



Subject 2019 Budget, Reserves, Annual Retention and other Fees
Purpose For Decision
From Head of Finance and Resources

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1. Summary

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

Following the Board's budget briefing session in August 2018, feedback has been factored in to the proposed budget set out below which ensures that ARB can deliver its business plan and statutory functions. As always, a thorough review of each budget heading and activity has been undertaken to ensure an efficient use of resources.

There are a number of risks outlined within this paper (section 5, vi) that have not been factored into the budget as the impact remains unknown. However, section 5(vii) outlines options on how these items can be funded as and when they materialise.

Annex E highlights a number of scenarios, and the impact on operating costs and income of leaving the EU

The proposed budget will see the annual fee increase from £107 to £109, the first increase since 2015.

2. Recommendations

It is recommended that the Board:

- notes the content of the paper;
- agrees to increase the annual retention fee to £109
- agrees to hold the prescribed examination fee at the 2018 level of £1,671
- agrees to hold all other fees at the 2018 level (see **Annex D**);
- agrees the budget for 2019, as shown in **Annex A, Column 5**; and
- notes the content outlined under section 5, vi and vii. Further information will be brought back to the Board at a later date.

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. This core work is reported to the Board twice a year via Key Performance Indicators and via its committees on a periodic basis. In addition to this core work ARB has in place strategic objectives, deliverable over a three year period. These objectives are underpinned by an annual business plan and operation budget, which set out what work, will need to be undertaken in the next year and how much it will cost. ARB must ensure it has the necessary financial, human and technical resources to deliver both its statutory functions and the agreed business plan.
- ii. Prudent financial management requires ARB to hold sufficient reserves to meet any 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. 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 2018 and then forward to 2019, a number of efficiencies and pressures have been identified and considered as part of the budget setting process.
- v. During 2018, efficiencies were gained through:
 - Continued flexibility of staff – utilising the 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. The following items have not been factored in to the budget as the impact is currently unknown. As and when the items start to materialise or we have additional information, further details on costs will be provided to the Board.
 - EU Exit/Mutual Recognition Agreements (MRA's)/Hackitt Review (£200k provision set aside in 2018, but likely to be more required for 2019)
 - Increase/decrease in the number of architects on the Register, enquiries and users of our services
 - Changes to systems and processes following review of Prescription/Prescribed Examination policies and procedures
 - Aspirations of the new Board – post constitution change
 - Regulation of Title – see agenda item 6
 - Routes to Registration (as previously discussed with the Board)
 - Section 14 Review

- vii. There are a number of options available to the Board to fund the unknown items as they materialise as outlined in (vi) above. Depending on the cost/resources required, the following options could be considered (although it is likely to be a combination of these options).

Option 1

Use funds from the operational reserves and rebuild over the short 2-3 years. There would be a risk in that other unknown factors may occur the Board should therefore avoid falling below 3 months of operating costs. The operating reserves are estimated to stand at £1,464k (subject to approval of the fee increase). However, this could potentially free up £366k.

Option 2

Utilise the closure costs that are required to be held as part of the ARB/MHCLG Framework Agreement. Given the amount of work required to be delivered by ARB as required by Government, the risk of imminent closure is minimal. Therefore these funds could be utilised and rebuilt over the medium term (five to eight years, although consideration would need to be given to the lease expiry in 2024). At the time of writing this report, we are exploring with MHCLG if this approach would be acceptable to them. The funds currently set aside are £3.6m

Option 3

Sell the investment portfolio and realise profits. There is a risk here that the value of the portfolio may decrease at the time we require it. However, we could sell part of the funds where profit is available. Current valuation would realise £318k profit.

Option 4

There is the option to raise the fee by more than £2.00, as proposed in this paper, however, given the costs are unknown this could place a burden on the profession and a stepped approach would be more sensible (i.e., rebuilding reserves).

Option 5

Defer business plan items that are not critical to service delivery, based on the figures set out at Annex B, such items amount to £125k

Option 6

There may be additional income through growth in the register once the exit from the EU becomes more transparent, which could be utilised in the first instance to support the projects.

Option 7

Any savings generated out of the Section 14 review which will be brought to the Board in November 2018 with any recommendations (could be up to £50k).

- viii. The anticipated income for 2019 is £4,974k which is an increase of 5.3% when compared to 2018 budgeted income and 4.3% when compared to the 2018 forecast income.

