



Subject Year-End Outturn 2019
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 31/12/19.

The financial statements have now been reviewed by the Board's external audit during their onsite audit in March 2020. The statements were also presented to the Audit and Risk Assurance Committee (ARUK) at its meeting on 22 April 2020. There were no issues raised with as part of the audit or raised with the ARUK as of a material concern. The ARUK will be recommending to the Board, at its June meeting, that the financial statements are formally adapted and signed by the Board.

Attached at **Annex A** is a summary, which includes the year-end outturn and variances against the 2019 budget.

The overall surplus at the year-end is £431k (£433k reported November 19) (**Annex A, Column C**) compared with a budgeted surplus of £143k (**Annex A Column D**), an increase in the **surplus** of £288k (**Annex A Column E**).

Further details of the variances can be found below.

2. The Board should note the following:

- The outturn for 2019 and information of variances.

3. Open Session

4. 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.

5. Background

i. Operating Income

The operating income as at 31/12/19 was £5,074k (**Annex A, Column C**) against a budget of £4,977k (**Annex A, Column D**), resulting in £97k additional income (**Annex A, Column E**).

The key variances are :

- **Annual Retention Fee:** £30k increased income – When setting the budget for the annual fee in September 2018, the number of registrants paying the fee was estimated at 39,814. The Register continued to grow during the remainder of 2018 and fewer than anticipated registrants were removed for non-payment, resulting in approximately 40,074 fee payments for 2019.
- **Entry/Re-entry to the Register:** £28k increase in income - The number of UK applications is broadly in line with the budget. However, the increase in income is as a result of an unanticipated increase in the number of individuals applying for registration under the EU mutual recognition regime, which we consider to be directly related to the UK exiting the EU and this regime potentially ceasing.
- **Prescribed Examinations:** £12k additional income in relation to a higher number of referral to lead examiners and scrutiny fees for those candidates who are not eligible to sit the examination. The costs associated with this process are covered within staff and examination cost budget headings.
- **EU Certificates and Sundry Receipts:** £26k increase in income – Certificates are issued to enable individuals to register in other EU states. There are usually between 90 and 100 certificates issued annually, however, during 2019 we have issued 732 certificates. This increase is related to the pending UK exit of the EU.

ii. Operating Expenditure

The operating expenditure as at 31/12/19 was £4,523k (**Annex A, Column C**) against a budget of £4,721k (**Annex A, Column D**), resulting in a £198k (**Annex A, Column E**) underspend.

Detailed below are the key variances under/over spends:

- **Employee costs:** £13k underspend in relation to recruitment costs and new staff that didn't occur until early 2020.
- **Postage, Telecommunications, Printing:** £30k underspend as a result of moving to paperless solutions and tendering of the production of the annual retention fee invoice and reminders. We continue to drive to move to issue electronic documentation when possible.
- **Board Expenditure:** £21k resulting from lower than expected cost of committees whilst recruitment and population took place. There were also lower induction and facilitation costs during the year.
- **Professional Conduct and Regulation:** £114k underspend as a result of not

being able to list as many conduct cases and therefore a backlog. This materialised due to the absence of the PCC from January until April, due to a change to Schedule 1 of the Architects Act. Even though the PCC was reappointed by the new Board at its first meeting, the PCC Rules requirements for notice meant that the proper resumption of cases could not happen until June. We made significant progress in listing cases however the main obstacle was the limited availability of what is a relatively small committee.

- **Prescribed Examinations:** £17k underspend – This area of spend is dependent on the geographical location of the examiners, with less overnight stays and use of taxis. There were increased staff costs within the area and that is offset against the staffing costs above.

iii. **Contingency Fund**

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, UK departure from the EU, Mutual Recognition Agreements (MRAs).

These funds were fully utilised in 2019 and future costs will be factored in to the management accounts as they become known.

iv. **Investments**

Dividends and bank interest: £39k additional income received in dividends and bank interest during 2019.

Unrealised Gains/losses on investments: At the end of each financial year, the value of the investment portfolio needs to be reflected within the financial statements. This represents the value as if we had sold all funds on 31/12/19 and is shown as unrealised gains/losses on investments. . This is an accounting adjustment as no funds were sold at the year end.

Corporation tax: Corporation tax is payable on the investments only. For accounting purposes the cost is based on the both realised and unrealised value of the portfolio. This will vary from year to year and is likely to decrease in 2020 due to the current economic climate. The actual amount due to HMRC in 2019 was £13k.

v. **Business Plan – capital spend**

There are no variances to report and any underspend is set aside within the designated reserves at the year end for utilisation during 2020 and released once projects are completed.

vi. **Reserves**

Operating Reserves

Taking into account the surplus for 2019, the Operational reserves stand at £2.2m. This is approximately 5.6 months of budgeted operating costs and therefore meets

the Board's Reserves Policy of a minimum of 4 months budgeted operating costs. These reserves are for any unanticipated expenditure that cannot be contained within the operational budget and any additional expenditure, outside of the overall budget over £30k that the Board agrees from time to time. For 2020 Board set the budget with a deficit of £160k which will be funded from within the operating reserves.

MHCLG Closure Fund

ARB is required by Ministry of Housing, Communities and Local Government (MHCLG) to hold in reserves the estimated cost of the closure of ARB. This reserve sits around £3.6m and is sufficient to meet the MHCLG requirements. As these funds are not required in the foreseeable future, they are placed in an investment portfolio.

MHCLG have said that in the event we need further contingency around the UK's exit from the EU, Hackitt and the progression of Mutual Recognition Agreements that they would be supportive of ARB using up to £1m from these funds. The Board would need to agree a plan to re-build any used reserves.

Designated Reserves

At 31 December 2019, designated reserves consisted of the IT renewal fund (£69,000 - to contribute to the cost of ensuring that the organisation's computer systems remain up to date and efficient) and the Maintenance Reserve (£68,000 – set up to cover the regular cost of redecoration of the offices in accordance with the terms of the lease).

In addition, a further £492k has been designated for projects that were budgeted for in prior years but where these projects run over several years, such as systems developments, paperless projects. All of the projects are currently on going and funds drawn down as and when required. Where efficiency savings are made, funds will be returned to general reserves for utilisation by the Board.

6. Resource implications

Given the potential changes coming from the Exit from the EU, as well as the current Covid-19 impacts on the economy, maintaining a sufficient level of reserves is prudent in order to mitigate some of the resource risks identified within the Risk Register.

7. Risk Implications

The Strategic Leadership 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.

8. 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.

9. Equality and Diversity Implications

None currently identified in relation to reporting of the outturn for 2019. We will continue to consider this position on an ongoing basis especially when setting the budget and annual fee for 2021.