



Subject	2017 Budget, Reserves and Annual Retention Fee		
Status	Open Session		
Purpose	For Decision		
From	Head of Finance and Resources		
History	Parent Committee	First Submitted	Revision Number
	N/A	15/09/2016	1

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1. Purpose

To agree the 2017 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 2016 level of £107.00.
- agrees the budget for 2017, as shown in [Annex A, Column 5](#).

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 2017 budget and fee are set at a level in order to ensure that ARB can deliver the 2017 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. The Statement of Priorities underpins the annual Business Plan. The Statement of Priorities is normally set for three or four years. ARB must ensure it has the necessary financial and human resources to deliver its statutory functions and the agreed Business Plan.
- ii. Prudent financial management requires ARB to hold sufficient reserves to meet financial risks it may face and to ensure that a strong and stable financial base underpins the organisation and its ability to deliver its remit.
- iii. As in previous years, a thorough review of each budget heading and activity has been 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.
- iv. Looking back at 2016 and then forward to 2017, the following efficiencies and pressures have been identified and considered as part of the budget setting process:

Efficiencies

- Continued flexibility of staff – utilising pool of resources
- Increased use of on-line services, through self-serve via the website – Registration in particular
- Extending prescription of qualifications, where appropriate
- Increased service demand - whilst not increasing our permanent headcount and using temporary resources when required
- Professional Conduct Consent orders – 3 issued in the last 18 months (savings approx. £21k)
- Fewer adjournments through changes to internal procedure
- Internal audit tender (VFM)
- Title Regulation – Solicitor tender (VFM)

Pressures

- Outcome of the Periodic Review – still remains unknown
- Brexit - unknown impact on the future numbers on the Register and joining the Register
- Deferral of projects until Period Review outcome is known (funds have been carried forward from prior years and held in reserves).
- Increase in the numbers on the Register, enquiries and users of our services
- Increase in the number of requests and complexities for prescription of new qualifications
- Potential negative inflation – leading to increased bank charges
- Increased property costs
- Increase in exams and high level of support being required by candidates

v. **The proposed budget reflects the following changes:**

- Reflects increased numbers on the Register
- Reading/preparation time for Board Members & Examiners and Independent Examiners
- Annual Fee remains at £107 (held since 2015)
- Applications and Penalty Fees to be held at 2016 level
- Increased property costs (Business Rates)
- Pay award – 2% (determined by Remuneration Committee November 2016)
- Meeting the Boards reserves policy
- 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

vi. Having factored in the above efficiencies, pressure and assumptions, a summary of the budget is attached ([Annex A, Column 5](#)). Any surplus will be 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.
- To meet the DCLG requirement to hold the cost of closure
- Unknown outcome of the property strategy/review
- Brexit - unknown impact on the future numbers on the Register and joining the Register
- If registrant numbers drop or unexpected costs occur, this may lead to higher fee increases in 2018
- To help mitigate any unforeseen events materialising

vii. **Operational Budget – Expenditure**

The cost of delivering core operations for 2016 is estimated at £4,058k (budget for 2016 is £3,978k). This represents an overall increase of £79k (2%).

A breakdown of the key budget headings are provided below:

- **Staff Costs** – budget £1,481 - £14k increase from 2016 (1%) – to include a provision for any pay award (decided by the Remuneration Committee in November 2016). Despite the growing Register, staffing costs remain within the existing headcount of 22 full time equivalents (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. Temporary resources are secured when required.

- **Office Costs** – Budget £463k - £17k decrease (3.6%) – This includes business rates, rent, service charges, repairs and maintenance. The rent review concluded early 2016 with a lower than budgeted outcome, leading to a decreased budget in 2017. Westminster City Council will be conducting a Business Rates revaluation early 2017 and provision is included within the 2017 budget.
- **Utilities** – Budget £75k - £2k increase (2.7%) – small increase in cost of office such as cleaning, telephones and insurance.
- **Postage Costs** – Budget £25k - £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 continue to be sort in this area by reviewing any documents/letters that are not currently sent electronically.
- **Printing Costs** – Budget £70k - £no change - 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 continue to be sort in this area by reviewing any documents/letter that are not currently sent electronically. During September 2016, a tendering of the production of the fee notice is being undertaken to ensure VFM continues to be achieved.
- **ACE & ENACA** – Budget £41k - £3k increase (6.6%) – there is a small increase to the 2017 budget to take account of ACE increasing the annual contribution and exchange rate fluctuations, as the payment is p in Euros. This cost of ACE is split 50/50 with RIBA. Membership of ACE is kept under review and remains beneficial in relation to 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** – Budget £38k - £5k increase (15%) – to continue to raise awareness of the Register to protect consumers/clients, including attendance at 4 consumer shows. This includes piloting one new show during 2017.
- **Board Expenses** – Budget £100k - £20k increase (25%) – reflects the claiming patterns of the current Board geographic and the extension of reading time to cover Board and committee meetings as outlined in agenda item 10 of the Board meeting.
- **Staff Travel** – Budget £21k - £no change – 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** – Budget £293k - £3k decrease (1%) – this budget covers specialist advice on items such as Human Resources, 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.

