Management Board

Draft Medium Term Financial Plan 2012-13 to 2015-16

Paper by Director of Finance

Purpose

1. This report is intended to:
    - Provide an overview of, and raise some issues in relation to, the current financial position
    - Provide the context for setting the 2012-13 estimate
    - Reflect the discussions that took place in the challenge sessions in June
    - Provide a first draft of the medium term financial plan (MTFP) for the House
    - Present some options for stabilising pension costs for consideration

2. This report should be regarded as work in progress. All the information and policies presented here will be refined in the coming weeks and the final version will be presented to the Board in October.

3. The report is supported by a number of appendices as follows:

    a. Analysis of 2011-12 budget
    b. Medium term summary
    c. Departmental summaries
    d. Technical assumptions
    e. Analysis of 2011-12 Programme budget
    f. Proposed format for Medium Term Investment Programme
    g. Policy on use of contingency
    h. Options to stabilise pension costs
    i. Policy on reserves and provisions
    j. Risk and Opportunity Register
    k. Members Estimate

Action for the Board

4. The Management Board is asked to note:
    - Note the allocation of the 2011-12 resource estimate (Appendix A)
    - Note the key assumptions on pay and inflation and early sensitivity analysis (Appendix D)
    - Note the allocation of the 2011-12 programme budget (Appendix E)
    - Note the position on reserves and provisions and the draft policy (Appendix I)
    - Note the risks and opportunities identified so far (Appendix J)
    - Note the position in relation to the Members estimate (Appendix K)

5. The Board is asked to discuss and comment on:
    - The development of the draft MTFP (set out in Paragraphs 36-55 and appendices B and C)
    - The proposal to set targets for the savings strands (paragraphs 56-61)
    - The current position and actions required to close the gap (paragraphs 62-67)
    - The proposal to develop a medium term investment plan, the use of prioritisation criteria, and the introduction of planning totals (Paragraphs 68-78 and Appendix F)
    - The operation of a formal contingency and the draft policy (Appendix G)
    - The position on pension costs and the work to date on stabilisation options (Appendix H)
    - Engagement with members, particularly F&S in September, and staff and Unions

Introduction

6. The process for developing the 2012-13 estimate and MTFP is broadly as follows:

Action	Date
Adjustments to 2011-12 budget	June
Challenge panels	June/July
Draft estimate and MTFP to Management Board	July
Refinement of figures and development of investment plan Liaison with House of Lords	August/September
Final estimate and MTFP to Management Board	October
F&S Committee	November

HoC Commission	December

7. This report is therefore an early take on the position – much more work is required to refine the figures. The Management Board is asked to focus on the big picture rather than detail at this point.

Financial Context

8. The economic position is still very challenging. GDP grew by 0.5% in the first quarter of 2011-12 but recovery is slow and unemployment is still relatively high. The situation across Europe is worsening, with severe impact in Greece, Spain, Portugal, Italy and Ireland. The Comprehensive Spending Review published in 2010 set out spending reductions across government departments for the four years to 2014-15. The scale of the reductions varied between departments but on average was around 25% over 4 years. Alongside this, the Treasury has, in conjunction with the Cabinet Office, imposed spending controls on departments. As the spending reductions have started to be implemented across the public sector and pension reforms have been proposed, the adverse reaction from service users and public sector staff has escalated.

9. Against this backdrop, the House of Commons Commission signed up to deliver savings that would reduce the Administration Estimate to £210m by 2014-15, a reduction in real terms of 17%. This, to an extent, mirrors austerity measures elsewhere. Under the House of Commons Administration Act 1978, there is a requirement for staff pay and pensions to be kept in line with the Home Civil Service, so the House will track the wider government agenda to an extent. But, critically, the Commission's commitment on savings is a "voluntary" arrangement.

Vision and Strategic Goals

10. The vision for the service is that by 2015 the House of Commons will be valued as the central institution in our democracy.

11. There are four strategic goals:
    - To make the House of Commons more **effective**
    - To make the House Service more **efficient**
    - To ensure that Members, staff and the public are **well-informed**
    - To work at every level to earn **respect** for the House of Commons

12. It is vital that the medium term financial plan supports the delivery of the vision and goals and clearly demonstrates that the service will become increasingly efficient over time.

<u>Policy Context</u>

13. There are a number of significant policy matters and events on the horizon that may have a bearing on the budget:
    - Condition of the Palace of Westminster and World Heritage Site status
    - Procedure Committee review of sitting times
    - New House Business Committee
    - Government agenda on public engagement (public reading stages for bills and e-petitions)
    - Speaker's agenda on public engagement (inviting the public to ask questions at Committees etc)
    - House agenda on public engagement (expanding education and outreach and increasing visitor numbers)
    - Olympics
    - Timing of next election
    - Reduction in number of MPs at next election
    - Pay and pensions issues
    - House of Lords reform

14. It is not possible to quantify the financial impact of these at the moment. However, the Board has agreed, subject to a business case, to carry out detailed feasibility work on the condition of the Palace to support a long term plan and settle the decant question.

15. There are a number of reviews in train that may result in policy or operational changes but do not appear to be significant financially:
    - Security review
    - Parliamentary commissioner's review of code of conduct

16. These and other matters will inform the development of the new Corporate Plan and Departmental Business Plans later in the year.

<u>Overview of current financial position</u>

17. The current approved budget is as follows:

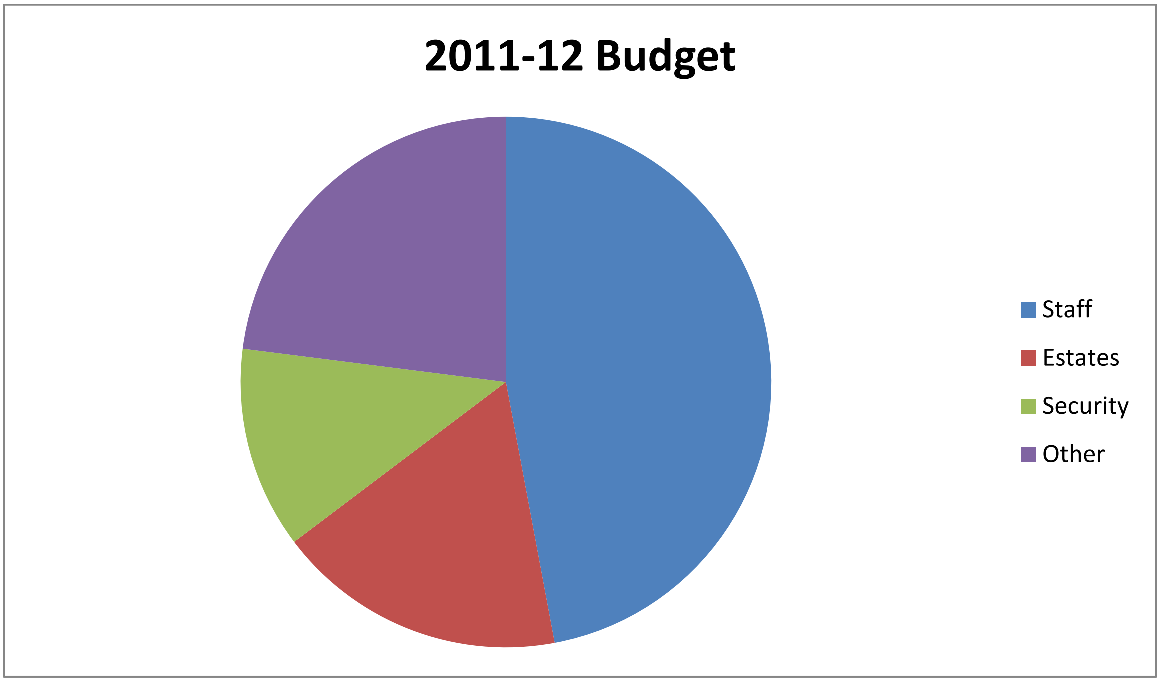
Administration Estimate	£228m
Members Estimate	£35m

