

MANAGEMENT BOARD**2011/12 BUDGET FORECAST OUTTURN REPORT****Note by the Head of Financial Planning****Purpose**

1. This note provides the Board with a detailed forecast outturn and variance analysis on the 2011/12 budget. It is based on budget reports to the end of July 2011.

Action required

2. The Management Board is asked to:
 - a. Consider how the emerging 2011/12 budget underspend on the Administration Estimate may be utilised;
 - b. To identify and quantify any invest to save opportunities this year; and
 - c. Note the forecast underspend on the Members Estimate.

Administration Estimate**Resource*****(i) Position at July 2011***

3. Overall, expenditure to July was £3.7 million lower than the budget for the same period. An analysis by category is given below:

	April to July 2011			
	Actual	Revised Budget	Variance	
	£000s	£000s	£000s	%
Receipts	(3,487)	(3,643)	(156)	4.3
Salaries	28,298	29,463	1,165	4.0
Other Staff Costs	537	793	256	32.3
T&S	931	1,184	253	21.4
Information	5,302	5,284	(18)	(0.3)
Communications	2,097	2,313	216	9.3
Computers	2,986	3,528	542	15.4
Catering Supplies	1,281	1,300	19	1.5
Office Supplies	523	565	42	7.4
Professional Services	1,135	2,110	975	46.2

Grants	974	635	(339)	(53.4)
Estates Projects	1,793	2,095	302	14.4
Property	6,799	7,115	316	4.4
Maintenance	3,489	3,586	97	2.7
Security	7,234	7,236	2	0.0
Sub-total	59,892	63,564	3,672	5.8
Non-Cash				
Expenditure	5,145	5,149	4	0.1
Contingency	-	-	-	-
Total	65,037	68,713	3,676	5.3

4. The most significant variances are:
- a. Salaries with an underspend of £1.2 million is 4% below the budget. With the exception of Facilities, every department has an underspend which range from 1.5% to 22.0% of their budgets to date.
 - b. Other staff costs with an underspend of £0.3 million of which £0.2 million relates to training costs which are underspent in virtually all departments and where the average underspend is 46% of budget.
 - c. Travel and subsistence costs with an underspend of £0.3 million principally in DCCS (£0.2 million) and due to timing differences on expenditure on conferences and lower demand for travel from Committees.
 - d. Computer related expenditure with an underspend of £0.5 million principally in PICT (£0.3 million) where an underspend for the full year is now forecast and in the ICT programmes (£0.1 million) due to timing differences from expenditure profiles assumed in the budget.
 - e. Professional services with an underspend of £1.0 million in the following departments:
 - i. DCCS – an underspend of £0.3 million due to savings on the transcription contract and differences in the timing of expenditure.
 - ii. Facilities – an underspend of £0.1 million on the costs of the Offsite Consolidation Centre.
 - iii. DIS - an underspend of £0.2 million due to savings and timing differences.
 - iv. DHRC - an underspend of £0.4 million due to savings and timing differences.
 - f. Grants with an overspend of £0.3 million due to differences in the timing of payments compared to budget assumptions.

- g. Estates projects with an underspend of £0.3 million in Facilities due to timing differences.
 - h. Property costs with an underspend of £0.3 million in Facilities due to timing differences.
5. The analysis of the variances by department is:

	April to July 2011			
	Actual	Revised Budget	Variance	
	£000s	£000s	£000s	%
DCCS	23,289	23,739	450	1.9
Facilities	23,010	23,828	818	3.4
DIS	5,195	5,957	762	12.8
DHRC	1,866	2,613	747	28.6
Finance	1,065	1,284	219	17.1
PICT	6,722	7,443	721	9.7
OCE	441	480	39	8.1
Speaker's Office	132	196	64	32.7
Security Coordinator	25	26	1	3.8
Programmes	2,452	2,541	89	3.5
Sub-total	64,197	68,107	3,910	5.7
Central Provision	840	606	(234)	(38.6)
Contingency	-	-	-	-
Total	65,037	68,713	3,676	5.3

6. Departmental reasons for variances are:
- a. DCCS – an underspend of £0.45 million principally due to:
 - i. Reduced salary costs (£0.1 million) which are assumed to continue for the rest of the year
 - ii. Lower expenditure on travel and subsistence costs (£0.2 million) and professional services (£0.3 million) referred to above.
 - iii. Offset by higher expenditure than budget on printing costs (£0.2 million) principally due to increased demand for printing in July.
 - b. Facilities – an underspend of £0.8 million principally due to lower expenditure on professional services (£0.1 million), estates projects (£0.3 million) and property costs (£0.3 million) referred to above.

