



Subject	2016 Budget, Reserves and Annual Retention Fee		
Status	Open Session		
Purpose	For Decision		
From	Financial Controller		
History	Parent Committee	First Submitted	Revision Number
	N/A	17/09/2015	1

If you have any enquiries on this paper, please contact Marc Stoner on 020 7580 5861

1. Purpose

To agree the 2016 budget and annual retention fee.

2. Recommendations

It is recommended that the Board:

- notes the content of the paper;
- holds the annual retention fee at the 2015 level of £107.00.
- agrees the budget for 2016, as shown in [Annex A, Column 5](#).
- Agrees the utilisation of the IT renewal fund for works during 2016 as detailed in item 6 (xii)

3. Terms of Reference

Under the Architects Act 1997, the Board determines the annual budget and sets the fees paid. The annual retention fee is determined and published.

4. Open Session

5. 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

Support architects through regulation.

The 2016 budget and fee are set at a level in order to ensure that ARB can deliver the 2016 business plan and meet ARB's objectives in both of the above areas.

6. Key Points

- i. ARB has a number of statutory functions it must deliver, and reviews its procedures regularly to ensure that those functions are delivered cost effectively. ARB establishes

both a Business Plan and Operational budget each year to identify the activities it intends to carry out, and the finances which are necessary to deliver the Business Plan. ARB must ensure it has the necessary financial and human resources to deliver its statutory functions and the agreed Business Plan.

- ii. As in previous years, a thorough review of each budget heading and activity is undertaken to ensure an efficient use of resources. This means that each area of ARB's work has been considered and reviewed to establish the cost for delivering individual functions and activities.
- iii. Looking back at 2015 and then forward to 2016, the following efficiencies and pressures have been identified and considered as part of the budget setting process:

Efficiencies

- Increased flexibility of staff to work across the organisation
- Increased use of on-line services, "self-service" provisions via the website – Registration in particular
- Extending prescription of qualifications cycle, where appropriate
- Professional Conduct Committee (PCC) Consent orders – early days (1 issued to date)
- Review of PCC adjournments procedure
- PCC solicitors – tender exercise in 2013 leading to reduced costs per case

Pressures

- Covering longer term absence & ability to recruit skilled staff, rebuilding of knowledge
- Outcome of the Periodic Review – remains unknown
- Deferral of projects until Period Review outcome is known (funds have been carried forward from 2015).
- Increase in the numbers on the Register, enquiries and users of our services increased
- Increase in the number of requests and level of complexities for prescription of new qualifications
- Increased property costs
- Increase in exams and high level of support being required by candidates

- iv. **The proposed budget reflects the following changes:**
 - Increased numbers on the Register – joining and re-joining
 - Increased property costs
 - Induction of new Board members
 - Pay award – 2% (to be determined by Remuneration Committee November 2015)

- Increased IT costs due to reliance on systems
 - Meeting the Boards reserves policy
 - Inflation applied in relation to ongoing contracts, as per appropriate contractual terms and conditions
 - Continued development and use of on-line services, and further promotion of flexible “self-service” facilities, available 24 hours a day, anywhere in the world, (investment in this enables us to keep staff levels as low as possible)
 - Investment in technology to deliver efficiencies, including ‘back office’ streamlining
 - ‘User Pays’ model when setting fee levels
 - Dividends and interest are expected to remain similar to 2014 rates
- v. Having factored in the above efficiencies, pressure and assumptions, a summary of the budget is attached ([Annex A, Column 5](#)). This budget realised a small operating surplus of £44k, which is being transferred to reserves to ensure sufficient funds are available for the following reasons:
- Outcome of Periodic Review unknown, there may be costs involved, dependant on any changes that may arise.
 - Unknown outcome of the property review
 - If registrant numbers drop or unexpected costs occur, this may lead to higher fee increases in 2017

vi. **Operational Budget – Expenditure**

The cost of delivering core operations for 2016 is estimated at £3,978k (budget for 2015 is £3,753k). This represents an overall increase of £224k (6%), with the most significant change this year being the increase in property rent and IT Digital spend.