18. This report focuses primarily on the Administration Estimate – there is a brief section on the Members Estimate later on.

19. Appendix A sets out how the existing budget is allocated. This is after a round of adjustments in year for pensions, the voluntary exit scheme, the centralisation of HR and other departmental matters, such as reduced banqueting income.

20. If depreciation and other non-cash items are excluded from the figures:

- Staff costs are £88m and account for 47% of total expenditure
- Estate costs such as rent, rates and maintenance are £33m and account for 18% of total expenditure
- Security costs are £23m and account for 12% of total expenditure



21. Within the 2011-12 budget, and partly as a result of the adjustments outlined above, there is a contingency of £4.7m.

<u>The challenges of Resource Accounting</u>

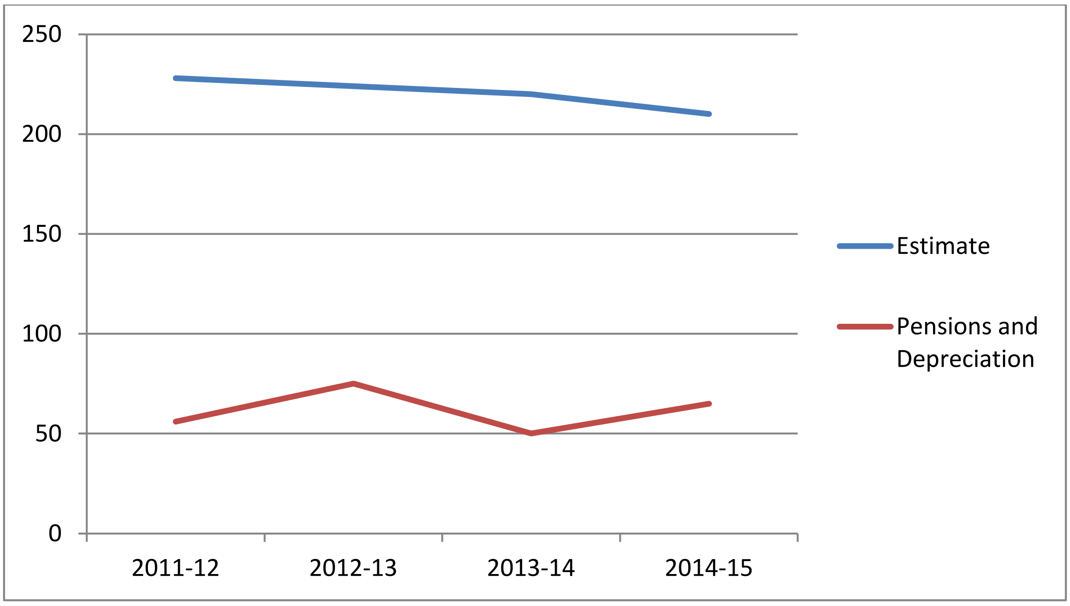
22. The House operates under the resource accounting framework, in line with central government. Under this framework, part of the estimate is comprised of "non-cash" items, namely pension costs and depreciation. Together these costs total around £56m, just over 20% of the estimate.

23. Pension costs, for the staff scheme, are driven by a range of assumptions including membership of the scheme, mortality, and discount rates based on

bond yields. At present the assumptions are largely determined by the Government Actuary and the Treasury. Depreciation is driven by the value of the assets and their economic life.

24. Both pension costs and depreciation are to a large extent uncontrollable and volatile. The costs are difficult to forecast, hampering forward planning, and can even fluctuate in year, which undermines and confuses departmental activity. In both areas, the economic climate in the last few years has significantly increased volatility. Furthermore, this problem is hampering efforts to improve the credibility of the finance function itself. It is important that this problem is tackled. (Government Departments are much less exposed to these issues as pensions are managed centrally by Cabinet Office and depreciation is a much smaller proportion of their budgets.)

25. The graph below illustrates the problem. There is a commitment to reduce the estimate from £228m to £210m over 4 years, but within this there is a significant area of cost outside our control. This means Departments face the risk of a continually fluctuating budget and savings target (shown by the gap between the two lines).



26. Another feature of resource accounting is the inability to carry forward unspent sums or create new reserves. This does present issues, particularly in the management of programmes, which tend to span a number of financial years.

27. The House can create provisions for known liabilities such as bad debts, litigation or dilapidations. At present, this is often done once the outturn is known, and mitigates the extent of the underspend. However, better forward planning is

needed in this area, especially as the spare capacity in the budget will reduce over the next few years.

The Savings Programme

28. The savings programme was predicated on the following assumptions:

	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
Baseline	231	231	231	231
Cost pressures	9	8	12	15
Savings (1st phase: tactical)	(12)	(15)	(18)	(19)
	228	224	225	227
Savings (2nd phase: re-design)	0	0	(5)	(17)
	228	**224**	**220**	**210**
Planning & delivery risk (20%)	(2)	(3)	(5)	(7)

29. The savings programme commenced in earnest in 2010, with a package of initial savings agreed for 2011-12 to 2014-15, and a decision to develop seven strands of activity. The target for the seven strands was £24m, being the figure for the 2nd phase and the planning and delivery risk above. The approach to the seven strands is sophisticated and it is clear as the work has developed that appropriate areas were selected. However, whilst several of the areas can clearly deliver substantial savings, they will take time, and in some cases investment, to realise their full potential.

30. Unlike the rest of the public sector, the House is not starting from a position where savings have been made year on year and all slack has gone. By the same token the capability to manage savings programmes is less well developed than in many other public sector bodies. The decision making authority on savings rests with the Commission. This situation has pros (time to do the work properly, and capacity to invest where needed to drive out savings) and cons (risk that staff and Members will see no real sense of urgency, and no real constraint on funding).

31. In the analysis of the 2011-12 budget above, the largest areas of spend are staffing, estates and security. The savings programme does target staff costs to an extent through the SCS review, and other strands may well result in staff reductions. However, many organisations have conducted more fundamental reviews of their management structures, taking out layers and increasing the spans of control. Estates is one of the seven strands and has significant potential. The initial savings included reductions in the cost of the security contract of £2.2m over 4 years, but it is possible that this area could be explored further.

