

MANAGEMENT BOARD**ADMINISTRATION ESTIMATE: MID-YEAR FORECAST OUTTURN**

Note by the Director of Financial Management

Purpose

1. This paper updates the Management Board on the results of the Mid-Year Forecast Outturn exercise. The exercise is the main opportunity for the Board to review the allocation of resources for the year.

Summary

2. The forecast outturn returns suggests an underspend of £4 million against which £2.8 million, representing the unallocated proportion of the £12 million budget reduction at the outset of the year, needs to be offset. This leaves a balance of £1.2 million, but at this stage this figure does not take account of potential additional costs arising on pension commitments and a further reduction in the value of the Estate. These additional costs, in the absence of changes to the policy currently adopted, could add up to £21 million to the outturn. Such an addition cannot be absorbed, but seeking a Supplementary Estimate might raise reputational issues.

Background

3. The original Estimate of £231 million, agreed by the Commission in December 2009, was subsequently reduced to £219 million in June 2010 to reflect the impact of the General Election, setting up of IPSA and subsequent changes to original planning assumptions (e.g. abolition of Regional Select Committees and suspension of e-petition proposals). The £12 million reduction also included the impact of increasing catering prices and cutting the select committee travel budget, plus a general efficiency reduction given the level of resource underspend that had arisen in recent years.

4. Departments offered in-year savings of £9.2 million, leaving a gap of £2.8 million still to be found.

5. A reduction of £9 million was made to the capital budget at the same time to reflect changes to planned projects and programmes since the autumn.

Overview

6. Department's forecasts suggest a total underspend of £1.2 million on the resource budget, and £2.2 million on the capital budget.

Table 1: Variances by Expenditure Type

Resource	Commons only					
	Budget	April to August Actuals	Forecast September to March	Forecast Outturn	Variance	Variance
	£000s	£000s	£000s	£000s	£000s	%
Receipts	(10,407)	(3,222)	(6,307)	(9,529)	(878)	8.4
Salaries	84,677	35,123	49,900	85,023	(346)	(0.4)
Other Staff Costs	22,687	942	21,629	22,571	116	0.5
Travel and Subsistence	3,474	577	2,277	2,854	620	17.8
Information	16,237	4,933	9,520	14,453	1,784	11.0
Broadcasting	180	44	149	193	(13)	(7.2)
Communications	6,730	2,532	3,838	6,370	360	5.3
Computers	8,520	3,082	3,344	6,426	2,094	24.6
Catering Supplies	3,978	1,312	2,804	4,116	(138)	(3.5)
Office Supplies	1,913	671	982	1,653	260	13.6
Commissioned work	7,517	1,560	6,387	7,947	(430)	(5.7)
Grants	3,951	1,876	1,749	3,625	326	8.3
Accommodation	34,635	15,158	19,728	34,886	(251)	(0.7)
Security	22,272	7,373	14,931	22,304	(32)	(0.1)
Non-cash Expenditure	15,472	6,706	8,277	14,983	489	3.2
Sub - Total	221,836	78,667	139,208	217,875	3,961	1.8
Savings not yet identified	(2,836)	0	0	0	(2,836)	
Total	219,000	78,667	139,208	217,875	1,125	0.5

Capital						
Total	20,000	4,596	12,717	17,313	2,687	13.4

(i) Receipts

7. The forecast excludes £450,000 of accrued rent from St Stephen's Tavern arising from the resolution of the lease. If paid during the current year this would increase the surplus budget available to the Board.

(ii) Salaries

8. Staffing budgets are expected to be underspent following the introduction of recruitment restrictions, although a mixed picture emerges across departments. DCCS had anticipated a reduction in the number of select committees following the General Election, but instead gained the Political and Constitutional Reform Committee. DR has incurred additional staff costs in connection with the final publication of Members' expense claims and requirements of moving to a full scope audit on the 2009/10 Members Resource Accounts. They are further having to fund the Savings Programme team and other corporate initiatives such as the HR Policies, Procedures and Practices (PPP) initiative. Departments have also been affected by low

turnover rates, the need to fill vacancies in business critical posts, and the Band A to E pay settlement (i.e. 3.95%).

