



Subject Year-End Outturn 2018
Purpose To Note
From Marc Stoner – Head of Finance and Resources

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1. Summary

The purpose of the paper is to inform the Board of ARB's financial position at year-end 31/12/18.

Please note that the figures are subject to change as we are awaiting the final corporation tax calculation in relation to ARB's investments, as well as any year-end audit findings which commenced 18 March 2018 with the final audit clearance meeting taking place 4 April 2019.

Attached at **Annex A** is a summary, which includes the year-end outturn and variances against the 2018 budget.

In setting the 2018 budget, a £76k surplus was planned. The actual outturn for 2018 was £97k surplus, which is a change of £21k.

Further details of the variances can be found below.

2. Open Session

3. 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.

4. Background

i. Operating Income

The operating income as at 31/12/18 was £4,752k (**Annex A, Column C**) against a budget of £4,671k (**Annex A, Column D**), resulting in £81k additional income (**Annex A, Column E**).

The key variances are :

- **Annual Retention Fee:** £33k increased income - when setting the budget for the 2018 annual fee in September 2017, the number of registrants paying the fee was estimated at 38,457. The Register continued to grow during the remainder of 2017 and fewer than anticipated architects were removed for non-payment, resulting in 38,779 fee payments for 2018.
- **Prescribed Examinations:** £38k increase in income due to more candidates sitting the exam, and those being referred to the lead examiner¹. However, this additional income offsets an increase in expenditure associated with running the examination process.

ii. Operating Expenditure

The operating expenditure as at 31/12/18 was £4,331k (**Annex A, Column C**) against a budget of £4,304k (**Annex A, Column D**), resulting in a £27k (**Annex A, Column E**) overspend.

Detailed below are the key variances under/over spends:

- **Employee costs:** £18k overspend in relation to recruitment costs and induction of new staff. There was a higher than anticipated staff turnover during the year.
- **Postage, Telecommunications, Printing:** £28k underspend as a result of tendering of the photocopier contract, replacement of the franking machine, tendering of the production of the annual retention fee invoice and reminders, as well as continued drive to issue electronic documentation when possible.
- **Professional Services and Legal Advice:** £101k overspend - The costs of the ongoing Criteria review work were £40k in 2018 which was part funded from reserves which had been previously set aside. A cost of £31k was also incurred in relation to the Property Strategy Review of the lease break-clause and £20 for the work in relation to the governance structure as required as part of the Periodic Review outcomes.
- **Title misuse:** £23k underspend – While the number of misuse of title investigations has risen from previous years, the majority of these were closed successfully in 2018 without the need for expensive prosecutions.
- **Prescribed Examinations:** £12k underspend – This area of spend is dependent on the geographical location of the examiners. During the year, we also reviewed our expenses policy which contributed to a decrease in costs in relation to the need for overnight stays and use of taxis. There were increased staff costs within the area and that is offset against the staffing costs above.

iii. Business Plan/One Off Items

A budget for Business Plan one off items was set aside totalling £82k. During 2018, £20k was spent. One project, the Stakeholder Engagement Survey totalling £50k did not start until late 2018, and so the costs will be incurred in 2019.

iv. Contingency Fund

¹ This results in an additional £300 per referral

The Board, at its July 2018 meeting, set aside a £200k provision to support the delivery of some of the work required to be delivered by ARB in relation to:

- Hackitt Review (£16k spent 2018)
- UK departure from the EU (£71k spent 2018)
- Mutual Recognition Agreements (MRAs) (£10k spent 2018)

The spend to date on these funds is £97k, with £103k carried forward to 2019 to continue to fund the above work streams. It maybe that some additional funds will be required to be set aside to fund any further work in 2019 and a separate paper will be bought back to the Board.

v. Investments

Dividends and bank interest: £72k increase in forecasted income following the change to the Boards investment portfolio in November 2017.

Gains/losses on investments: Following the changes to the investment portfolio, the total book value reduced by £362k². The revised portfolio was within its first year and the Board's strategy is based on a five year plan, and have been a number of impacts on the market such as the uncertainly around the UKs departure from the EU. An element of remedial de-risking took place in December 2018.

Corporation tax: Given the reduced value in the portfolio, there isn't likely to be any corporation tax payable, and indeed there was tax rebate from previous years' gains. The tax calculation should be available late March after the year-end audit takes place and an update will be provided to the Board at its April meeting.

vi. Business Plan – capital spend

There are no variances to report and projects are progressing. The level of spend in 2018 was £166k against a budget of budget of £193k. The underspend of £27k is down to timing/completion and sign off of work. This underspend is set aside within reserves at the year end for utilisation during 2019 and released once projects are completed.

vii. Reserves

Taking into account the above outturn and the ring fencing of £200k contingency (EU exit/MRA/Hackitt), the operating reserves are estimated to stand at £1,468k at the year-end. This is approximately 4 months of the budgeted operating costs and therefore meets the Board's Reserves Policy of 4 months operating costs.

There are currently sufficient funds to meet the MHCLG requirements to hold the cost of closure.

Also contained within the designated reserves is a total of £363k being held for

² Value of the portfolio as of 31 December 2018

various projects that were carried forward from prior years, such as System/IT infrastructure development, implementation of the Periodic Review outcome/governance changes and the stakeholder research project.

5. Resource implications

The increase in the level of reserves is as a direct result of releasing funds previously set aside for running elections for the Architects members of the Board. The way in which Board appointments are made was changed as part of the Periodic review and therefore, these funds have now been released in to general reserves. Due to changes within the Boards investment portfolio a rebate was received from HMRC (early 2019) totalling £32k.

Given the potential changes coming from the Exit from the EU, maintaining a higher level of reserves is prudent in order to mitigate some of the resource risks identified within the Risk Register.

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.

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 contribute towards maximising cost savings.

8. Equality and Diversity Implications

None currently identified in relation to reporting of the outturn for 2018 or for the 2019 approved budget. We will continue to consider this position on an ongoing basis especially when setting the budget and annual fee for 2020.