32. From the recent analysis of the original seven strands, and the special board meeting on 1 July, it is clear that a new strand looking at all the shorter term opportunities or “turning over all the smaller stones”, and using procurement effectively, is needed. This is the intention of the new operations strand.

Integrated planning and the Challenge Process

33. The House Service is moving closer towards integrated business and financial planning. However, more can be done in future to achieve real integration and to incorporate workforce planning.

34. A series of challenge meetings was held in June with each Department. The meetings were attended by the Department’s management team, their finance lead, and the Director of Finance. Material was prepared in advance and at the meetings the discussion covered the outturn for 2010-11, forecasting performance (building on the stewardship report), issues for 2011-12, the medium term plan, and major contracts. Pressures, savings opportunities and risks were discussed.

35. Unfortunately, due to the difficulty scheduling the meetings, time was limited, and it was not possible to build in elements relating to business planning this time round. However, the sessions provide a good platform for future development of the process.

Draft Medium Term Financial Plan

36. The draft MTFP is attached at Appendix B, with departmental summaries at Appendix C. In relation to shared services, the figures shown are for the House of Commons only. The MTFP has been drawn from existing detailed baseline spreadsheets, a review of technical assumptions, and the issues covered in the challenge panels.

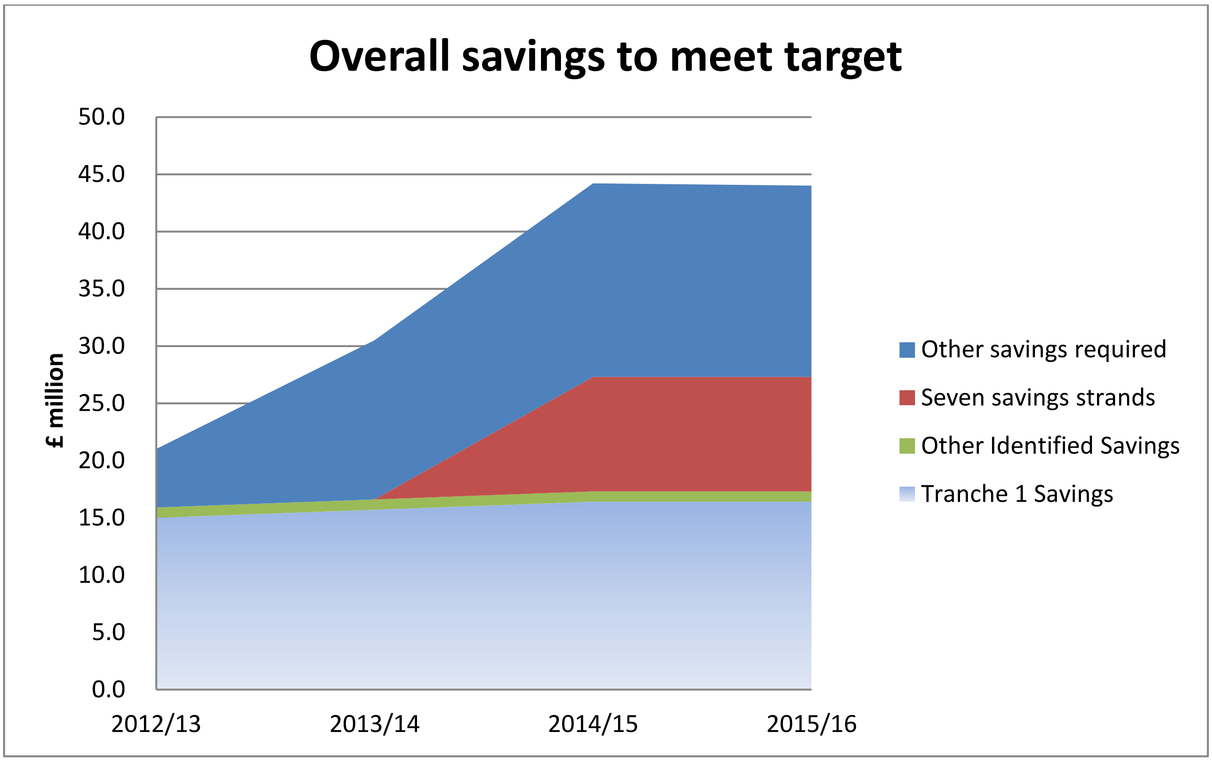
37. The MTFP reflects:
    - Inflation (pay and prices)
    - Adjustments to deal with any capacity identified in the stewardship report and/or year to date position as agreed with Departments
    - New pressures/activities identified by Departments
    - Savings agreed to date (full impact of the tactical savings agreed for 2011-12)
    - New tactical savings identified by Departments

38. In summary, the MTFP shows that there is a significant gap between the projected spending levels and the target estimate agreed with the Commission. The original target for the seven strands was £17m, excluding the planning and delivery risk. The gap in 2014-15 is currently £27m. There is an increase of £10m because:
    - Pay awards have been added for 2013-14 and 2014-15 (£4m)
    - Inflation is relatively high (£2m)
    - New pressures have emerged such as Members' stationery, offset to some extent by some new savings (£2m)
    - The figure for the initial savings has been reduced to take out Tothill Street (£2m)

39. The impact of the seven strands has not been factored in at this stage. However, further work is required to quantify dilapidations, and it is likely that this will add to the upward pressure.

40. The Board should consider how to deal with the fact that the picture has changed since the savings programme was agreed.

41. The overall position, in terms of the savings target, and including the initial phase, is illustrated below:



Key assumptions

42. Details of the assumptions on inflation, pension costs and depreciation are set out in appendix D.

43. Inflation has been budgeted for at 2% for 2012-13. Given that CPI is currently 4.5% and RPI is currently 5.2% (May 2011 data) there is a question as to whether a greater inflation provision should be made in the final budget for 2012-13. These inflation levels will be creating upward pressure, and many contracts will have annual price increases built into them that are pegged to these indices. Nevertheless, at the challenge sessions it was clear that, in some cases, Departments are actively negotiating with suppliers and successfully containing increases in contract prices. However, there are also specific pressures relating to utilities, food prices and distribution costs and air fares (reflecting oil prices). The sum of £0.5m has therefore been included in 2012-13 for excess inflationary pressures (entitled special inflation), which departments will be able to bid for during the course of the year.

44. Pension costs have been included at 27.7% for current service costs and £20.3m for historic pension liability interest costs. These figures are up at the upper end of recent experience.

45. Depreciation has been included at £15.5m across the four year period. Future costs will be dependent on new capital investment and estate valuation fluctuations.

46. The appendix includes some initial sensitivity analysis around these assumptions. More work is needed to refine this and model dilapidations for future years.