- **Professional Conduct /Regulation** – Budget £650k - £no change – Despite the predicted increase in PCC hearing days (estimated to be 77, budgeted for 55), ARB has sought to make savings by making use of the varying contractual agreements it has with law firms, and ensuring that appropriate cases are dealt with in the most cost efficient way.
- **Misuse of Title** - £50k - £10k increase (25%) – 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** – Budget £67k - £6k increase (10%) – the main spend in this area are transaction costs, for the processing of on-line payments. The increase is due to more people applying and making payments on-line. Movement to on-line services has enabled us to maintain existing staffing levels, despite the continued growth in work. Staffing levels will be kept under review in light of the continued increase in work.
- **Prescribed Examinations** – Budget £131k - £37k increase (40%) –This includes all running costs, including annual training of the independent examiner and examiner panel. The number of exam applications has risen during 2016 and the additional costs have been taken account of for 2017 with an anticipated volume of 145 examinations for 2017.

In line with the proposed change to offer reading/preparation time for Board members, the recommendation also extends to examiners as outlined in agenda item 10 of the Board meeting. It is proposed that costs involved in the introduction of reading/ preparation time is funded from efficiencies secured in the area of recruitment and training for 2016/7.

- **Prescription/Qualifications** - Budget £60k - £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. Whilst this budget shows an underspend in previous years, due to the new makeup of the Prescription Committee this is unlikely to continue in 2017.
- **IT Infrastructure Costs** – Budget £300k - £no change – 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;
- **Depreciations** – Budget £171k - £no change – this is an accounting adjustment.
- **Corporation Tax** – Budget £23k - £2k increase (9.5%) – the final figure is dependent on the performance of ARB's investments. This increase does not impact on the retention fee.

- **Maintenance Reserve/IT Sinking Fund/Election Fund** – Budget £27k - £no change– funds set aside to cover investment in the building and technology. There is also provision made each year for the Architects election process.

viii. **Operational Budget – Income**

The anticipated income for 2017 is £4,659k (budget for 2016 is £4,318k), represents an increase of £342k (8%). This is based on holding the retention fee at the 2016 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 2016:

New applications	2,516
Readmissions & Reinstatements	1,232
Retention Fees to remain on the Register	36,985 (net)
Prescribed examinations	145

The above volumes are based 2016 figures and we are keeping a watchful eye in relation to the implications of withdrawal from the EU.

For new applications, readmissions and reinstatements a pro-rata retention fee applies. Therefore, estimated volumes have also been pro-rata.

- ix. There are no proposals to increase any of the fees from 2017, with all fees being held at 2016 levels.

x. **Business Plan 2017**

Resourcing of the Business Plan for 2017 is estimated at £118k (**Annex B**). Please note that there are a number of projects within the Business Plan that have been rolled over from 2015/2016, the funding will also be carried forward into 2017 if the spend has not been made by the end of 2016.

xi. **One off costs for 2017**

During 2017, 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 £142k (**Annex B**).

The one off projects are, in the main, IT infrastructure related, to ensure our systems and data remain protected and secure. It is also our intention to replace the photocopiers in order that we can continue to retain as much printing as possible in-house as this currently keep costs down and offers value for money. We have also included an additional £10k to cover the cost of inducting new Board members during 2017.

- xii. A forecast for the next 3 financial years can be found in **Annex C**.

However, this should be used with caution as there may be a potential demand and legislative changes resulting from the Period Review and Brexit. In addition, the lease for 8 Weymouth Street expires in 2019.

xiii. **Reserves**

The Board, at its September 2015 meeting agreed the following reserves policy:

To hold the higher of the following:

- I. 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 4 months operating costs
- III. Reclassify capital carry forward (ring fenced project / committed spend), and depreciation as a designated reserve, rather than inclusion in the operational reserve.

A breakdown of the forecasted reserves position can be found in [Annex D](#).

The Boards has sufficient reserves to meet its responsibilities under the Framework Agreement with the DCLG, which is as a minimum to hold the estimated wind up costs. However, its free reserves represent 2.48 month of operating costs. The overall reserves fund remains around 11 months of 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 above, a number of pressures 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 Operational Management Group 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 both its obligations under the framework agreement with the DCLG as well as having sufficient funds available should any of the risk materialise. The Annual fee has remained at the same level since 2015. This will be the second year of holding the Annual Fee at £107.00.

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.