The costs for 2019 are estimated at £4,821k, an increase of 3.8% when compared to the 2018 Budget and 2.9% when compared to the 2018 forecasted spends.

Overall the proposed budget, with a £2.00 retention fee increase, will generate an operating surplus of £153k. £144k of these funds is required to bring the operating reserves up to the 4 months of operating costs per the Boards policy, leaving a small surplus of £9k.

ix. **Operational Income**

The anticipated operating income for 2019 is £4,892k (**Annex A, Column 5**), which is an increase of 4.7% when compared to 2018 budgeted income, and a 4.3% increase when compared to the 2018 forecast income.

During the last 2 years the number of EU applications has declined, whilst the number of UK applications has remained stable. Overall the Register continued to grow, with an estimated 39,814 (38,779 in 2018) registrants paying the annual fee for 2019.

The proposal is to increase the annual retention fee from £107 to £109 for 2019. All other fees will remain the same as 2018.

Annual Retention Fees - £4,340k - £225k increase (5.5%) – Whilst there has been a drop in new EU registrants, the Register continues to grow with an estimated Register total of 39,814 predicted to pay the fee and remain on the Register at the start of 2019.

The above retention fee income factors in a £2 increase for 2019 (1.9% increase) taking the annual retention fee from £107 to £109. This is a below inflation increase which is currently running at 2.5% (July 2018). This would be the first fee increase since 2015 and had the fee increased with inflation year on year, it would now stand at around £113.

The additional income over that generated by the £2 fee increase is from the increased number on the Register.

New Registrations and those returning to the Register - £340k - £10k increase in income (3%) – This reflects the decrease in EU applications forecast for 2019 and the increase in the retention fee element of new and re-entry applications. The application fee and any penalty fees will not increase and therefore remain at the 2018 level.

Prescribed Exam Fees - £209k - £7k increase (3.4%) – 125 examinations are being predicted for 2019. This covers the cost of the examination process, including staffing. There is no change proposed to the fee for 2019 although it will be reviewed as part of the ongoing Prescribed Exam Review. The last increase took place in 2013.

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. There is no planned change to the fees charged for 2019.

Further information in relation to other fees charged can be found in **Annex C** and a charging schedule can be found in **Annex D**

x. **Operational Expenditure**

The cost of delivering core operations for 2019 is estimated at £4,392k (**Annex A, Column 5**) which is an increase of 3% when compared to the 2018 Budget and 0.6% when compared to the 2018 forecasted spends.

A breakdown of the key budget headings are provided below:

- **Employee Costs** – budget £1,778k - £126k increase from 2018 (7.6%) – This budget heading covers all human resource costs of the organisation’s 25 employees plus one additional fixed term post which temporarily increases the head count to 26. The budget heading includes PAYE, training, recruitment costs, contractual staff benefits such as pension scheme, insurances such as private health and death in service, as well as temporary staff that maybe required from time to time.

The reasons for the increase within this budget is a temporary increase in head count (which is being funded from reserves ring-fenced in prior years), more staff opting into the pension scheme and at a higher rate, a provision for the annual staff pay award of up to 3% (which is decided by the Remuneration Committee in December 2018) and additional training and upskilling of staff.

We aim to remain competitive within the external job market to ensure we attract a high calibre of staff that are able to not only carry out their own role, but demonstrate a high level of flexibility and a drive to do new things. This allows us to target the resources more effectively across the organisation. We continue to ensure value for money when tendering for insurance, staff benefits and temporary support. There are a number of risks on the horizon such as EU exit, implementation of MRAs and outcome of the Hackitt Review, for which additional resources maybe required, but at this time the impact/resources required remains unknown.

- **Office Costs** – Budget £518k - £10k decrease (1.8%) – 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 which is being offset by savings in relation to the new lease which applies from April 19 for the Weymouth Street offices.
- **Postage and Telecommunications** - Budget £50k – £no change – Royal Mail postage costs are continually rising. During 2018 we switched our postage contract which gives us a further discount on our postage costs. Whilst efficiencies are sought through use of electronic media, there is still a requirement for ARB to post certain types of documents.