Stewardship Report for 2010-11 and in year performance for 2011-12

47. The stewardship report for 2010-11 gave a detailed analysis of variances between the final position and the budget, and reviewed forecasting performance. The most significant issue arising from discussions in the challenge meetings was that, particularly in DCCS, where many services are demand led (security, printing etc) budgets are based on the highest likely level of activity. There is an opportunity here to move to budgeting on a “middle case”, subject to access to a contingency in the event that demand moves towards the upper end of the range.

48. This approach would result in a net reduction in the Estimate, but more work is required to quantify the impact.

49. PICT did identify an opportunity to take some underlying capacity out of the budget in relation to communications and computing costs. This is still being quantified.

50. The delivery of approved savings in 2011-12 is on track, and in some cases Departments are ahead of schedule. At this early stage (see separate monitoring report on the agenda) it seems that the House will underspend in 2011-12.

51. The approved package of tactical savings for 2011-12 included items in later years. These are all on track with the exception of a saving in relation to Tothill Street which has been superseded by the Strategic Property review.

<u>Pressures and savings in medium term</u>

52. The main pressures identified for 2012-13 and the medium term are:
    - Rates
    - Members' stationery
    - SIMS grading review
    - Education centre set up (subject to identification of suitable venue)

53. Some new tactical savings were identified by DIS at their challenge meeting as follows:
    - CPIMF and Strategic web hosting
    - Democracy game

54. More widely, several risks and future savings opportunities were identified and these are shown in Appendix J.

55. The final year in the medium term plan is likely to be an election year, and an initial assumption about how this will affect costs, based on 2010 experience, has been made. The move to fixed term Parliaments should make it easier to build the impact into the MTFP.

Savings Programme

56. Based on the outline business cases and the board meeting on 1 July, the seven strands have not been included in the MTFP at this stage.

57. A rough estimate of the savings that could be achieved by 2014-15 is set out below:

Strand	2012-13 £000	2013-14 £000	2014-15 £000
Public Engagement	200	200	200
P2W: interim measures including bound volumes	500	1000	1000
P2W: full programme (NB, new contract commences 2016)	0	0	1000
Estates	0	1000	2000
Market testing (too early to give a figure)	0	0	0
Income generation: CRS	0	1830	1830
Income generation: other (assumes some overlap with CRS)	0	0	250
People and work: SCS review (awaiting report to Board)	0	0	0
ICT strategy	0	2000	3200
Operational and procurement (further development required)	0	1000	1000
Total	700	7030	9730

58. The Board should consider setting specific targets for the newly configured strands. Targets to be achieved by 2014-15 could be as follows:

- Print to Web £2m
- Estates £2m
- Income generation £2m
- ICT £3m
- Operations £1m

59. More work is needed on market testing to arrive at a reasonable target, and the operations strand, which has only recently been added to the programme, needs to be developed further. It is important to avoid any double counting of savings between strands.

60. It is important to note that print to web and estates will both deliver significant savings beyond 2014-15.

61. The investment (resource) required to support these strands can initially be met from the budget that has been set aside for the savings programme. More work is required on the capital investment required.

Options to deal with the gap

62. There is currently a gap between the target and the medium term plan which is summarised below:

	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m
Target	224	220	210	210
Draft MTFP	229	234	237	237
Gap	**5**	**14**	**27**	**27**
Savings programme potential			10	10
Revised gap	5	14	17	17
Risk around technical assumptions	1	2	3	4
Total	**6**	**16**	**20**	**21**

63. The Management Board is invited to consider how to address this situation. The main options are:

- Accelerate some/all of the 7 strands
- Develop the new operations strand as quickly as possible
    - Review in year spending again in the autumn to drive out further capacity
    - Identify procurement opportunities
    - Implement the cross cutting savings
- Develop a rolling programme of business process reviews
- Move to budgeting on the middle level of activity and constrain the contingency
- Give Departments targets to achieve through a second round of tactical savings
- Limit programme spending through the use of planning totals
- Asset disposal, other than property (one-off)
- Offer up HoC Commission reserve (one-off)

64. The new operations strand has significant potential and could be set a much more challenging target as the work develops. However, it is important that, whilst the Finance director will act as strand leader, all Departments take responsibility for delivery of savings under this umbrella. It may be advisable to set targets by Directorate for operational/procurement savings to incentivise managers and ensure appropriate ownership.

65. An issue that was mentioned in several challenge sessions was the split of costs between the two Houses, and in the case of PICT, the split between the Admin Estimate and the Members Estimate.

66. There is a report on cost sharing, based on 2009-10 budgets, that suggests that some of the agreed ratios are out of date and that approximately £1.5m would shift from the Commons estimate over to the Lords estimate if this were pursued. The position may have changed since then, and in some challenge panels it was suggested that things have moved further in the Commons' favour. The Board should consider whether to pursue this further. It should be noted however, that there would be no net gain to the public purse, and there is an understanding that the 2012-13 budget will be prepared on the current ratios. Any changes would of course have to be agreed with the House of Lords.

67. Decisions on the use of shared properties such as Tothill Street can have a significant bearing on cost sharing.

68. DCCS also highlighted the fact that a move toward electronic media would have significant benefits for central government (for instance being able to lay/table papers electronically).

<u>Programmes and business cases</u>

69. The current agreed programmes as per the HAIS system (across resource and capital, and across both Houses) are set out in Appendix E. The programme figures for 2011-12 will be reviewed and confirmed with Departments in the coming weeks, as there is currently some mismatch between the Houses and between programme owners and finance.

70. In summary, the programme figures for 2011-12 are:

	Total £m	Commons £m	Lords £m
Estates Resource	7.1	4.5	2.6
IT/Other Resource	8.8	7.0	1.8
Total	15.9	11.5	4.4
Estates Capital	32.4	15.5	16.9
IT/Other Capital	1.1	0.9	0.2
Total Capital	33.5	16.4	17.1

71. The Commons resource cost in 2011-12 is £11.5m, which is around 5% of the total estimate, of which £4.5m relates to estates and £7.0m relates to other activities. The Commons capital cost is £16.4m, almost all of which relates to estates.
72. The intention is to develop a medium term investment plan, the proposed format being set out in Appendix F.

73. For this approach to work it is vital that:

- Both Houses align their planning cycle and planning horizon, and approve the same medium term investment plan at the same time (possibly through a joint board meeting in October)
- Both Houses ensure that the budget loaded onto HAIS aligns with the approved investment plan
- Subsequent changes to the plan are made in a formal, controlled way

74. In the coming weeks work will be done with PICTAB, PEB and other programme owners to develop the four year investment plan. The Board will have to prioritise the bids, taking into account advice from PICTAB and PEB.

75. The recommended prioritisation criteria are:
    - Statutory requirement (including H&S)
    - Delivery of Corporate Plan
    - Delivery of savings or cost avoidance

76. Decisions should reflect the constraints on the programme:
    - Funding envelope
    - Project delivery capacity
        - Sponsoring department capacity
        - Project management resource
        - Technical team capacity (PICT, PED, Web Team)
    - Technical constraints and sequencing issues

77. It is further recommended that planning totals are introduced for resource and capital. For resource, it is clear from the MTFP that there is no scope to increase the provision, and that it may be necessary to reduce it. Therefore Commons only planning totals of £4m for estates and £5m for other areas (to apply in each year of the plan) are recommended.