Table 2: Variances by Department

Resource	Commons only					
	Budget	April to Aug Actuals	Forecast Sept to March	Forecast Outturn	Variance	
	£000s	£000s	£000s	£000s	£000s	%
Speakers Office	704	253	433	686	18	2.6
DCCS	69,934	24,375	43,446	67,821	2,113	3.0
Facilities	68,935	29,347	40,953	70,300	(1,365)	(2.0)
DIS	18,067	7,138	11,022	18,160	(93)	(0.5)
DR	10,378	4,391	6,473	10,864	(486)	(4.7)
OCE	1,619	572	1,020	1,592	27	1.7
Central Provision ¹	20,115	0	20,115	20,115	0	0.0
Security Coordinator	141	24	131	155	(14)	(9.9)
Project Provision	7,717	2,370	3,257	5,627	2,090	27.1
PICT	20,275	8,321	10,609	18,930	1,345	6.6
Grants	3,951	1,876	1,749	3,625	326	8.3
Sub - Total	221,836	78,667	139,208	217,875	3,961	1.8
Savings not yet identified	(2,836)	0	0	0	(2,836)	
Total	219,000	78,667	139,208	217,875	1,125	0.5

(iii) Impact of General Election

9. Savings arising from the General Election were difficult to plan, especially with a new Government when it can take time to set up committees and return to normal levels of activity. This has resulted in forecast underspends on printing costs (£1.6 million), Members' stationery, postage costs, travel and subsistence expenditure. The Commission had already agreed, as part of the £12 million Estimate reduction, to reduce the Select Committee travel budget from £1.3 million to £0.5 million for 2010/11. The level of provision will be fixed at £0.8 million for later years. DCCS estimate that around 80% of their forecast underspend (£2.1 million) is linked to the impact of the General Election on activity levels. There remain uncertainties around the sitting patterns of the House and activity levels of select committees for the remainder of the year, which could impact on the final outturn position. Expenditure on the Metropolitan Police contract (£22 million) is also influenced by changes to the security threat level.

10. The catering deficit, currently forecast at around £5 million, was affected by lower activity at the beginning of the year. Recent price increases could also impact on the level of business in outlets during the remainder of the year.

¹ This represents the Interest Cost on accrued pension liabilities.

(iv) Investment in programmes and projects

11. While the Streetscape security project on the Northern Estate has been absorbed within the existing budget, the need to meet the set up costs of the Offsite Consolidation Centre (£1.2 million) has contributed to the resource overspend in DF. Conversely, the Mechanical and Electrical programme is now seeking £1.8 million less in 2010/11 which has added £1 million to the capital underspend.

(v) Information for the public

12. The forecast takes account of the postponed democracy game (£0.4 million). Staff and related travel and subsistence savings arising from the outreach programme have been transferred to fund training for staff within Visitor Services. Take up of the transport subsidy for school visits to Parliament has been lower than the planned budget. Surplus funds have instead been utilised in the delivery of the Education Service.

(vi) ICT

13. Telecom budgets are underspent because of lower activity due to the General Election. This is partially franked by increased staff costs associated with the General Election and contractors engaged on research and development activity.

14. Other underspends flow from a delay on the planned implementation of the Infrastructure Programme, which will push costs into 2011/12, and a reduction on the depreciation forecast. The total Commons' share of the ICT resource underspend amounts to £1.3 million.

