result of savings within expenditure, increased income, profits on investments and timing of capital projects and the need to capitalise IT development costs.

Given the potential changes coming from the Periodic Review and Brexit, maintaining a higher level of reserves is 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 2018 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.

## 6. Risk Implications

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

## 7. 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.

## 8. Equality and Diversity Implications

None currently identified.