78. For capital there is an understanding that the provision for M&E needs to increase, however, it must be recognised that this will feed into depreciation and

create pressure on the resource estimate in the longer term.[1] Therefore a Commons only planning total of £20m is recommended at this stage.

79. Within the context of a joint approved medium term investment plan, the business case approval process could be simplified, particularly if some approvals were formally delegated to PICTAB and PEB. A further paper on the business case approval process is being prepared for the September Board meeting.

Management of contingency

80. Within the 2011-12 budget there is a centrally held contingency of £4.7m, some of which arises from the adjustment to pension costs and the outcome of the VE exercise. In the draft MTFP, the contingency for 2012-13 and beyond is set at £2.7m. However, further work is needed to analyse the appropriate level of the contingency for the final MTFP, given the risks that the service faces.

81. A draft policy for use of the contingency is attached at Appendix G. As noted earlier, a more formal approach to the contingency would enable departments to budget on the basis of a middle case in terms of activity levels.

82. Further work is required to align this approach with the management of contingency funds by PICTAB and PEB.

Grants-in-aid

83. The current cost of grants-in-aid is £3.3m. The Commission has agreed to run down the reserves of some of the bodies (which results in short term savings for the House) and move towards a system whereby the bodies in question produce business plans and are funded for defined activities. It is possible that, due to budgetary constraints affecting many parliaments, that activity levels will reduce over the medium term.

Stabilisation Options

84. As noted earlier, it is important that the non-cash part of the Estimate is stabilised to assist forward planning.

85. There are essentially five options available to the House to stabilise pension costs in the medium to long term:
    - Option 1: Create a separate estimate for pensions
    - Option 2: Join the Civil Service Scheme

[1] Expenditure of £20m, depreciated over a 50 year life, generates resource cost of £0.2m

- Option 3: Select a fixed discount rate for a period of 3-4 years at a time
- Option 4: Define this part of the estimate as annually managed expenditure
- Option 5: Presentational changes within the existing Administration estimate

86. The implementation issues, advantages and disadvantages of these options are set out at a high level in Appendix H. This issue does need more thought, particularly as implementing the response to the Hutton review, including the possible increase in employee contributions, will reduce costs, and it is important that the House Estimate sees the benefit of these changes.

87. The best way to resolve the problem appears to be fully joining the Civil Service scheme but this is quite complex to implement and may come at the price of some loss of autonomy. If this autonomy is about accounting issues rather than anything to do with the real autonomy of the House service it may be a price worth paying.

88. Depreciation costs should stabilise in line with smoother property prices. There is also scope for better forward planning in this area.

Further work

89. As noted throughout the report, further work is required to develop the final medium term financial plan and medium term investment plan for consideration by the board in October. In particular, work will be done to:
    - Refine figures with departments
    - Review in year capacity in light of monitoring to end of June
    - Explore the benefit of budgeting for demand led activities on a “middle case” basis
    - Develop the savings programme, particularly the new operational strand and the market testing strand
    - Develop the investment plan with PEB/PICTAB
    - Join up with the House of Lords
    - Pursue the stabilisation options

90. As part of the financial management action plan, and building on the HAIS renewal programme, more work will be done in 2012-13 on the way in which costs are analysed, options for the allocation of overheads, vfm measures, and the distinction between heritage functions and parliamentary functions.

Reserves and provisions

91. There is a HoC reserve which stands at £3.3m. This is a one-off reserve held on the balance sheet and not part of the annual estimate. At present there is no

clear policy for the use of this reserve. A draft policy is set out in Appendix I, although this policy is a matter for the Commission. This also covers the approach to provisions.

Risks and Opportunities

92. There are some notable risks in relation to the medium term financial strategy that are summarised below:
    - Staffing
    - Service delivery
    - Economy
    - Property
    - Policy
    - Events
    - Elections

93. During the challenge meetings a range of opportunities was also identified. These opportunities will be pursued under the operational strand of the savings programme.

94. An outline risk and opportunities register is attached at Appendix J. This will be developed into a formal risk register in line with corporate guidance by October.

Value for Money

95. It is important that the House can demonstrate that it is delivering good value for money and a clear approach to delivering value for money should be developed in due course. This could cover:

    - Cost and activity analysis
    - Benchmarking
    - Savings programme
    - Effective procurement

Longer term picture

96. There are some important issues for the longer term. It is not clear yet whether the HoC Commission will want to continue to reduce the Administration Resource Estimate beyond 2014-15. It is likely that the spending review for the period from 2015-16 to 2018-19 will be challenging, given the economic context, and in the wider public sector a further period of spending reductions is anticipated.

97. There is also the issue of the huge amount of capital expenditure required to maintain the Palace of Westminster in the longer term. The picture will be clearer once the feasibility work is completed, and this will form the basis for discussions with the Commission and the Treasury (about the likely scale of the capital estimate in the longer term).

Engagement with stakeholders

98. The Finance and Services Committee will be looking at the early work on the MTFP at their meeting in September. The Board's advice is sought on wider engagement with Members, Members' staff, House staff and Unions.

Members estimate

99. Following the transfer of responsibility for Members' pay and expenses to IPSA, the Members Estimate is now £35.5m (see Appendix K). A significant proportion of this (£26m) relates to the cost of the Members' pension scheme. The remainder includes Short money, the contribution to the Members' fund, and IT costs.

100. The costs relating to pension scheme liabilities should probably appear in the Pension Scheme's own accounts, but this requires an amendment to the accounting direction issued by the NAO. The matter is being pursued and will be discussed with the Parliamentary Contributory Pension Fund (PCPF) Trustees at their October meeting.

101. If pension costs are transferred elsewhere, it is then debatable whether a separate Members' Estimate is required in the longer term, although there may be legislative considerations in respect of the Members' Fund.

Timetable for setting the estimate

102. The timetable for finalising the 2012-13 estimate and MTFP is summarised below:

- October – Management Board
- November – F&S
- December – Commission

103. It is important to align the timetable with the House of Lords, and their timetable is driven by Treasury requirements.

104. The intention is to include, by Department, an analysis of changes to the budget (similar to Appendix C), along with a subjective and objective analysis in the final report. This will ensure that:

- the process for finalising and loading the detailed budget within Departments is simpler and quicker
- the budget can be loaded in the old HAIS system and copied over to the new system prior to go live on 1 April
- the budget can be formally signed off by budget holders in March
- a simple "budget book" can be produced for 2012-13
- there is a clear basis for virements (with a new policy to be developed in the Autumn as part of a review of the resource framework)

How can the planning process be improved?

