Management Board

2011/12 Budget Forecast Outturn Report

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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 August 2011.

Action for the Board

2. The Management Board is invited to note:
   (a) The £3.7 million increase in the cost of interest on pension fund liabilities arising from the higher interest rate that applies to 2011/12;
   (b) ; and
   (c) The current position and the forecast on the Members Estimate.

Administration Estimate

Resource: Position at August 2011

3. Overall, expenditure to August 2011 was £3.9 million lower than the budget for the same period. An analysis by category is given below:

April to August 2011

	Actual	Revised Budget	Variance	
	£000s	**£000s**	**£000s**	**%**
Receipts	(4,396)	(4,302)	94	(2.2)
Salaries	35,861	36,858	997	2.7
Other Staff Costs	691	984	293	29.8
T&S	1,173	1,267	94	7.4
Information	6,096	6,169	73	1.2
Communications	2,600	2,802	202	7.2
Computers	3,553	3,943	390	9.9
Catering Supplies	1,456	1,480	24	1.6
Office Supplies	649	707	58	8.2
Professional Services	1,665	2,627	962	36.6
Grants	974	635	(339)	(53.4)
Estates Projects	1,878	2,486	608	24.5
Property	8,552	8,905	353	4.0
Maintenance	4,354	4,478	124	2.8
Security	9,042	9,043	1	0.0
Sub-total	**74,148**	**78,082**	**3,934**	**5.0**
Non-Cash Expenditure	6,446	6,450	4	0.1
Contingency	-	-	-	-
Total	**80,594**	**84,532**	**3,938**	**4.7**

4. The most significant variances are:
   (a) Salaries with an underspend of £1.0 million is 2.7% below the budget. Every department has an underspend which range from 0.1% to 28.6% of the 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 36.7% of budget.
   (c) Computer related expenditure with an underspend of £0.4 million principally in PICT due to savings which are also reflected in the forecast for the full year.
   (d) Professional services with an underspend of £1.0 million in the following departments:
      - DCCS – an underspend of £0.2 million due to savings on the transcription contract and differences in the timing of expenditure from that assumed in the budget.

- Facilities – an underspend of £0.1 million on the costs of the Offsite Consolidation Centre.
- DIS - an underspend of £0.2 million due to savings and the timing of expenditure from that assumed in the budget differences.
- DHRC - an underspend of £0.5 million due to savings and the timing of expenditure from that assumed in the budget.

(e) Grants with an overspend of £0.3 million due to differences in the the timing of expenditure from those assumed in the budget.

(f) Estates projects with an underspend of £0.6 million in Facilities which is due to the timing of expenditure from that assumed in the budget though a full year underspend is forecast.

(g) Property costs with an underspend of £0.4 million in Facilities due to differences in the timing of expenditure from that assumed in the budget. An overspend is forecast for the full year.

5. The analysis of the variances by department is:

April to August 2011

	Actual	**Revised Budget**	**Variance**	
	£000s	**£000s**	**£000s**	**%**
DCCS	28,693	29,034	341	1.2
Facilities	28,629	29,968	1,339	4.5
DIS	6,701	7,305	604	8.3
DHRC	2,442	3,265	823	25.2
Finance	1,374	1,543	169	11.0
PICT	7,966	8,723	757	8.7
OCE	573	600	27	4.5
Speaker's Office	171	263	92	35.0
Security Coordinator	34	29	(5)	(17.2)
Programmes	3,126	3,196	70	2.2
Sub-total	**79,709**	**83,926**	**4,217**	**5.0**
Central Provision	885	606	(279)	(46.0)
Contingency	-	-	-	-
Total	**80,594**	**84,532**	**3,938**	**4.7**

6. Departmental reasons for variances are:

(a) DCCS – an underspend of £0.3 million principally due to:

- Reduced T&S costs of £0.1 million to August. More significant reductions have been assumed for the remainder of the year.
- Lower expenditure on Professional Services (£0.2 million) referred to above.

