



Subject 2018 Budget, Reserves and Annual Retention Fee
Purpose For Decision
From Head of Finance and Resources

If you have any enquiries on this paper, please contact Marc Stoner on 020 7580 5861 or email marcs@arb.org.uk

1. Summary

Annually the Board is required to agree the annual business plan and associated budget, as well as set the annual retention fee.

Outlined below is the proposed budget set to ensure ARB can deliver its business plan and statutory functions.

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.

There are a number of risks outlined within this paper that have not been factored into the budget as the impact remains unknown. This includes the impact of Brexit with [Annex C](#) highlighting a number of scenarios, and the impact on operating costs and income.

The proposed budget will allow the annual fee to be held for the fourth year running and for the organisation to deliver its business plan and statutory requirements, and to meet its reserves policy.

2. Recommendations

It is recommended that the Board:

- notes the content of the paper;
- hold the annual retention fee at the 2017 level of £107.00.
- hold the prescribed examination fee at the 2017 level of £1,671.
- agrees the budget for 2018, as shown in [Annex A, Column 5](#).

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

Support architects through regulation.

The 2018 budget and fee are set at a level in order to ensure that ARB can deliver the business plan and meet ARB's objectives in both of the above areas.

5. 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 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.
- iv. Looking back at 2017 and then forward to 2018, a number of efficiencies and pressures have been identified and considered as part of the budget setting process, these are outlined below

v. 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
- System development – Pass lists, back office automation development, investigations portal

vi. Pressures/Risks/unknowns

- Brexit - unknown impact on the future numbers on the Register from the EU. Although this may bring opportunities as well
- Increase in the number of requests and complexities for prescription of new qualifications and Apprenticeships
- More challenging PCC cases
- Outcome of the Periodic Review – New board/committee structures unknown, timing of legislative changes required
- Inflationary impact on costs

System changes following prescription policies and procedures review

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

- Reflects current numbers on the Register
- Annual Fee remains at £107 (held since 2015)
- Applications and Penalty Fees to be held at 2017 level (held from 2016)
- Exam fees to be held at 2017 level (held since 2013)
- Increased IT infrastructure costs and security

- Pay award – 2% budget (actual award determined by Remuneration Committee December 2017)
 - 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
- viii. Having factored in the above efficiencies, pressures and assumptions, a summary of the budget is attached ([Annex A, Column 5](#)). This shows a potential surplus of £76k, surplus that will be transferred to reserves to ensure sufficient funds are available to meet materialisation of any of the pressures/risks/unknown outlined under iv above.

ix. **Operational Budget – Expenditure**

The cost of delivering core operations for 2018 is estimated at £4,310k, compared to 2016 budget of £4,151 represents an overall increase of £159k (3.8%).

A breakdown of the key budget headings are provided below:

- **Staff Costs** – budget £1,632k - £58k increase from 2017 (3.7%) – This budget heading covers all human resource costs of the organisations 25 employees including PAYE, training, recruitment costs, contractual staff benefits such as pension scheme, Insurance such as PHI and death in service, as well as temporary staff that maybe required from time to time. The main reason for the increase within this budget is the full year effect of the two new posts which were approved by the Board at its July 2017 meeting, as well as a provision for any potential pay award for staff (which is decided by the Remuneration Committee in December 2017).
- **Office Costs** – Budget £527k - £12k increase (2%) – This includes business rates, rent, service charges, insurance, cleaning, repairs and maintenance. The main change is the estimated increase in Business rates, insurance and electricity.
- **Postage and Telecommunications** - Budget £50k - £2k increase (2%) – 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 sought in this area by reviewing any documents/letters that are not currently sent electronically. Initiatives for 2018 include the use of electronic Board packs.
- **Printing & Stationery 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 sought in this area by reviewing any documents/letters that are not currently sent electronically.