- c. DIS – an underspend of £0.8 million principally due to:
- i. Reduced salary costs (£0.3 million) due to lower than assumed pension and secondment costs and lower numbers of tour guides due to lower number of tours
 - ii. Lower expenditure on information (£0.2 million) and computer related costs (£0.1 million) due to timing differences.
 - iii. Lower expenditure on professional services (£0.2 million) referred to above.
- d. DHRC – an underspend of £0.7 million principally due to
- i. Lower expenditure on salaries (£0.2 million) due to vacancies.
 - ii. Lower expenditure on professional services (£0.4 million) referred to above.
- e. Finance - an underspend of £0.2 million principally due to lower salary expenditure.
- f. PICT – an underspend of £0.7 million principally due to:
- i. Lower expenditure on salaries (£0.2 million) reflecting some savings and a rebalancing of R&D costs into other categories.
 - ii. Lower expenditure on communications (£0.1 million) due to savings.
 - iii. Lower computer related expenditure (£0.3 million) referred to above.

(ii) Latest Forecast

7. The latest forecast gives an underspend for the year of £6.5 million which is analysed by category below. The forecast underspend has increased by £3.0 million from the forecast that was reported to the Management Board in July 2011.

	Forecast £000s	2011/12		Variance £000s	%
		Revised Budget £000s			
Receipts	(10,847)	(11,150)	(303)		2.7
Salaries	87,622	88,222	600		0.7
Other Staff Costs	2,374	2,529	155		6.1
T&S	3,741	3,900	159		4.1

Information	14,952	15,173	221	1.5
Communications	6,397	6,717	320	4.8
Computers	8,417	8,961	544	6.1
Catering Supplies	3,663	3,923	260	6.6
Office Supplies	1,665	1,794	129	7.2
Professional Services	6,263	6,512	249	3.8
Grants	2,873	3,303	430	13.0
Estates Projects	4,478	4,245	(233)	(5.5)
Property	20,995	20,784	(211)	(1.0)
Maintenance	10,610	10,714	104	1.0
Security	21,761	21,660	(101)	(0.5)
Sub-total	184,964	187,287	2,323	1.2
Non-Cash				
Expenditure	36,533	36,286	(247)	(0.7)
Contingency	-	4,427	4,427	100.0
Total	221,497	228,000	6,503	2.9

8. The overall saving against budget is made up of a release of the contingency of £4.4 million and forecast underspends of £2.1 million. The contingency comprises the original contingency of £1.2 million plus the reductions in pension contributions and pension interest (£2.6 million) and the in year savings from the voluntary exit scheme in March 2011 (£0.6 million). The principal areas that make up the £2.1 million forecast underspend are:
- a. An underspend on salaries of £0.6 million. The forecast does not include any impact of the senior staff review (SIMS review). In order for the current underspend of £1.2 million to be reduced to £0.6 million expenditure will have to increase from 4% below budget to 1% above budget in all of the remaining months of the year implying a 5% immediate increase in staffing levels.
 - b. An underspend on communications of £0.3 million principally due to lower expenditure on Members pre-paid postage (£0.2 million) and savings in PICT (£0.1 million).
 - c. An underspend on computer related expenditure of £0.5 million due to savings in PICT (£0.3 million) and movement of expenditure on ICT programmes to professional services.
 - d. An underspend on catering supplies of £0.3 million reflecting lower forecast sales.

- e. An underspend on grants (£0.4 million) reflecting further work to reduce the reserves of the Parliamentary Bodies to whom the grants are given.
- f. A reduction in income of £0.3 million principally due to:
 - i. Lower than budgeted income on catering and retail and in the car park than budgeted (£0.4 million);
 - ii. Offset by the inclusion of the income from the nursery in DHRC (£0.2 million).

