



Subject Budget, Resources, Fees and Business Plan 2020
Purpose For Decision
From Marc Stoner, Head of Finance & Resources

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

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 strategy and Business plan discussion at its 29 July 2019 meeting, the feedback provided at the meeting has been considered, and the proposed budget for 2020 is set out below. In line with the strategy discussed, we are proposing to hold the annual retention fee at the 2019 level of £111.

As part of the Boards discussion in July 2019, an overall increase to our existing staffing has been factored in to the proposed budget to ensure delivery of ARB statutory duties, as well as deliver organisational change over the next 12-24 months.

In preparation for the increased head count and to ensure the resources are available to the Executive as early as possible in 2020, we propose releasing £30k from reserves immediately so that recruitment can commence during 2019.

There will also be a need for additional desk and IT equipment to accommodate the new members of staff and we wish to commence the work during 2019. Subject to Board approval, it is proposed that the maintenance reserve is used to fund these works.

As highlighted as part of the our budget strategy discussion, there is a considerable amount of uncertainty around the timing and impact of the United Kingdom (UK) leaving the European Union (EU), with too many unknowns and variables at this stage to offer any longer term forecasts. However, the Executive feel that there is sufficient reserves held by the organisation to mitigate the foreseeable risks associated with exiting the EU (see section 6 below).

The proposed budget will provide sufficient resources to be able to deliver our statutory duties and deliver the Board's business plan for 2020.

2. Recommendations

It is recommended that the Board:

- agree the 2020 Business plan ([Annex A](#));
- agree an overall increase in the head count of seven full time equivalents;
- agree the release of £30k from reserves to commence recruitment during 2019

- agree that the annual retention fee for 2020 remains at £1111
- holds all other fees at the 2019 level (see [Annex B](#));
- agrees the budget for 2020, as shown in [Annex C, Column 4](#); and
- agrees that the Registrar and Chief Executive has access to the funds in property maintenance reserve to manage any accommodation and equipment needs ([See section 12 below](#)).

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

5. Key Points

Background

- i. ARB's strategic objectives were set by the Board at its September 2018 meeting for 3 years from 2019 to 2021.
- ii. The budget strategy and business plan were presented to the Board at its 29 July 2019 meeting, which provided details of the Executive's initial high level budget objectives for 2020 and 2021 based on the Board's current core work, strategic objectives and Business Plan items. Feedback was provided by the Board and consideration was given in setting the final budget for approval.
- iii. Due to the timing of the changeover in the Board constitution, the Board will not be having its strategic discussion until its review day on 25 October 2019.

6. Risks and Uncertainties

In preparing this budget, there are a number of unknown risks which could impact on the level of income from the annual fee or that could result in an increase in costs.

- i. Exit from the EU - There still remains a lack of clarity in terms of the impact of either the UK leaving with a deal or with no deal. Until a conclusion is reached, it is difficult to predict the impact on the number of current architects on the Register, numbers seeking to join the Register with EU qualifications/nationality, and any potential impact on the economy, be it short or medium term.

There is also a risk of a sharp upturn in queries from EU nationals who may seek to gain an understanding of their status within the UK.

Post Brexit there is also the possibility of non-EU countries approaching ARB to establish Mutual Recognition Agreements (MRAs), and ARB's participation in discussions with these bodies is likely to become a Government expectation.

It is important that the Board are prepared for any impact on the income levels and should remain cautious in holding sufficient provision within its general reserves fund (see section 12 below, alongside Annex D) which aims to mitigate some of the associated risks.

- ii. Later in 2019 a tender for the Board's constitutional lawyer will take place. This has not been fully market tested however; it is possible to lead to an increase in costs due to the length of the incumbent's length of service with ARB with very few fee increases in that time.

7. Efficiencies

As part of reviewing the budget strategy, there have been a number of initiatives started in 2019 that will general efficiencies in 2020.

- i. Purchased new multi-function printing and scanning devices and a drive to be as paperless as possible. Generated c£10k saving.
- ii. A review of Section 14 of the Architects Act was undertaken and as a decision was taken to remove the Clerks from the Professional Conduct Committee. This was implemented in 2019 which will generate saving of £70k in 2020.
- iii. Continued flexibility of staff to help the Executive target resources to particular projects/areas of the business to help manage short term resourcing issues.
- iv. Increased use of on-line services and automation through self-serve via the website which continues to help maintain relatively low staffing levels against a backdrop of increasing demand on our services.
- v. A number of tender exercises are being carried out during 2019 in relation to the cleaning contract, financial advisor and Professional Conduct Solicitors. Whilst there is not likely to be any financial savings within these areas, we are confident, as part of the tender process, that all providers will bring additional added value to ARB.