105. As noted earlier in the report, the challenge sessions have been very useful and provide the platform to further improve the process. In particular this will entail:

- Better forward planning, including booking the challenge sessions well in advance to that they all take place early in June and that there is sufficient time to cover all the ground
- The introduction of templates for Departments to complete before the challenge panels take place (to refresh the MTFP), to improve clarity on the figures and ownership of the plan
- Better integration with business planning and workforce planning

Myfanwy Barrett
July 2011

Appendix A

Analysis of 2011-12 Budget

	Salary Related	Charges from Suppliers	Depreciation and other non-cash items	Receipts	Total Costs
	£000s	£000s	£000s	£000s	£000s
DCCS					
Clerk Assistant's Directorate	6,652	10,239	86	(427)	16,550
Committee Directorate	10,068	3,787	0	0	13,855
Legislation Directorate	2,319	359	0	(9)	2,669
Official Report	6,139	5,727	397	(20)	12,243
Serjeant at Arms	2,355	23,136	709	(84)	26,116
Speaker's Counsel	893	25	0	0	918
Commissioner for Standards	597	14	0	0	611
	29,023	**43,287**	**1,192**	**(540)**	**72,962**
DF					
Facilities Support	1,365	382	10	0	1,757
Accommodation & Logistics	3,022	8,692	15	(31)	11,698
Parliamentary Director of Estates	6,930	32,595	12,267	(621)	51,171
Catering & Retail	8,918	4,989	62	(8,807)	5,162
	20,235	**46,658**	**12,354**	**(9,459)**	**69,788**
DIS					
Public Information	5,155	2,729	190	(1,150)	6,924
Research	6,873	71	0	0	6,944
Information Management	1,825	1,396	1	(1)	3,221
Management	777	307	90	0	1,174
	14,630	**4,503**	**281**	**(1,151)**	**18,263**
DHRC					
HR Services	3,622	576	0	0	4,198
Director's Office	0	563	0	0	563
Change	768	1,982	50	0	2,800
DEO Central	275	0	0	0	275
	4,665	**3,121**	**50**	**0**	**7,836**
DFIN					
Financial Management	1,877	370	50	0	2,297
Commercial Services	677	0	0	0	677
Savings	391	0	0	0	391
Pensions	183	60	0	0	243
	3,128	**430**	**50**	**0**	**3,608**
PICT					
Director's Office	822	2,293	1,079	0	4,194
Operations	2,688	1,855	59	0	4,602
Development	4,335	3,081	360	0	7,776
Resources	1,002	1,249	89	0	2,340
Programmes	982	0	0	0	982
	9,829	**8,478**	**1,587**	**0**	**19,894**

	Salary Related £000s	Charges from Suppliers £000s	Depreciation and other non-cash items £000s	Receipts £000s	Total Costs £000s
Speaker's Office	478	140	0	0	618
Office of the Chief Executive	1,165	395	0	0	1,560
Office of the Security Coordinator	92	2	0	0	94
Programmes	4,971	1,807	1	0	6,779
Sub-total	88,216	108,821	15,515	(11,150)	201,402
Central Provision	0	1,509	20,400	0	21,909
Contingency	0	0	4,689	0	4,689
Total	88,216	110,330	40,604	(11,150)	228,000

Appendix B
Medium Term Financial Plan Summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	223,309	223,309	223,309	223,309
Inflation				
- Pay	113	2,614	4,332	6,084
- General prices	1,874	3,781	5,731	7,718
- Special	500	500	500	500
Savings				
- Initial Programme	-3,071	-3,830	-4,532	-4,532
- Other Savings	-862	-918	-918	-918
Growth	4,650	5,720	5,800	6,340
Adjusted departmental baselines	**226,513**	**231,176**	**234,222**	**238,501**
Contingency	2,700	2,700	2,700	2,700
Revaluation				
Dilapidations				
2015/16 Election Impact				-4,500
Total	**229,213**	**233,876**	**236,922**	**236,701**
Target	**224,000**	**220,000**	**210,000**	**210,000**
Gap	**5,213**	**13,876**	**26,922**	**26,701**

Appendix C

Departmental summaries – Commons only budgets

Speaker's Office

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	618	618	618	618
Inflation				
- Pay	0	14	24	34
- General prices	3	6	9	12
Savings	0	0	0	
- Initial Programme				
Growth	0	0	0	
Adjusted baselines	621	638	651	664

Chamber & Committee Services

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	72,961	72,961	72,961	72,961
Inflation				
- Pay	3	874	1,472	2,082
- General prices	812	1,639	2,484	3,345
Savings				
Initial Savings Programme				
Dccs8 - Terminate click-use licence fee	-11	-11	-11	-11
Dccs12 - Conferences Overseas	-40	-40	-40	-40
Dccs30 - Rolling Hansard	-22	-22	-22	-22
Dccs31 - Non-staff costs	-10	-10	-10	-10
Dccs33 - Staffing	-92	-124	-124	-124
Dccs37 - MPS Special Service Agreement	-540	-1,080	-1,620	-1,620
Total Initial Savings Programme	**-715**	**-1,287**	**-1,827**	**-1,827**
Other Savings				
CPA Conference	-500	-500	-500	-500
IRD Support	-96	-96	-96	-96
Total Other Savings	**-596**	**-596**	**-596**	**-596**
Growth				
Parbul	186	186	186	186
SIMS regrading	400	400	400	400
Total Growth	**586**	**586**	**586**	**586**
Adjusted baselines	73,647	74,773	75,676	77,147

Facilities

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	69,789	69,789	69,789	69,789
Inflation				
- Pay	87	697	1,116	1,543
- General prices	743	1,500	2,273	3,061
Savings				
Initial Savings Programme				
Df1 - Royal Mail operations	-14	-14	-14	-14
Df3 - Office Keeper / Attendants	-323	-323	-323	-323
Df5 - Porterage / Deliveries	-60	-60	-60	-60
Df6 - Off-Site Consolidation Centre	-183	-183	-183	-183
Df7 - Maintenance	**-42**	**-42**	**-42**	**-42**
Df8 - Maintenance		-165	-165	-165
Df14 - Buildings				
Df31 - Transformation Programme			-150	-150
IGDF1 - Souvenir Sales	-400	-400	-400	-400
IDGF9 - Bridge Street properties	-75	-75	-75	-75
Total Initial Savings Programme	**-1,097**	**-1,262**	**-1,412**	**-1,412**
Growth				
Rates Increases	2,532	2,532	2,532	2,532
Rates Appeals	163	699	699	699
Members Stationery	1,000	1,000	1,000	1,000
Total Growth	**3,695**	**4,231**	**4,231**	**4,231**
Adjusted baselines	**73,217**	**74,955**	**75,997**	**77,212**

Information Services

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	18,263	18,263	18,263	18,263
Inflation				
- Pay	15	454	756	1,064
- General prices	67	135	205	276
Savings				
Initial Savings Programme				
Dis6 - Library / Research	-25	-50	-62	-62
Dis12 - Public Information Projects	-10	-10	-10	-10
Dis13 - Library Resources	-85	-85	-85	-85
IGDis1 - Clock Tower tours	-82	-82	-82	-82
Total Initial Savings Programme	**-202**	**-227**	**-239**	**-239**
Other Savings				
CPIMF	-110	-159	-159	-159
Strategic Web Hosting	-68	-75	-75	-75
Democracy Game	-88	-88	-88	-88
Total Other Savings	**-266**	**-322**	**-322**	**-322**
Growth				
Education Centre start up	19	423	403	403
Public Information ICT	140	140	140	140
PICT Health Check	60	120	120	120
Dept IT Projects		120	220	360
Election projects				400
Visitor Assistants				
WOA Valuation	50			
Total Growth	**269**	**803**	**883**	**1,423**
Adjusted baselines	**18,412**	**19,428**	**19,868**	**20,787**

