

Architects' profits

87. We obtained information about architects' profits from the replies to the questionnaires under our general survey, described in the note in Appendix 4. Of the 588 practices which completed questionnaires, 530 supplied satisfactory accounting information, including copies of their accounts. Our analysis of the financial results was based on the fee incomes and profits of these 530 practices. Tables 12 to 14 of Appendix 4 set out the statistical information obtained on architects' fees and profits. In this chapter we summarise some of the main results.

88. By profits we mean profits on reference business. Such profits represent the difference between reference income and expenses excluding any sums for interest on capital employed and for remuneration of principals who receive a share of the profits. Profit sharing principals are described as 'participating principals'.

89. For practices' accounting years ending in 1971, 1972 and 1973 the average profit per full-time participating principal was as follows:

	<i>Average profit per participating principal</i>		
	1971	1972	1973
	£	£	£
Sole proprietors	3,744	4,795	6,504
Partnerships	6,427	9,764	12,616
Mixed practices*	7,851	9,688	12,263
All practices	6,226	8,735	11,281

*Note: The mixed practices are those which supply both reference and non-reference services; the figures relate only to the reference element of their business.

90. The earnings per participating principal in 1973 ranged from a loss of £2,374 to a profit of £147,294. Mean and median profit per participating principal in 1973 by quartiles was as follows:

	Profit per participating principal in 1973 by quartiles							
	<i>Sole proprietors</i>		<i>Partnerships</i>		<i>Mixed practices</i>		<i>Together</i>	
	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>
	£	£	£	£	£	£	£	£
1st quartile	14,846	11,714	27,051	17,170	20,110	18,735	21,747	15,408
2nd quartile	6,270	5,997	10,086	10,242	10,739	10,540	8,731	8,843
3rd quartile	3,427	3,246	6,825	6,972	5,955	5,891	5,237	5,244
4th quartile	859	880	3,531	3,684	3,238	2,900	2,071	2,001

It will be noted that, taking all types of practices together, the median is similar in value to the mean for all quartiles except the first, where the median is substantially lower. This reflects the fact that for each of the bottom three quartiles the range of profits per participating principal was fairly evenly spread around the arithmetic average, but for the first quartile the distribution around the arithmetic average was distorted by a few practices which earned levels of profit per participating principal greatly in excess of the rest of the firms in that quartile.

91. The average capital invested per participating principal was as follows:

	<i>Average capital invested per participating principal</i>		
	1971	1972	1973
	£	£	£
Sole proprietors	2,924	3,690	4,631
Partnerships	5,717	7,252	9,917
Together	5,009	6,315	8,520

We have not included figures for mixed practices, as we did not attempt for such practices to apportion capital between reference and non-reference business. No allowance was made for notional interest on proprietors' capital in calculating the average profit per participating principal, but if a rate of, say, 10 per cent for each of the three years was thought reasonable the average profit per principal for all practices, based on the above capital figures, would need reducing by some £500 in 1971, £630 in 1972 and £850 in 1973.

92. In order to discover whether profit levels were related to the size of jobs normally undertaken by practices, we categorised practices according to whether the largest slice of their fee income in 1973 was received from jobs in the following ranges of job sizes: up to £100,000, £100,000 to £750,000, and over £750,000. The average profit per full-time participating principal was as follows:

<i>Job size category</i>	<i>Average profit per participating principal related to job sizes</i>			
	<i>Sole proprietors</i>	<i>Partnerships</i>	<i>Mixed practices</i>	<i>All practices</i>
	£	£	£	£
Construction costs up to £100,000	4,881	8,169	7,324	7,059
Construction costs £100,000 to £750,000	9,420	10,240	12,455	10,592
Construction costs over £750,000	18,413	25,733	15,134	20,906

The figures show that the profit per participating principal tends to increase with the size of job category in which the practice predominantly operates.

93. To ascertain whether the profit per participating principal had any correlation with the size of practice the results for 1973 were analysed according to the number of technical staff¹ (including participating principals) engaged in the practice. The profit per full-time participating principal for the various sizes of practice was as follows:

Average profit per participating principal related to size of practice

<i>Size of practice by number of technical staff employed</i>	<i>Sole proprietors</i>		<i>Partnerships</i>		<i>Mixed practices</i>		<i>All practices</i>	
	<i>No of practices</i>	<i>£</i>	<i>No of practices</i>	<i>£</i>	<i>No of practices</i>	<i>£</i>	<i>No of practices</i>	<i>£</i>
over 50	—		5	61,394	11	15,229	16	28,650
31—50	—		8	11,722	9	13,721	17	12,872
21—30	1	25,294	9	17,300	5	20,250	15	18,526
11—20	4	27,193	54	13,782	14	10,709	72	13,481
6—10	17	13,877	62	9,332	11	6,934	90	9,426
1—5	195	5,292	96	6,469	21	5,828	312	5,887

The general trend from these figures is one of increasing profits with the size of practice. Some 60 per cent of practices were found to be in the smallest category (five or less technical staff) and they earned some 21 per cent of the total profits earned by the sample practices. Only some 9 per cent of practices employed more than 20 technical staff and their share of total profits amounted to almost 41 per cent.

¹Technical staff includes qualified architects, unqualified architects, engineers, surveyors, clerks of works and other staff engaged on technical work whether of professional status or not.