8. Summary of Budget for 2020

The table below shows the high level summary of the income and expenditure for 2020. A more detailed version can be found at [Annex B](#).

Table 1 below shows that the operating deficit of £160k for 2020. This is based on the assumptions outlined below in section 9, 10 and 11.

Table 1 – summary of income and expenditure

Budget Category	2019 Budget £000	2020 Proposed Budget £000
Total Income Budget	5,059	5,202
Total Expenditure Budget	4,630	4,793
Business Plan/One off items	310	490
IT/Property sinking fund	79	79
To/from reserves	(103)	0
Total surplus/(Deficit)	143	(160)

The level of operating reserves is estimated at the end of 2019 to be £357k over the Board policy of holding a minimum of 4 months operating costs and is therefore sufficient to cover the forecasted deficit for 2020.

9. Income Budget

In setting the income budget for 2020 the following assumptions have been made:

- All fee levels remain the same as 2019 for 2020
- Volumes are based on the current size of the register
- 41,150 registrants paying the annual retention fee for 2020
- 2,835 architects joining/re-joining the register in 2020
- 125 candidates taking the Prescribed Exam
- Investment and Bank Interest to remain the same as 2019 based on the Board's current investment Strategy
- Potential impacts of exiting the EU are not factored, however, Annex B provides for various income impact scenarios and some provision contained within the Boards reserves
- No change in volumes as a result of either the routes to registration and prescribed exam reviews that, subject to approval, will commence in 2020

Table 2 – breakdown of income

Budget Heading	2019 Budget £000	2020 Proposed Budget £000
Annual Retention Fees	4,419	4,568
Entry/re-entry to the register	345	340
Prescribed Examination Fees	209	209
	4,973	5,116
EU Certificates & Sundry Receipts	4	4
Income from Investments	82	82
Total Income	5,059	5,202

10. Expenditure Budget

In setting the expenditure budget (table 3 below) for 2020 the following assumptions have been made:

- Based on the Boards current strategic objectives and known core work.
- Each area of expenditure reviewed and inflated where appropriate
- Staff pay award of 3%
- An increase in staffing of additional 7 posts
- The level of Professional conduct cases and investigations remains close to previous years' volume of 60 hearing days and 6 inquirer reports as well as the same case load for both the team and the Investigation pool.
- An increase in the work of the Qualifications team with 17 renewals and 16 new qualifications being likely.
- Reflects changes to the governance changes agreed at the 19 July 2019 Board meeting.

- No changes to the current attendance fee levels for Board Members, Committee Members and its advisors. With the exception of the new non-executive appointments to the committees with an increase being factored in.
- Higher than inflation increase within the IT budget, to ensure ARB can continue to protect its data sufficiently and maintain its IT systems.

Table 3 – breakdown of expenditure budget

Budget Heading	2019 Budget £000	2020 Proposed Budget £000
Employee Costs	1,916	1,872
Additional staffing x 7 posts (subject to approval)	0	311
Premises (rent, rates, utilities, cleaning etc)	518	519
Postage, Telecommunications, Printing	114	97
ACE & ENACA*	44	44
Public and Professional Awareness	38	39
Board Expenses	122	94
Professional Services & Legal Advice	371	331
Professional Conduct and Regulation	650	580
Misuse of Title	50	50
Other Administration Costs	67	67
Prescribed Examination	135	135
Prescription/Qualifications	70	58
IT and Digital Spend	357	427
Depreciation	139	130
Corporation Tax	40	40
	4,630	4,793
*ACE – Architects Council of Europe ENACA – European Network of Architects Competent Authorities		

The table below provides a breakdown of the employee costs, which is ARB’s biggest area of spend, across each department. This includes the planned increase in head count.