Human Resources & Change

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	7,837	7,837	7,837	7,837
Inflation				
- Pay	4	144	240	338
- General prices	62	126	191	257
Savings				
Initial Programme				
Staff	-339	-339	-339	-339
Work Commissioned	-200	-200	-200	-200
Total Initial Savings Programme	**-539**	**-539**	**-539**	**-539**
Growth				
Adjusted baselines	**7,364**	**7,568**	**7,729**	**7,893**

Finance

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	3,608	3,608	3,608	3,608
Inflation				
- Pay		94	158	224
- General prices	9	17	26	35
Savings				
- Initial Programme Staff	-61	-61	-61	-61
Growth				
Adjusted baselines	**3,556**	**3,658**	**3,731**	**3,806**

PICT

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	19,893	19,893	19,893	19,893
Inflation				
- Pay	4	299	502	709
- General prices	170	342	519	699
Savings				
Initial Savings Programme				
Pict6 - Applications Support	-185	-129	-129	-129
Pict7 - Technology Support	-40	-40	-40	-40
Pict8 - Remote Access	-77	-77	-77	-77
Pict9 - Telecoms Services	-14	-14	-14	-14
Pict10 - Telecoms Services	-4	-4	-4	-4
Pict11 - Telecoms Services	-80	-80	-80	-80
Pict12 - Support Services	-57	-110	-110	-110
Total Initial Savings Programme	**-457**	**-454**	**-454**	**-454**
Other Savings				
Capacity in communications & computers				
Growth				
Adjusted baselines	**19,610**	**20,080**	**20,460**	**20,847**

Office of the Chief Executive

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	1,560	1,560	1,560	1,560
Inflation				
- Pay		35	59	83
- General prices	8	16	24	33
Savings				
- Initial Programme	0	0	0	
Growth				
Counter Fraud Activity	100	100	100	100
Total Growth	**100**	**100**	**100**	**100**
Adjusted baselines	**1,668**	**1,711**	**1,743**	**1,776**

Security Coordinator

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	92	92	92	92
Inflation				
- Pay		3	5	7
- General prices				
Savings				
- Initial Programme				
Growth				
Adjusted baselines	**92**	**95**	**97**	**99**

Central Provision

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	21,909	21,909	21,909	21,909
Inflation				
- Pay				
- General prices				
Savings				
- Initial Programme				
Growth				
Adjusted baselines	**21,909**	**21,909**	**21,909**	**21,909**

This area includes:
- Pension Interest
- Savings programme support
- Notional audit fees

ICT Programmes

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s
2011/12 Budget Baseline	6,779	6,779	6,779	6,779
Inflation				
- Pay				
- General prices				
Savings				
- Initial Programme				
Growth				
Adjusted baselines	**6,779**	**6,779**	**6,779**	**6,779**

Appendix D
Technical assumptions and Sensitivity Analysis

Technical Assumptions

Area	Assumption
Pay	Pay freeze in 2012-13, with exception of lowest paid 3% increase in 2013-14 2% increase in 2014-15 and 2015-16 (in line with government inflation target)
Pensions	Departmental contribution rate of 27.7% (in line with 2011-12) throughout 4 year period Pension interest at £20.3m throughout 4 year period
Inflation	2% increase in throughout 4 year period (in line with government inflation target) Additional £0.5m for special inflation in 2012-13
Depreciation	Total budget of £15.5m throughout 4 year period

Sensitivity Analysis

The major sensitivities identified are:

	2012/13 £ m	2013/14 £ m	2014/15 £ m	2015/16 £ m
Pension Contributions				
Increase in staff contributions in line with Hutton recommendations		(1.8)	(1.8)	(1.8)
Reduction in Departmental Pension contributions from 27.7% to 23.0%	(3.0)	(3.0)	(3.0)	(3.0)
Pension Interest				
Increase of 0.5% in rate	(1.0)	(1.0)	(1.0)	(1.0)
Reduction of 0.5% in rate	1.0	1.0	1.0	1.0
Revaluations				
Increase in valuation to 2008/09 levels	4.0	4.0	4.0	4.0

In broad terms there is the prospect of reductions in pension costs and increases in depreciation costs over the medium term.

However, more work is required in relation to dilapidations, which presents a further risk.

Appendix E

Programme Expenditure 2011/12

Programme Title	Sharing HOC:HOL	Total £000s	Commons £000s	Lords £000s	Notes
PICTAB Programmes					
SPIRE	85:15	1,946	1,677	269	
Procedural ICT	75:25	2,690	2,017	673	
HAIS Renewal	100:0	1,464	1,464	0	
Facilities ICT	75:25	1,085	814	271	
Digital Preservation	75:25	343	257	86	
Digital Strategy	40:60	60	19	41	
CPIMF	75:25	752	564	188	
Parliamentary Network Refresh	75:25	754	603	151	
Digital Audio	75:25	60	48	12	
HAISL	0:100	250	0	250	
Total PICTAB Programmes		**9,404**	**7,463**	**1,941**	
Analysed					
Resource		8,442	6,671	1,771	
Capital		962	792	170	
PEB Programmes					
Capital	Various	32,434	15,529	16,905	
Projects	Various	7,144	4,545	2,599	
Total PEB programmes		**39,578**	**20,074**	**19,504**	
Analysed					
Resource		7,144	4,545	2,599	
Capital		32,434	15,529	16,905	
Other Programmes					
HRPPP	100:0	224	224		(1)
Safety, Health and Well Being					
Broadcasting	60:40	118	75	43	
Programme and Project Assurance	80:20	129	108	22	
Total Other Programmes		**471**	**407**	**65**	
Analysed					
Resource		353	332	22	
Capital		118	75	43	
Total Resource		**15,939**	**11,548**	**4,392**	
Total Capital		**33,514**	**16,396**	**17,118**	

Note 1: not currently funded

Appendix F

Proposed format for Medium Term Investment Programme

Area	HoC/HoL split	2012-13	2013-14	2014-15	2015-16
PEB					
- M&E	60:40				
- Roofs	60:40				
- Fire					
etc					
TOTAL FOR PEB					
CAPITAL					
RESOURCE					
PICTAB					
- SPIRE					
- CPIMF					
- HAIS					
Etc					
TOTAL FOR PICTAB					
CAPITAL					
RESOURCE					
OTHER					
- Broadcasting					
TOTAL OTHER					
CAPITAL					
RESOURCE					
Total Investment		**X**	**X**	**X**	**X**
CAPITAL					
RESOURCE					
Total Investment		**X**	**X**	**X**	**X**
House of Commons					
House of Lords					
Total Investment		**X**	**X**	**X**	**X**

Appendix G
Policy on use of contingency

General Principles

1. As a general principle, Directorate budgets should be structured to cover business as usual and any programmes and initiatives that were agreed as part of the budget and business planning round.

