	Board Meeting	**14/09/2017**
	Agenda Item	**8**

Subject	**Reserves Policy**
Purpose	**For Decision**
From	**Audit Committee**

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1. Summary

Like any organisation, it is essential that the ARB is able to access readily available funds in order to meet any urgent/unbudgeted operational needs. There are a number of pressures that may materialise during 2018, as outlined in paper 10 of this agenda; including the unknown impact on the numbers on the register which have we already identified a drop in the numbers of new registrants from the EU. In order to do this, the Board regularly reviews its reserves policy to ensure that the organisation has appropriate reserves in place.

At its June 2017 meeting, the Audit Committee considered the level of reserves and provided challenge to the executive around the estimated cost of closure. The Committee agreed that the policy remained fit for purpose and that it would recommend to the Board that no changes should be made to it.

2. Recommendations

It is recommended that the Board:

i) Maintain the current Reserves Policy.

3. Open Session

4. Contribution to the Board's Purpose and Objectives

In delivering the Act, ARB's objectives are:

Protect the users and potential users of architects' services and;

Support architects through regulation.

Having appropriate financial planning mechanisms and an adequate reserves policy in place enables the Board to deliver its strategic aims, and provides confidence to stakeholders and suppliers that ARB is prudently managing its financial affairs.

Having in place an appropriate policy also demonstrates the organisation's sustainability and capacity to manage unforeseen, or planned for financial events.

5. Key Points

i. The reserves policy was last reviewed in 2015 when the Board agreed the current policy.

ii. Current Reserves Policy

> *i) "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;*
> *ii) The operating reserves fund should not drop below four months operating costs; and*
> *iii) Reclassify capital carry forward (ring fenced project / committed spend), and depreciation as a designated reserve, rather than inclusion in the operational reserve".*

iii. The Reserves policy is made up of three elements.

- The first is a requirement to hold sufficient reserves to wind the organisation up in the event of closure. This is a requirement specified within the Framework Agreement with the Department of Communities and Local Government (DCLG).
- The second element of the policy is to ensure that operating reserves do not fall below four months operating costs.
- The third element of the policy states the way in which ARB treats capital expenditure carried forward from one year to another and the accounting treatment of depreciation.

iv. The reserves are made up of the following funds:

Designated reserve, consisting of:

- **IT renewal fund** – set aside to cover cost of equipment failure/replacement. The fund is anticipated to contain £52k at the end of 2017
- **Maintenance reserve** - set aside to cover costs of cyclical maintenance/repair. The fund is anticipated to contain £48k at the end of 2017
- **Election Fund**, this covers the cost of the election of 7 Board members every 4 years. The fund is anticipated to contain £55k at the end of 2017. This /fund will be reviewed as part of the Board governance changes.
- **Closure fund** – this is the estimated cost of winding up the organisation. This is a snap shot at a moment in time (June 2017). Further information on what is included in this fund can be found in Annex A.
- **Revaluation Reserve** – this contains the unrealised profit on investments which is what profit we would receive if we were to cash in the investments at that moment in time. This is a snap shot of the unrealised value as at 31 December each year.
- **Operational reserve -** consisting of prior years' accounting adjustments, capital spend carried forward (ring fenced projects / committed spend), prior year surplus funds and budgeted contributions to reserves.

v. The Framework Agreement between the organisation and Department of Communities and Local Government (DCLG) states that ARB is responsible for maintaining its assets at a level sufficient to cover its liabilities if ARB were to be wound-up.

Attached as **Annex A** is a breakdown of the items of expenditure associated with the orderly closure of the organisation. The Registrar and the Head of Finance and Resources reviewed each cost category; taking into consideration the relevant pressures associated with that cost, and specified the likely cost associated with that element of the wind up.

These workings were reported to the Audit Committee at its June 2017 meeting. The Committee, after providing challenge on the figures and items considered, agreed that a recommendation should be taken to the Board for no change to the policy.

The following high-level assumptions have been made when formulating the costs:

- The organisation is given 12 months' notice of any repeal of the Act from mid 2017
- Limited income is received from the 2018 retention fee
- The statutory functions are not being transferred to other organisations.

Annually the Executive undertake a comprehensive review of the costs of winding-up the organisation. The estimated cost of closure is currently £3.6m (please note the lease liability will change after 2019, when a new lease will need to be signed, irrespective of location).

Four Months Operating Costs

vi. Under the Board's existing policy, the operating reserves should not fall below four months' operating cost. Using the current reserves forecast for 2017, setting aside the wind up costs, it is anticipated that we will have 3.83 months budgeted operating costs.

Whilst the operating reserves are slightly below the 4 months required under the policy, the Registrar and Chief Executive along with Head of Finance and Resources do not have any concerns around this. Any additional surplus funds at the year end resulting from any last minute savings or windfalls from the Boards investments will be transferred into this fund.

It remains essential that the organisation is able to access readily available funds in order to meet any urgent/unbudgeted operational needs.

Anticipated Reserves Position

vii. The table below illustrates the forecasted reserves position at the end of 2017

	Designated	Operational	Revaluation	Total
	£	£	£	£
Reserves as at 31/12/16	103,000	4,609,026	269,080	4,981,106
Reclassification of closure fund*	3,629,000	(3,359,920)	(269,080)	0
Reserves as at1/1/17	**3,732,000**	**1,249,106**	**0**	**4,981,106**
- 2017 Forecast surplus (June 17)		400,000		400,000
	3,732,000	**1,649,106**	**0**	**5,381,106**
- Deferred projects		(256,500)		(256,500)
- Depreciation charge prior years		(68,000)		(68,000)
Total Committed	0	(324,500)	0	(324,500)
Reserves less committed	**3,732,000**	**1,324,606**	**0**	**5,056,606**
4 months operating costs (approx. £346k per month)		1,383,667		
Equivalent months of 2017 operating costs		**3.83**		

* Previously shown under operating reserves, but is a requirement by the DCLG

6. Resource implications

As part of the Board's 2018 budget and fee setting process, maintaining the existing policy is taken into consider.

7. Risk Implications

Having sufficient reserves in turn reduces the prospect of the organisation not having the required financial resources available, should a risk be realised. The uncertainties around Brexit and any potential loss of income or an increase in workload resulting from changes to the governance structure and the introduction of Apprenticeships would be resourced from reserves.

8. Communication

Mindful of its responsibilities as a statutory regulator and prudent employer, the Board regularly reviews its policy to ensure it could crystallise its liabilities in the event that it is wound-up, or to respond to a portfolio of organisational risks should one or more of those risks be realised.

9. Equality and Diversity Implications

None identified.