Department	No. of Staff		Budget
	Perm	Fixed	2020 £000
Corporate	10		637
Registration	8		419
Professional Standards	7	2	502
Qualifications	7		422
Recruitment, Temporary Staff, Training			203
Total Employee costs	32	2	2,183

11. Business Plan

- This budget factors in likely costs of delivering the Business Plan for 2020 which is estimated at £490k. Some of the Business Plan work in reviewing policies and processes may result in additional ongoing costs.

However, it is too soon to predict the likely outcomes of such reviews, such as the route and branch review of the Board’s approach to prescribing qualifications and the running of a competence regime, and so any ongoing costs will be identified as part of the reviews and reported to the Board along with any recommendations once the reviews are complete.

Where we think there are likely to be ongoing costs, we have indicated this against the individual items (see [Annex A](#)). Attached at [Annex E](#) is an early thinking overview of the anticipated delivery timeline for some elements of Business Plan items. A hard copy of this annex will be tabled at the meeting.

It is also understood that the Board will not have the opportunity to discuss its direction of travel, in relation to the organisation's strategy, until October 2019 and some additional funds, from reserves, may be required around the Business Plan costs to meet any aspirations of the Board.

12. Reserves

The Board's reserves policy is:

- The operating reserves fund should not drop below four months of operating costs
- A minimum of the estimated wind-up costs, assessed annually.

The estimated reserves position at the end of 2019 is that the Board's current policy has been met. This was taken into account when setting the budget for 2020. The reserves currently consist of:

Table 4 – estimated reserves position at the start of 2020 financial year.

	As at 1/1/19 (£)	Reserve Movements (£)	Reserves 1/1/20 (£)
Operating Reserves Forecast Surplus 2019	1,557,308	400,000 400,000	1,957,308
MHCLG Closure Reserves	3,629,000	0	3,629,000
Designated Reserves	660,000	(130,000)	530,000
IT Renewal	59,000	10,000	69,000
Property Maintenance	58,000	10,000	68,000
Deferred projects	543,000	(200,000)	343,000
Total	5,846,308	270,000	6,066,308

Operating Reserves

Taking into account the forecasted 2019 surplus, we estimate that the Operational reserves will stand at £1.9m at the year end. This is approximately 4.9 months of operating costs. This is £357k over the required level to meet the Board existing policy and therefore could cover the deficit for the next two years.

MHCLG Closure Fund

ARB is required by the Ministry of Housing, Communities and Local Government (MHCLG) to hold in reserves the estimated cost of the closure of ARB. These costs include items such as redundancy, leases, legal and loss of income and are currently estimated at £3.6m.

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 specifically identified funds. The Board would need to agree a plan to re-build any used reserves.

Designated Reserves

Designated reserves consists of the IT renewal fund to contribute to the cost of ensuring that the organisation’s computer systems remain up to date and efficient, the Maintenance Reserve was set up to cover the regular cost of redecoration of the offices in accordance with the terms of the lease.

There are also a number of IT projects that were budgeted for in prior years but where these projects run over several years. A review was undertaken and all projects are moving forward.

Operational Reserves

As part of the budget strategy discussion, consideration has been given as to identify the key areas of risk for which the Board should consider setting aside funds within its operating reserves. These are:

Scenario/Risk	£000
Unanticipated increase in PCC cases and/or a very complex/high profile PCC case	100
Appeal or Judicial Review which falls outside the scope of insurance cover	100
A series of urgent visits to institutions to review and explore difficult situations which have arisen/been reported to us	25
Collapse or sudden closure of an institution or school of architecture offering prescribed qualifications	25
Loss of key personel/higher than expected maternity/sickness	100
Sudden drop in income of say 10% - to be utilised whilst work programmes/temporary strcutures put in place	500
EU Exit -	
Drop in numner of new applications	63
Drop in those currently on the register/non payment of fees due to recession	70
Potential cost	983

This would leave potential £1m within the current operating reserves to be used to deliver any additional pieces of work it requires. This would be subject to a change in the Boards current reserves policy.

6. Resource Implications

The executive 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 process to set the retention fee, 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.

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 freezing of all fees for 2020 in order to mitigate any significant impact on the profession.

10. Further Actions

Subject to approval of the recommendations outlined in section 2 above, the following will commence.

1. Office layout reviewed to accommodate increased staff numbers.
2. Recruitment of new personnel will commence.
3. Commence work on the annual retention fee collection.
4. Continue work in relation to the Boards reserves policy review.