A breakdown of the key budget headings are provided below:

- **Staff Costs** - £29k increase from 2015 (2%) – to include a provision for any pay award (to be decided by the Remuneration Committee in November 2015). It also includes any changes to PAYE/NI and pension regulations.
Despite the growing Register, staffing costs remain within the existing headcount of 22 full time equivalent (FTE). This is mainly due to the commitment of staff, in taking on additional work and continuing to work flexibility across the organisation, which is allowing ARB to target resources and cover abnormal peaks in the workload, such as vacancies, long term sickness and the Periodic Review.
- **Office Costs** - £139k increase (41%) – This includes business rates, rent, service charges and repair and maintenance. The rent review date is 25 December 2015 and so the outcome of negotiations will not be known until nearer the time. A feasibility study/options appraisal will be carried out. Further information will be provided to the Board in due course.
- **Utilities** - £6k increase (9%) – increased cost of electricity, office cleaning, telephones and insurance.

- **Postage Costs** - £no change – Royal Mail postage costs are continually rising. Whilst efficiencies are sought through use of electronic media, there is still a requirement for ARB to post certain types of documents. This area is also impacted by the increase in the number of professional conduct cases and the distribution of documents. Efficiencies are currently being investigated in this area by the use of an online portal.
- **Printing Costs** - £5k increase (7%) - Whilst efficiencies are sought through use of electronic media, there is still a requirement for ARB to produce/copy certain types of documents (the size of the Register has a direct impact on this area of spend). This area is also impacted by the increase in the number of professional conduct cases and the distribution of documents. Efficiencies are currently being investigated in this area by the use of an online portal.
- **ACE & ENACA** - £no change – efficiencies gained through challenge of the ACE budget by member states. The membership of ACE is kept under review and remains beneficial at this time whilst implementing the Qualifications Directive, access to information, and in influencing ACE's European activities, raising UK-specific issues and alerting ACE of consumer perspectives.
- **Public and Professional Awareness** - £2k increase (6%) – to continue to raise awareness of the Register to protect consumers/clients. This includes attendance at 3 consumer shows.
- **Board Expenses** - £no change – Continued use of on-line booking site for travel, with travel booked in advance, where possible, as well as continued advance scheduling of meetings to minimise travel and use of telephone conferencing.
- **Staff Travel** - £1k increase (5%) – Despite the cost of travel increasing, efficiencies continue to be gained through enhanced planning and use of on-line booking sites where no administrative fee is charged, along with a commitment to obtain the best deals available through advance booking.
- **Professional Services and Legal Advice** - £5k decrease (2%) – this budget covers specialist advice on items such as Human Resources and HMRC matters, external and internal audit, Investment broker, pension advisor, Freedom of Information requests, advice on EU qualifications, prescription and examinations and other specialist legal advice. Spend in each area varies each year as we continue to seek efficiencies and ensure value for money. Savings have been made by reducing the amount of legal input at Board meetings.
- **PCC/Regulation** - £13k decrease (2%) – Despite the number of hearing days continuing to remain high (approx. 55 hearing days per annum), efficiencies continue to be sought in this area. The programme of streamlining of processes continues, along with tight controls of legal costs, including the introduction of fixed fees where appropriate following the tender exercise in 2013. There is also a trend of a downward use of Inquirers and third party reviewers.
- **Misuse of Title** - £no change – We continue to successfully recover some of our costs in relation to title misuse cases. It is difficult to predict what costs will be awarded by the courts, but any that are awarded go towards offsetting some of the expenditure.

- **Other Administrative Costs** - £5k increase (9%) – the main spend in this area are transaction costs, for the processing of on-line payments. The increase is due to more people applying on-line, which in turn, is enabling the maintenance of existing staffing levels, despite the continued growth in work.
- **Prescribed Examinations** - £12k increase (15%) – a high proportion of the costs are recovered from the Prescribed Examination fee (see income). This includes all running costs, including annual training of the independent examiner and examiner panel.
- **Prescription/Qualifications** - £no change – despite an increase in the number of requests for prescription of new qualifications, and the increasing complexities, efficiencies are being gained through extending the prescription cycles of some existing prescribed qualifications. We have also been able to draw on support and expertise from across the organisation to manage the workload.
- **IT Infrastructure Costs** - £32k increase (12%) – This budget covers the development, running, maintenance, licencing, support and software of the organisation’s IT systems. This area will continue to grow as more services are moved on-line; the cost increase represents a saving compared to funding the potential human resource increase required to manage a growing workload without technological developments.
- **Depreciations** - £11k increase (7%) – this is an accounting adjustment and the increase does not impact on the retention fee (see movement in reserves).
- **Corporation Tax** - £no change – the final figure is dependent on the performance of ARB’s investments. This increase does not impact on the retention fee (see movement in reserves).
- **Maintenance Reserve/IT Sinking Fund/Election Fund** - £3k change (1%)– funds set aside to cover investment in the building and technology. There is also provision made each year for the Architects Board election process. The purpose of this budget is to have sufficient resources set aside to smooth out the annual retention fee.

vii. **Operational Budget – Income**

The anticipated income for 2016 is £4,318 (budget for 2015 is £4,002), represents an increase of £316k (8%). This is based on holding the retention fee at the 2015 level of £107.00.

