Royal Institute of British Architects

Financing Policy

Effective from: 22 March 2023

Next review: January 2024 (after annual budget process)

1. Introduction

The RIBA's financing strategy sets out how RIBA plans to finance its overall operations over the next three years to meet the objectives set by Board. It will be reviewed on an annual basis as part of a rolling strategy and adjusted where necessary. A key part of this strategy will be how the Investment Fund that was created with the £113m cash received after the sale of Williams TopCo Ltd will be used.

2. Where are we now?

2.1 The high level budget for 2023 excluding one-off expenditure is for both total income and spend of £26.9m. In other words, the RIBA is budgeted to have removed its historic deficit in 2023. The investment fund is budgeted to provide £3.7m of this total income as well as over the medium term achieving gains that will ensure it maintains its value in real terms.

3. Where would we like to be?

We will deliver a small surplus of 1-2% of total income each year after 2023 and maintain investment fund that is set up to last and retain its value in real terms (i.e. it will grow in line with inflation) in perpetuity.

4. How do we get there?

4.1 Investment fund principles

4.1.1 The c£113m investment fund will be maintained as a designated reserve to keep it ring-fenced from normal operating cash and investments.

4.1.2 A key principle will be to maintain the capital value of the investment in real terms. So for instance if inflation was 3% and the target draw down was 3.1%, the fund would need to return 6.1%. This will ensure the fund will continue to grow at the same rate as inflation whilst funding annual activities.

4.1.3 Net costs from activities within the Programmes & Collections directorate, including fully allocated overhead costs, will be funded from the return of the investment fund.

4.1.4 Any investment surplus beyond Programmes & Collections net costs will either augment further cultural activities or be allocated to other priority activities to support the RIBA's objectives. This will be managed through business planning proposed by the Executive Team and approved by Board.

4.1.5 There is an inherent volatility in any investments held and as such there will be years where the investments returns are not high enough to cover the costs. In the first instance this will be covered by the remaining RIBA activities. In the event that future investment returns exceed the net costs required, then the Board will consider releasing additional income to cover some or all of the excess costs. This will be managed as part of the annual business planning process and only considered if the overall investment fund is in line with its expected total value including real-term growth.

4.1.6 In extremis additional funds may need to be drawn down from the fund. This would need to be approved by the Board and plans would be put in place to compensate the fund to maintain its long term value.

4.2 Operational and investment principles

4.2.1 The RIBA will maintain a position where membership income and commercial profit will completely fund all member offer services and products (after allocating all support costs).

4.2.2 Any new activities or increases to current activities will need to be funded from the current unrestricted cash and investments or improvements to the operating profits in future years. This includes any potential additional spend within culture. These items will be prioritised and agreed during the budgeting cycle.

4.2.3 Any investment in acquiring new companies or businesses will be funded from debt funding. The debt can be secured against the investment fund to gain preferential rates if required. This would need Board approval.

4.3 Growing income

4.3.1 Membership income will increase through growth in the volume of members. As we are at the top end of peer group membership fees we would not look to increase fees in excess of inflation in the short term, unless this is unavoidable due to increasing costs.

4.3.2 Commercial income will increase year on year across product lines.

4.4 Controlling expenditure

4.4.1 The transformation programme has reduced the cost of the RIBA's operations by creating a smaller organisation with a smaller property footprint.

4.4.2 Any additional reserves will be planned into the budgeting cycle to fund emerging issues and opportunities. They will not be used to automatically grow the underlying costs of running the RIBA, with a target surplus of 1-2% of total income.

4.4.3 During the annual budgeting process, as part of the quarterly forecasting process, and through the procurement of goods and services, costs will be reviewed and interrogated to ensure ongoing value for money.

4.4.4 Income generating areas will cover their fully allocated costs where possible.

4.4.5 After the RIBA reaches a balanced budget any future surpluses will be used to invest in furthering the charitable objectives of the RIBA. The RIBA's trading subsidiaries can and should target profits that are then passed to the main charity through gift aid; however as a charity the RIBA should not increase reserves above those held for specific purposes, but should use them to achieve its purpose.

5. Key policies

5.1 Reserves policy

5.1.1 The target for free reserves will be determined by continuing the risk-based review of both income and spend; it is not expected to change materially from the current level.

5.1.2 Any negative financial variances will in the first instance be managed in-year by re-allocating funds within the budget. Where this is not feasible the free reserves will be used to cover any shortfall, with correcting actions taken in the following year.

5.2 Investment Policy – Designated Investment Fund

5.2.1 The capital value of the new designated Investment Fund will be maintained in real terms.

5.2.2 The full amount of the principal will be invested to provide an ongoing return in perpetuity that grows in line with inflation whilst providing an annual income to support activities.

5.2.3 The risk profile of the portfolio will reflect the long time frame of the investment alongside the need to ensure the portfolio is not reduced over a period of time through excessive risk. The portfolio assets will deliver the best possible returns against this risk appetite.

5.2.4 The nature of the assets will align with RIBA's values and Ethical, Social and Governance (ESG), Diversity & Inclusion, and Climate Change.

5.3 Core costs policy

5.3.1 It is our policy to code support staff time spent delivering projects directly to those projects on a monthly basis. This is not done where the projects are small, or the time is immaterial in the delivery of a project (e.g. finance and HR staff costs are rarely cross charged)

5.3.2 Overhead and support costs including depreciation are allocated in full to projects and activities on a monthly basis. This allocation is derived from various inputs such as FTE, building space used and total direct cost.

5.3.3 Each project should generate enough income to cover its direct and apportioned indirect costs, unless agreed by the relevant delegated authority that the non-financial benefits outweigh the net cost.

5.4 Pricing policy

5.4.1 It is our policy to charge non-members full market price and members a discounted price for products and services not included for free under their membership criteria.

5.4.2 Membership fees will continue to be monitored against other membership organisations.

5.5 Ethical policy

5.5.1 It is our policy to consider the ethical nature of all funds offered to us before accepting. We will not accept funds or sponsorship from sources that are counter to the values of RIBA.

5.5.2 The investment portfolio will be held in assets that fulfil the RIBA's Responsible Investment and Ethical, Social and Governance (ESG) requirements.