9. The analysis of the variances for the full year by department is given below:

	Forecast £000s	2011/12		Variance £000s	%
		Revised Budget £000s			
DCCS	71,642	72,961	1,319	1.8	
Facilities	69,722	69,789	67	0.1	
DIS	18,119	18,263	144	0.8	
DHRC	7,439	7,837	398	5.1	
Finance	3,414	3,608	194	5.4	
PICT	19,298	19,893	595	3.0	
OCE	1,527	1,560	33	2.1	
Speaker's Office	488	618	130	21.0	
Security Coordinator	89	94	5	5.3	
Programmes	7,850	7,041	(809)	(11.5)	
Sub-total	199,588	201,664	2,076	1.0	
Central Provision	21,909	21,909	-	-	
Contingency	-	4,427	4,427	100.0	
Total	221,497	228,000	6,503	2.9	

10. The most significant variances are:

- a. DCCS – underspend of £1.3 million principally due to:
 - i. Lower expenditure on salaries (£0.4 million) reflecting the trend to July.
 - ii. Lower expenditure on grants (£0.4 million) referred to above.
 - iii. Lower expenditure on information (£0.2 million).
 - iv. An underspend on professional services (£0.2 million) reflecting principally savings from the new transcription contract and on the CPA conference.

- b. DHRC – underspend principally due to inclusion of income from the nursery (£0.2 million) and lower expenditure on professional services (£0.2 million) .
- c. PICT – underspend of £0.6 million principally due to:
 - i. Lower expenditure on salaries (£0.2 million) reflecting some savings and the movement of R&D expenditure into other categories.
 - ii. Lower expenditure on communications (£0.1 million) and computer related costs (£0.3 million) referred to above.
- d. An overspend of £0.8 million on ICT programmes. Most programmes have produced forecasts of expenditure greater than budget. Revised business cases would have to be agreed by the Commons and Lords Finance Directors before the increased expenditure could be incurred.

(iii)Risks and Issues

- 11. The following risks and issues for 2011/12 have been identified:
 - a. Pensions: changes in assumptions on pension liabilities have a serious impact on the level of pension contributions (i.e. benefits accrued current year) and the pension interest (on the historic liability). The calculations are sensitive to the actual inflation and returns on investment markets and HM Treasury assessment of forward inflation and returns. Work is been done to look at ways of equalising pension costs but it is unlikely that the results will not impact in 2011/12. The risk of further large movements in pension costs in 2011/12 remains significant.
 - b. Pay increases: the forecast and the budget assume no significant pay increases.
 - c. Dilapidations: provision was made in 2010/11 for dilapidation liabilities under the leases for 2 Abbey Gardens and 4 Millbank. Work is in hand to evaluate liabilities for other rented properties and, if liabilities can be accurately quantified, further significant provisions will be required in 2011/12.
 - d. Work on the forecasts for expenditure on ICT programmes has been done for consideration at the September meeting of PICTAB. This gave an £0.8 million increase in the Commons' share of the resource cost of

the programmes. This forecast includes the full resource impact of the increase.

- e. Members' bespoke stationery and pre-paid envelopes: the forecast assumes a reduction in expenditure against the historical budget. However, the Commission has recently changed the rules governing the use of Members' stationery to bring them more into line with those adopted by IPSA. This means that there is a risk that this expenditure may increase.
- f. Inflation is likely to fluctuate during the remainder of the year.

Capital Expenditure

(i) Position at July 2011

12. Overall, capital expenditure to July 2011 is £2.0 million lower than budget. This is analysed by department below:

	April to July 2011			
	Actual	Revised Budget	Variance	
	£000s	£000s	£000s	%
DCCS	1	25	24	96.0
Facilities	1,964	3,744	1,780	47.5
DIS	10	17	7	41.2
DHRC	-	2	2	100.0
Finance	-	7	7	100.0
PICT	113	123	10	8.1
Programmes	196	330	134	40.6
Sub-total	2,284	4,248	1,964	46.2
Central Provision	-	-	-	-
Contingency	-	-	-	-
Total	2,284	4,248	1,964	46.2

13. The underspend has increased by £1.7 million since the report to the Management Board in July. This has been reflected in the forecast where the overall underspend for the year has also increased by £1.7 million.