(b) Facilities – an underspend of £1.3 million principally due to:

- Lower expenditure in Professional Services (£0.1 miilion), Estates Projects (£0.6 million) and Property costs (£0.4 million) referred to above.
- Lower expenditure on Maintenance (£0.1 million) due to differences in the timing of expenditure from that assumed in the budget.

(c) DIS – an underspend of £0.6 million principally due to:

- Lower expenditure on Salaries (£0.1 million) reflecting lower than budgeted secondment and pension costs.
- Lower expenditure on Information costs (£0.1 million) due to differences in the timing of expenditure from that assumed in the budget.
- Lower expenditure on Professional Services (£0.2 million) referred to above.

(d) DHRC – an underspend of £0.8 million principally due to:

- Lower expenditure on Salaries (£0.2 million) due to vacancies.
- Lower expenditure on Other Staff Costs (£0.1 million) principally in the area of training which is assumed to continue for the remainder of the year.
- Lower expenditure on Professional Services (£0.5 million) referred to above.

(e) PICT – an underspend of £0.8 million principally due to:

- Lower expenditure on salaries (£0.2 million) reflecting some savings and a rebalancing of R&D costs into other categories.
- Lower expenditure on communications (£0.1 million) due to savings.
- Lower computer related expenditure (£0.4 million) referred to above.

(f) Central costs – an overspend of £0.3 million due differences in the timing of expenditure from that assumed in the budget.

Resource: latest forecast for the full year

7. The latest forecast gives an underspend for the year of £4.4 million. The forecast underspend has reduced by £2.1 million from the forecast that was reported to the Management Board in September 2011.

2011/12

	Forecast	Revised Budget	Variance	
	£000s	**£000s**	**£000s**	**%**
Receipts	(11,469)	(11,150)	319	(2.9)
Salaries	87,569	88,222	653	0.7
Other Staff Costs	2,192	2,529	337	13.3
T&S	3,181	3,900	719	18.4
Information	15,021	15,173	152	1.0
Communications	6,421	6,717	296	4.4
Computers	8,471	8,961	490	5.5
Catering Supplies	3,904	3,923	19	0.5
Office Supplies	1,706	1,794	88	4.9
Professional Services	6,374	6,884	510	7.4
Grants	2,845	3,303	458	13.9
Estates Projects	4,046	4,245	199	4.7
Property	21,322	20,784	(538)	(2.6)
Maintenance	10,732	10,714	(18)	(0.2)
Security	21,845	21,660	(185)	(0.9)
Sub-total	**184,159**	**187,659**	**3,500**	**1.9**
Non-Cash Expenditure	39,421	35,914	(3,507)	(9.8)
Contingency	-	4,427	4,427	100.0
Total	**223,580**	**228,000**	**4,420**	**1.9**

8. The overall saving against budget is made up of a release of the contingency of £4.4 million with forecast underspends of £3.5 million in cash costs offset by a £3.5 million increase in the cost of interest on pension fund liabilities.

9. The interest costs on pension fund liabilities have been recalculated using the full adjusted closing liabilities in the 2010/11 Resource Accounts and the latest interest rate which was increased from 4.6% to 5.6% for balances at March 2011. The approach used to recalculate the cost for 2011/12 has been checked with the Government Actuary's Department (GAD). GAD will produce an interim report for 2011/12 in November. This report will present GAD's view of the level of contributions required, the cost of interest on liabilities and any other adjustment that might be required.

10. The contingency comprised 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 £3.5 million forecast underspend in cash costs are:

(a) An underspend on salaries of £0.6 million. The forecast does not include any impact of the senior staff review (SIMS review). To date Salaries are 2.7% below budget while the forecast for the full year is an underspend of 0.7%. This implies that average staff levels for the rest of the year will be 4% higher than in the first 5 months.
(b) An underspend of £0.3 million on Other Staff Costs with a number of departments assuming that the current lower levels of expenditure, principally on training, will continue for the rest of the year.
(c) An underspend of £0.7 million on T&S principally due to assumptions of lower expenditure on overseas travel and conferences in the Committee Directorate in DCCS.
(d) An underspend of £0.3 million on Communications principally due to savings on telephone services in PICT (£0.2 million) and reduced Members postage costs in Facilities (£0.1 million).
(e) An underspend of £0.5 million on computer related costs principally in PICT (£0.4 million) due to savings.
(f) An underspend on Professional Services (£0.5 million) principally in:
    - DCCS - £0.1 million due to lower transcription costs.
    - Facilities - £0.1 million due to lower costs in the Off Site Consolidation Centre.
    - DIS - £0.2 million due to savings in Outreach and Education.
    - DHRC - £0.2 million
(g) An underspend of £0.5 million on Grants reflecting work done to agree reductions in the reserves held by the bodies receiving the Grants.
(h) An increase in Receipts of £0.3 million principally reflecting fuller recognition of the income from the nursery (£0.2 million).
(i) An underspend of £0.5 million on Non Cash Expenditure principally due to a recalculation of the interest cost on pension fund liabilities.
(j) An overspend of £0.5 million on Property costs principally due to more conservative assumptions on the impact of rates appeals in the current year.

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

2011/12

	Forecast	Revised Budget	Variance	
	£000s	**£000s**	**£000s**	**%**
DCCS	71,440	72,961	1,521	2.1
Facilities	69,596	69,789	193	0.3
DIS	17,874	18,263	389	2.1
DHRC	7,249	7,837	588	7.5
Finance	3,419	3,608	189	5.2
PICT	18,989	19,893	904	4.5
OCE	1,563	1,560	(3)	(0.2)
Speaker's Office	521	618	97	15.7
Security Coordinator	94	94	-	-
Programmes	7,358	7,041	(317)	(4.5)
Sub-total	**198,103**	**201,664**	**3,561**	**1.8**
Central Provision	25,477	21,909	(3,507)	(16.0)
Contingency	-	4,427	4,427	100.0
Total	**223,580**	**228,000**	**4,420**	**1.9**

12. The most significant variances are:
    (a) DCCS – underspend of £1.5 million principally due to:
    - Lower expenditure on T&S (£0.7 million) referred to above.
    - Lower expenditure on Professional Services (£0.1 million) referred to above.
    - Lower expenditure on Grants (£0.5 million) referred to above.

    (b) DIS – underspend of £0.4 million principally reflecting lower expenditure on Professional Expenditure (£0.2 million) referred to above.
    (c) DHRC – underspend of £0.6 million principally due to:
    - Fuller recognition of the nursery income (£0.2 million).
    - Lower expenditure on Other Staff Costs (£0.2 million) and Professional Services (£0.2 million) referred to above.

    (d) PICT- an underspend of £0.9 million principally due to:
    - Savings on Salaries (£0.3 million).
    - Savings on Communications (£0.2 million) and computer related costs (£0.4 million) referred to above.

    (e) Central Provision – an overspend of £3.5 million principally due the increased costs for interest on pension fund liabilities (£3.7 million) offset by reductions in grants.

(f) Programmes – an overspend of £0.3 million reflecting increased expenditure approved by PICTAB and the Finance Directors of both Houses. The budget will be adjusted in October to reflect this.

Resource: risks and issues

13. 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 being done to look at ways of equalising pension costs but it is unlikely that the results will 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) An oral update will be given at the meeting.
    (d) Members' bespoke stationery and postage: the forecast assumes a reduction in expenditure against the historical budget. However, the Commission has recently decided to change 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.
    (e) Inflation is likely to fluctuate during the remainder of the year.

Capital Expenditure: position at August 2011

14. Overall, capital expenditure to August 2011 is £2.8 million lower than budget. This is analysed by department below:

	April to August 2011			
	Actual	**Revised Budget**	**Variance**	
	£000s	**£000s**	**£000s**	**%**
DCCS	(19)	31	50	161.3
Facilities	3,134	5,583	2,449	43.9
DIS	31	21	(10)	(47.6)
DHRC	4	2	(2)	(100.0)
Finance	-	8	8	100.0
PICT	112	215	103	47.9
Programmes	199	374	175	46.8
Sub-total	**3,461**	**6,234**	**2,773**	**44.5**
Contingency	-	-	-	-
Total	**3,461**	**6,234**	**2,773**	**44.5**

15. The underspend has increased by £0.8 million since the report to the Management Board in September due to slower than anticipated progress on a number of projects in Facilities.