The number of new registrants and those re-joining the Register continues to increase significantly as well as the number of candidates sitting the Prescribed Exam.

Income has been based on the estimated volumes during 2015:

New applications	1,996
Readmissions & Reinstatements	1,656
Retention Fees to remain on the Register	34,545 (net)
Prescribed examinations	101

The retention fee element in relation to new applications, readmissions and reinstatements is pro-rata per quarter. Therefore, estimated volumes have also been pro-rata.

- viii. The Executive proposes an amendment to the following prescribed fee for 2016 (see Item 12 of the Board pack):
- Prescribed fee for reinstatement – from £20 to £10. This was reduced in 2014 by £10 (from £40 to £30), and a further £10 in 2015 (from £30 to £20). A further reduction of £10 is proposed to reflect the use of the ‘user pays’ model, as the process has been moved on-line, reducing the costs of processing further.
 - There is no proposal to increase the Prescribed Examination fee as, following a review of costs, the existing fee continues to cover the costs with the exception of any increases following the property review.

ix. **Business Plan 2016 -2018**

Resourcing of the Business Plan for 2015 is estimated at £228k ([Annex B](#)). Please note that there are a number of projects within the Business Plan that have been rolled over from 2015, the funding will also be carried forward into 2016.

x. **One off costs for 2016**

During 2016, there are several items of expenditure that are anticipated, but do not form part of the Business Plan or operational budget. These activities/projects total £40k and are detailed below:

Description	Cost (£000)
	£000
Contingency/Development pot	10
Board Induction - new members	10
Electronic Document Archive	10
Property costs	10
	40

- xi. As well as the one-off projected identified above, further digital spend is required to build resilience within our IT infrastructure. This will help to enhance business continuity and reducing down time caused by system failures. These works will be funded from the IT renewal fund.
- xii. When setting the budget for 2015, a forecast was produced to indicate the likely level of fee increases for the following years. These indicative fee increases were £8.06 for 2016, and £3.56 for 2016.

A forecast for the next 3 financial years can be found in [Annex C](#).

xiii. **Reserves**

The Board is committed to reviewing its reserves every other year, but in practice, as part of the annual budget process, the Board considers its reserves position. Please see Item 10 on this agenda.

The level of reserves at the 1 January 2016 is anticipated to be £2,591k, which is approximately 7.8 months of the 2016 operating costs.

7. Risk Implications

Without a planned, prudent budget and retention fee setting process, ARB would place itself at risk of being unable to meet its statutory duties, particularly in the face of fluctuating demands, some of which are outside of ARB's control. As a public body ARB must ensure that it is delivering as cost effectively as it can, and work to ensure that the retention fee paid by the profession reflects value for money. A transparent and robust budget process enables ARB's stakeholders to hold the organisation to account.

8. Resource Implications

Implications are generally covered within this paper; however there remains little provision for resources, both in terms of staffing and finance, to be diverted to new areas of work or policy development and review, unless taken from reserves. In section 6(vi) and section 7 above, a number of potential challenges have been identified, that will need to be funded from reserves, as no provision is being made within the budget. The Periodic Review may raise the profile of the organisation; the impact on resources is difficult to predict. The Management Team will closely monitor the impact on workloads and financial resources and will report to the Board where appropriate, to keep the Board up to date.

9. Communication

ARB is committed to ensuring it has sufficient resources, in order to deliver its statutory functions.

Annually, the Board sets its budget and business plan, whilst considering the impact any increase to the fee will have on the profession.

The Board is mindful of its responsibilities to ensure it has sufficient reserves in place, to meet its obligations under the framework agreement with the DCLG.

10. Growth Duty Considerations

Each element of the budget has been scrutinised to consider whether it is necessary to fulfil ARB's statutory obligations or aims and priorities. The fee has been set in accordance with the money required to meet those requirements, but in light of the need to minimise the financial burden on the profession.

11. Equality and Diversity Implications

None identified.