2. Budgets which are “demand led” should be set to deal with the average or normal activity level (the middle case) expected in a particular year.

3. Income budgets should also be set taking into account likely activity levels and any price changes for each year.

4. The contingency should be used to deal with unforeseen/exceptional items, unexpected levels of activity that cannot be absorbed within the original budget, and one-off projects.

5. The contingency should be managed corporately and Departments should not hold their own contingencies.

Appropriate Uses

6. It is recommended that the contingency is used for the following purposes:

    Category A: Unforeseen items/pressures

    - To deal with demand risk, where the volume of activity exceeds the level assumed when the budget was set
    - To deal with seasonal risks, such as exceptionally bad weather resulting in a loss of income
    - To deal with the consequences of recession
    - To deal with unforeseen policy changes, such as the establishment of a new committee during the year
    - To deal with unforeseen pay costs (for instance to deal with exceptional levels of absence)
    - To deal with unpredictable fluctuations in pension costs and depreciation
    - To deal with the outcome of tribunals and litigation, including pay disputes

Category B: One-off projects

- To fund small one-off projects which are high priority and, where appropriate, have the support of the HoC Commission
- To fund one-off major procurement exercises
- To fund invest to save proposals

<u>Criteria</u>

7. It is recommended that any bids to use funds from the contingency should meet the following criteria:

Category A: Unforeseen items/pressures

- The event or demand is unforeseen/exceptional and could not reasonably have been predicted during the budget round
- The cost is material and cannot be met from the Departmental budget

Category B: One-off projects

- The project is high priority, in the opinion of the Management Board, or will generate future savings

8. Where activities are bi-cameral, the contingency must only be used to fund the House of Commons share, and a case will have to be made separately to the House of Lords where necessary.

<u>Approval process</u>

9. The use of the contingency will be subject to approval by the Management Board, in consultation with Members where appropriate, as part of the monthly monitoring reports.

10. The use of the contingency will be reported to F&S as part of the regular monitoring reports.

11. The sum available at the start of the year will be split between categories A and B in a ration of approximately 80:20. Within each category approval will generally be on a first come first served basis. However, the position will be monitored during the year to ensure that the contingency is not used up too quickly.

<u>Unspent balances</u>

12. Any unspent balance from the contingency will be treated as an underspend for monitoring purposes and at year end.

Appendix H
Options to stabilise pension costs

The objective is to improve forward planning and reduce exposure to volatility.

Option	Implementation	Advantages	Disadvantages
1: Separate Estimate for Staff pension scheme	Relatively simple	Takes all risk and volatility out of administration estimate.	Does not full resolve the problem, just shifts it elsewhere. Additional work for finance staff to prepare the estimate and produce the accounts. PR risk, as this option would draw attention to pension costs. Likely to entail more regular use of supplementary estimates.
2: Full membership of the Civil Service scheme	Complex – HoC not listed in Schedule 1 of Superannuation Act 1972	Once achieved this would be a clean solution, and would also result in savings on administration. The House would, presumably, be treated like a government department in that the employer contribution to the scheme would be fixed for several years at a time, assisting in forward planning.	There may be a “cost” attached in terms of submitting to Treasury requirements in other areas, such as clear line of sight. However, this could also be an opportunity to follow best practice and avoid unnecessary work.
3: Set fixed discount rate for 3-4 years at a time	Relatively complex – methodology would have to be developed	Simple to achieve.	Does not fully resolve the problem. May not comply with accounting standards (IAS19) Risk of greater fluctuations at intervals when the discount rate is reviewed and amended.
4: Classify	Relatively simple,	This is the system	Does not fully solve the

Option	Implementation	Advantages	Disadvantages
pension costs as annually managed expenditure	but goes back on an earlier decision by HoCC	used by House of Lords.	problem, as some costs within the Departmental Expenditure Limit (DEL) will still fluctuate. Requires very effective planning around creation of use of provisions across years.
5: Presentational changes	Relatively simple	No legislative or accounting rule changes required. Could be used to strip volatility out of Departmental budgets and centralise the problem.	Does not resolve the underlying problem. Presents issues in terms of accounting for full cost of services.

Appendix I

Policy on reserves and provisions

Reserves

The House of Commons Commission has a reserve of £3.4m. This arose originally from surplus catering income, and has been untouched for a number of years.

If the House experiences a major unforeseen cost pressure, there are three possible actions – use the contingency within the annual resource estimate, submit a supplementary estimate or use the reserve.

A supplementary estimate would generally only be used to deal with a large fluctuation in the non-cash part of the estimate. The proposed policy for use of the contingency is set out above.

In general terms the reserve will be used where there is a significant one off project that cannot be dealt with through the contingency.

Provisions

Provisions are made where there are known liabilities. These liabilities could include:

- Bad debts which need to be written off
- Costs and settlements arising from tribunals or litigation
- Insurance claims
- Responsibilities under leases such as dilapidations

The House should include reasonable amounts for payments under these headings and/or contributions to provisions at year end within the estimate.

Active planning for these liabilities will reduce the risk of having to deal with large costs at year end.

Appendix J
Risk and Opportunity Register

Summary of risks identified during challenge process

Risk Category	Issues
Staffing	• Pension cost increases • Taxable benefits
Service Delivery/Demand	• IT Licences
Economic	• General inflation • Specific inflation such as food prices and air fares • Catering and retail income levels
Property	• Cost of occupying buildings and moves
Policy	• Changes to sitting hours • Changes to committee structure • Public engagement agenda
Events	• Olympics: loss of income from MPs and staff due to longer recess etc
Elections	• Timing of next election

Summary of savings opportunities identified during challenge process

Opportunity Category	Issues
Staffing	
Service Delivery: Spare capacity	• Sell spare capacity at OSCC • Rebates due to additional users at mail screening facility
Service delivery model	• Bringing HoL car parking back onto estate (HoC may share benefit) • Reduced need for satellite vote offices, aligned to P2W • Decline in grants-in-aid
Property	• Review use of residencies
Better use of Technology	• Video Conferencing • Reduction in printers/phones • Require MPs to provide their own IT kit
Income generation	• Charging for 3rd party use of estate
Shared Services	• Join up late night transport with HoL • Join up back office functions with HoL, eg, Internal Audit, procurement, payroll • Opportunities for MPs to share facilities in their constituencies
Events	• Olympics – additional income generation from visitor numbers
Elections	• Saving in year of election • Reduction in number of MPs

Appendix K

Members Estimate 2011/12

	£000s
Pension contributions	14,360
Interest on pension liabilities	12,000
Financial assistance to opposition parties	6,277
Depreciation	1,000
ICT Costs	503
Other	1,360
Total	**35,500**