(ii) Latest Forecast

14. The latest forecast gives an underspend for the year of £4.6 million which is analysed by department below:

	Forecast £000s	2011/12	Variance	
		Revised Budget £000s	£000s	%
DCCS	160	162	2	1.2
Facilities	13,976	15,529	1,553	10.0
DIS	50	400	350	87.5
DHRC	5	5	-	-
Finance	20	20	-	-
PICT	419	419	-	-
Programmes	755	793	38	4.8
Sub-total	15,385	17,328	1,943	11.2
Central Provision	-	-	-	-
Contingency	-	2,672	2,672	100.0
Total	15,385	20,000	4,615	23.1

Members Estimate

(i) Position at July 2011

15. Expenditure to July 2011 on Resource is £0.4 million lower than the budget for the same period. Capital Expenditure was slightly higher than the budget. The position at July is analysed below:

	April to July 2011			
	Actual £000s	Revised Budget £000s	Variance £000s	%
Resource Costs				
Contributions to Members Pension Fund	4,558	4,833	275	5.7
Financial Assistance to Opposition Parties	2,125	2,125	-	-
IT Expenditure	19	167	148	88.6
Other Costs	402	379	(23)	(6.1)
Sub-Total	7,104	7,504	400	5.3
Interest on Pension Liabilities	-	-	-	-
Depreciation	-	-	-	-
Other non-cash costs	-	-	-	-
Total Resource Costs	7,104	7,504	400	5.3
Capital Expenditure	92	67	(25)	(37.3)

16. The most significant variances are:

- a. Contributions to Members Pension Fund are £0.4 million lower than budget due to lower contribution levels than assumed in the budget; and
- b. IT Expenditure is £0.1 million lower than budget to this point due to differences in the timing of payments from those assumed in the budget.

(ii) Latest Forecast

17. The latest forecast shows an underspend of £4.7 million on Resource and assumes that Capital Expenditure will be at budget levels. This analysed below:

	2011/12 Forecast			
	Forecast	Revised Budget	Variance	
	£000s	£000s	£000s	%
Resource Costs				
Contributions to Members Pension Fund	13,622	14,500	878	6.1
Financial Assistance to Opposition Parties	6,588	6,374	(214)	(3.4)
IT Expenditure	500	500	-	-
Other Costs	873	1,026	153	14.9
Sub-Total	21,583	22,400	817	3.6
Interest on Pension Liabilities	8,100	12,000	3,900	32.5
Depreciation	1,000	1,000	-	-
Other non-cash costs	80	100	20	20.0
Total Resource Costs	30,763	35,500	4,737	13.3
Capital Expenditure	200	200	-	-

18. The most significant variances are:
 - a. Contributions to Members Pension Fund with an underspend of £0.9 million reflecting the lower than assumed contributions that are being made;
 - b. An increase from budget of £0.2 million in Financial Assistance to Opposition Parties assuming that the full amounts will be paid; and
 - c. A reduction in Interest on Pension Liabilities of £3.9 million reflecting the lower liability in the 2011/12 Resource Accounts and the change from RPI to CPI.

(iii) Risks and Issues

19. The major areas of risk are the costs associated with the Members Pension Fund. A triennial full valuation of the Pension Fund is due this year and could lead to changes in the contribution rate, valuation of the

fund's assets and changes to the liability which would affect the Interest charge. It is not possible to judge the outcome of the review in advance.

Conclusions

20. The requirement to provide for dilapidations charges for leased buildings is an uncertainty in the forecast. Work will also be done in September to quantify the dilapidations issue. Early decisions on the Accommodation Strategy would assist in quantifying the liability and removing the uncertainty.
21. Further work is taking place on the handling of liabilities on both the House of Commons and Members pension schemes with a view to smoothing out the large fluctuations in pension related costs seen in recent years. If successful, this work would remove a further large area of uncertainty.
22. The current forecast shows a sizeable underspend on both resource and capital budgets in 2011/12. The Director of Finance has arranged a round of Departmental meetings to take place in mid September to discuss both the current year and the MTFP. The meetings will include further discussion of in year capacity, any bids for invest to save projects and how the medium term target can be achieved.
23. The considerable uncertainty surrounding the pay dispute will remain as an issue for some time. Nevertheless it seems reasonable to earmark another £2m for a voluntary exit scheme later in the year.

Tony Hindley

Head of Financial Planning

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