- **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.
- **Architects Council of Europe (ACE) & European Network of Architects Competent Authorities (ENACA)** – Budget £44k - £1k increase (1.9%) – there is a small increase to the 2019 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. This will be kept under review as the UK exits the EU during 2019.
- **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 £122k – £22k increase (22%) - reflects the current claiming patterns of Board members and also the current Board structure. Whilst the Board is likely to reduce to 11 members during 2019, there is likely to be a higher number of meetings and briefing sessions and any revised committee structures are not yet known.
- **Professional Services and Legal Advice** – Budget £311k – £18k increase (6%) – this budget covers specialist advice on areas such as Human Resources, HMRC matters, external and internal audit, investment broker, pension advisor, 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. The proposed 2019 Business Plan includes work on reviewing whether ARB would be advantaged by employing an in-house lawyer, and a subsequent legal services review/tender.
- **Professional Conduct /Regulation** – Budget £650k - £no change – This covers the costs of investigating complaints, through to hearing. This area is demanded and the team continues to look for efficiencies within processes to keep costs under control. We estimate 150 investigations, 70 Investigations Panel decisions and 27 PCC hearings during 2019. The Section 14 review which is currently being consulted on may generate savings; however, these potential changes are yet to be subject to a consultation and final Board approval. Because of that, they cannot be factored into the budget.
- **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. The Board at its May development day

wanted to explore options of doing more work in this area. A separate paper (Agenda Item 6) sets out the additional costs of this proposal that will need to be funded as it does not form part of this budget.

- **Other Administrative Costs** – Budget £67k – £no change – the main spend in this area are transaction costs for the processing of on-line payments, bank charges and the annual direct debit fee collection process.
- **Prescribed Examinations** – Budget £135k - £no change – This includes all running costs, including annual training of the independent examiner and examiner panel. The number of exam applications is estimated at 125 for 2019 (same level as 2018). The cost of the examinations is fully recovered, with the exception of training which is covered within the operating costs. The fee also includes recovery of staff costs associated with the administration; these costs are under the staffing budget.

A review of the examination process is currently underway. The review will include a review of the administrative costs and fee charged.

- **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 and streamlining some of the internal operational processes. With the introduction of apprenticeships, the workload within this area is likely to continue to increase.
- **IT Infrastructure Costs** – Budget £357k - £14k increase (4.1%) – This budget covers the development (including ongoing operational costs of system developments), running, maintenance, software licencing support and 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 £139k - £52k decrease – this is an accounting adjustment. However, the annual depreciation charge for the 2009 office refurbishment ends in 2018. There is a requirement for ARB to provision for dilapidation costs and for 2019 these funds will be utilised to create this provision.

xi. **Investment Income**

The anticipated income from dividends and bank interest £82k (**Annex A, Column 5**) which is an increase of 60.8% when compared to 2018 budgeted income and 2.5% when compared to 2018 forecast. The addition income is resulting from the change in the Board Investment Strategy in November 2017.

Corporation Tax – Budget £40k - £no change – The Board pays Corporation Tax on investment only. The final figure payable to HMRC is dependent on the performance of ARB’s investment portfolio.

xii. **Business Plan and One-Off developments**

Resourcing of the Business Plan for 2019 is estimated at £310k (**Annex B**). Further

details can be found in agenda Item 5.

We have identified those business plan items that could be deferred as a result of work required or if there was a sudden drop in income following the UK's exit from the EU. The split is between critical items that must be delivered, totalling £185k and those projects that, whilst would add value to efficiencies, could be deferred which totals £125k and the timing of commencement of these projects will be taken into account by the Operational Management Team.

xiii. The impact of Brexit still remains an unknown. We have attempted to demonstrate various scenarios of EU applicants leaving/not joining the register which can be found in [Annex E](#).

xiv. **Reserves**

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

- Hackett Review
- Legal support/advice in relation to exiting from the EU
- Mutual Recognition Agreements (MRA's).

The above budget proposal assumes that this £200k will be fully utilised and therefore, the operating reserves are being re-built during 2019.

Please see [Annex F](#) of this report for a breakdown and forecast of the reserves position for 2019.

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 (vi) above, a number of pressures have been identified that will need to be potentially funded from reserves (see 5. Vii above), 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 MHCLG, as well as having sufficient funds available should any of the risks materialise. The annual fee will be increasing by £2.00 for 2019, which is the first increase since 2015.

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 allows for a below inflation increase on the annual fee in order to mitigate any significant impact on the profession. In order to mitigate the need for a significant increase in the fee for 2019, options to fund the known items have been identified in section 5, vii above. This approach would allow for a phased increase approach and only recover the actual amount required.