- **Architects Council of Europe (ACE) & European Network of Architects Competent Authorities (ENACA)** – Budget £41k - £2k increase (2%) – there is a small increase to the 2018 budget to take account of ACE increasing the annual contribution and poor exchange rates, as the payment is in Euros. The 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 – £no change– to continue to raise awareness of the Register to protect consumers/clients, including attendance at three consumer shows and use of social media channels. We also reach out to other bodies, such as Which, NAWIC, Trading Standards, Local authorities, University liaison and engagement with students.
- **Board Expenses** – Budget £100k – £no change - reflects the current claiming patterns of the current Board structure, geographic, reading time to cover Board and committee meetings as outlined in agenda item 14 of the Board meeting. An outcome of the Periodic Review is to change the governance arrangements around the Board (reducing the size of the Board) as well as a recent review of the attendance allowance paid. This may impact on this budget, but remains unknown at this moment in time.
- **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 – £no change – this budget covers specialist advice on areas such as Human Resources, HMRC matters, external and internal audit, Investment broker, Pension advisor, Freedom of Information requests, property advice, fraudulent applications, advice on EU qualifications, prescription and examinations, legal advisor attendance at meetings and other specialist legal advice as required. 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 - predicted PCC hearing days for 2018 are 60 days. 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. The Section 14 review may materially affect this budget; however, any changes will be subject to legislative change.
- **Misuse of Title** - £50k – £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** – Budget £67k – £no change – 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.

- **Prescribed Examinations** – Budget £135k - £4k increase (3.4%) – This includes all running costs, including annual training of the independent examiner and examiner panel. The number of exam applications is estimated at 121 for 2018. The cost of the examinations is fully recovered, with the exception of training which will be covered within existing resources this year pending review of the examination process, by the fee charged to sit the exam. The fee also includes recovery of staff costs associated with the administration; these costs are under the staffing budget.
- **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. With the introduction of Apprenticeships, the workload within this area is likely to continue to increase. An additional member of staff is being recruited to this area which the Board approved at its July 2017 meeting.
- **IT Infrastructure Costs** – Budget £343k - £43k increase (14.3%) – This budget covers the development (including ongoing operational costs of system developments), running, maintenance, Software licencing support, support of the organisation’s IT systems . This area will continue to grow as more services are moved on-line. It is also important that we remain on top of data and systems security which continually throws up new threats.
- **Depreciations** – Budget £191k – this is an accounting adjustment.
- **Corporation Tax** – Budget £40k - the final figure is dependent on the performance of ARB’s investments. This increase does not impact on the retention fee.

x. **Operational Budget – Income**

The anticipated income for 2018 is £4,667k compared to 2017 budget of £4,634k which represents an overall increase of £33k (0.7%). This is based on holding the retention fee at the 2017 level of £107.00.

During 2017, a 42% drop in EU applications between April and July against the same period in 2016 was noted. As such, a cautious approach to setting fee levels has been taken to reflect this drop going forward.

Annual Retention Fees - £4,115k - £158k increase (4%) – Whilst there has been a drop in new EU registrants, the Register continues to grow with an estimated Register total of 38,464 predicted at the start of 2018.

New Registrations and those returning to the Register - £350k - £85k decrease in income (19.5%) – This reflects the decrease in EU applications forecast for 2017 going forward into 2018.

Prescribed Exam Fees - £202k - £40k decrease (16.5%) – 121 examinations are being predicted for 2018. This covers the cost of the examination process, including staffing.

EU Certificates and Sundry Expenses - £4k – £no changes – income is generated from sales of the PDF Register and those registrants requiring a certificate to enable them to register in other EU states.

Dividends and Bank Interest - £51k - £40k increase (143%) – forecasted Income anticipated from investments, which is dependent on performance of the portfolio.

- xi. There are no proposals to increase any of the fees from 2017, with all fees being held at 2016 levels.
- xii. **Business Plan and One-Off developments**
Resourcing of the Business Plan for 2018 is estimated at £310k (**Annex B**). Further details can be found in agenda Item 9.
- xiii. The impact of Brexit still remains an unknown. We have attempted to demonstrate various scenarios of EU applicant leaving/not joining the register which can be found in **Annex C**.
- xiv. **Reserves**
Please see agenda item 8.

6. 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 5 (iv) 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 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.

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. 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 risks materialise. The annual fee has remained at the same level since 2015. This will be the fourth year of holding the annual retention fee at £107.00.

9. Equality and Diversity Implications

While no specific equality and diversity implications have been identified in the course of the setting of this budget, there is a possibility that as fees generally increase so too does the likelihood of disadvantages to those on lower incomes. The proposed budget will allow the annual fee to be held for the fourth year running and for the organisation to deliver its business plan and statutory requirements, and to meet its reserves policy.