Capital Expenditure: latest forecast for the full year

16. The latest forecast gives an underspend for the year of £5.3 million which is analysed by department below:

	2011/12			
	Forecast	**Revised Budget**	**Variance**	
	£000s	**£000s**	**£000s**	**%**
DCCS	110	162	52	32.1
Facilities	13,425	15,529	2,104	13.5
DIS	57	400	343	85.8
DHRC	12	5	(7)	(140.0)
Finance	12	20	8	40.0
PICT	417	419	2	0.5
Programmes	688	793	105	13.2
Sub-total	**14,721**	**17,328**	**2,607**	**15.0**
Contingency	-	2,672	2,672	100.0
Total	**14,721**	**20,000**	**5,279**	**26.4**

17. In addition to the release of the £2.7 million contingency, the major area of the reduction in the forecast expenditure is on a range of projects in Facilities reflecting and a number of fire safety schemes.

<u>Members Estimate</u>

Position at August 2011

18. Expenditure to August 2011 on Resource is £0.6 million lower than the budget for the same period. Capital Expenditure was slightly higher than the budget. The position at August is analysed below:

	April to August 2011			
	Actual	**Revised Budget**	**Variance**	
	£000s	**£000s**	**£000s**	**%**
Resource Costs				
Contributions to Members Pension Fund	5,686	6,042	356	5.9
Financial Assistance to Opposition Parties	2,676	2,656	(20)	(0.8)
IT Expenditure	19	208	189	90.9
Other Costs	408	486	78	16.0
Sub-Total	**8,789**	**9,392**	**603**	**6.4**
Interest on Pension Liabilities	-	-	-	-
Depreciation	-	-	-	-
Other non-cash costs	-	-	-	-
Total Resource Costs	**8,789**	**9,392**	**603**	**6.4**
Capital Expenditure	**96**	**83**	**(13)**	**(15.7)**

19. 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 £0.2 million lower than budget to this point due to differences in the timing of payments from those assumed in the budget.

Latest forecast for the full year

20. 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**	**-**	**-**

21. 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.

Risks and issues

22. 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

23. 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. A meeting has been arranged with the Treasury later this month to try to agree the start of a process under which the House of Commons Staff Pension Scheme could be amalgamated into Civil Service Pension Scheme. Full amalgamation could mean:

(a) The Pension Liabilities and the associated Pension Interest would be taken against the Pension Scheme Estimate and the House would be isolated from the associated fluctuations.
(b) The House's contributions to the Pension Scheme would be fixed on a triennial basis giving more certainty in planning.

24. The Board has agreed to run another Voluntary Exit (VE) scheme in the current financial year. Even with the reduction in the forecast underspend, there is sufficient scope for a scheme providing that there are longer term benefits arising from it . The March 2011 VE scheme produced ongoing savings which will reach £0.8m each year from 2012/13 in addition to the savings made in 2010/11 (£0.6 million). If we planned for the scheme to have a total cost limit of £2.0 million, the forecast underspend would reduce to £2.4 million.

25. £2.4 million will not be sufficient to cover the costs should our two biggest risks come to fruition:
(a)

26. Traditionally, the House's expenditure is significantly lower than the mid-year Forecast and it is possible that there might be further underspends that will provide sufficient cover for the risks. If we cannot forecast these with any certainty by November 2011, the most prudent course would be to lay a Spring Supplementary Estimate to increase the estimate. This could be done on the basis that the non-cash items, the amounts now required for Pension Interest and Dilapidations Provisions were not quantifiable at the time the Estimate for 2011/12 was formulated.

27. In order to further to increase control, budgets will be revised to the levels in the forecasts and reporting in future months will be done on the basis of a comparison with the revised budgets.

[s.40]
October 2011