15. An underspend of £2.2 million on capital reflects timing changes to the Network Refresh Programme.

Other issues*(i) Pensions*

16. Pension related costs are driven by interest assumptions and discount rates, both of which are set by the Treasury. Market bond yields have moved significantly in the past year reducing the discount rate from 6.04% to 4.6%. The impact is to raise the cost of pension benefits accrued during the year from the 2009/10 rate of 20.55% to 32.35%. On basic pay expenditure of around £59 million this carries an additional cost of £6.9 million. This represents a return to the high levels experienced a few years ago. The adjustment to Treasury rates will also impact on the interest cost of historic accrued pension liabilities, increasing them by £1.9 million against 2009/10 levels. Such significant variations are difficult to predict and therefore manage in practice. We have gone back to the Government Actuary's Department

(GAD) to challenge their actuarial assumptions, and may need to re-consider the accounting policy for managing notional resource costs. It is interesting that the recent Hutton Report on public service pensions identified that the current discount rate was at the high end of what is appropriate and it has proposed that the Government review it.

(ii) Valuation of freehold properties

17. The Valuation Office Agency (VOA) has also provided an initial assessment of the valuation movement on freehold properties over the past year. The Board will remember the significant reductions in value in 2009/10, leading to a resource adjustment of £40.5 million. Early indications are that further reductions have occurred and could lead to further impairment costs of around £12 million. The VOA is being asked to justify the assumptions adopted to produce the valuation.

18. Both the pension and valuation movements cannot be finalised until the year end (i.e. 31 March 2011). However, if the current predictions prove to be valid and there is no change to the methodology used, then additional costs of up to £21 million will need to be found. This would almost certainly result in a Supplementary Estimate being required, although there would be reputational sensitivities with the public sector budget cuts being imposed elsewhere.

Budget restrictions

19. A number of budgets are forecasting overspends. Given the need to make best use of existing resources, the Board may wish to consider whether departments should be asked to stay within existing agreed budgets, as well as their forecast if lower. In some instances the Board has previously agreed to new initiatives and some areas may be driven by increases in demands that cannot be influenced. If budgets were to be restricted, this could potentially increase the current underspend from £1.1 million up to a figure nearer £3 million.

20. As the Board may wish to create a budgetary surplus for other purposes, departments were asked to indicate the impact of further reductions of around £0.5 against existing agreed budgets. Most returns suggested that this could be difficult to achieve and would invariably lead to reductions in the levels of service provided. Some departments had already started to deliver the first tranche of savings identified in the preliminary work of the Savings Programme. Items such as reducing the level of printed material and abolition of the Voters' Guide would require approval from Member committees. DF has taken the view that maintenance and non-Works projects budgets were as low as they can be without affecting operational effectiveness. Further budget reductions could lead to planned projects being postponed.

21. A further option would be to draw down funds from the Commission Reserve (£3.3 million) to fund a specific Board initiative. Such action would of course, need to be authorised by the Commission.

Conclusion

22. Departments are predicting a small net resource underspend of some £1.2 million which, in my view, is likely to increase by the year end.

23. Given the size of the potential financial impact of the pension and Estate valuation movements, and the need to re-visit policy and the assumptions adopted in both areas, it will be difficult to take firm decisions on uses that could be made of currently identified budget surpluses. I am investigating options in this area urgently and if the Board does wish to create a 'war chest' for other purposes, I will report on the options in November.

24. A detailed breakdown of the forecasts by individual departments is provided in the Annex.

C Ridley
14 October 2010

Speaker's Office

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Receipts	-	-	-	-	-
Salaries	426	227	271	498	(72)
Other Staff Costs	13	-	9	9	4
Travel and Subsistence	220	14	135	149	71
Information	6	1	2	3	3
Communications	-	-	-	-	-
Computers	1	-	-	-	1
Catering Supplies	-	-	-	-	-
Office Supplies	11	2	5	7	4
Consultancy and Professional Services	24	7	8	15	9
Accommodation	3	-	1	1	2
Security	-	-	-	-	-
Non-cash Expenditure	-	2	2	4	(4)
Total	704	253	433	686	18
Capital Expenditure	-	-	-	-	-

Department Chamber & Committee Services

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Receipts	(422)	(125)	(274)	(399)	(23)
Salaries	27,882	11,400	16,631	28,031	(149)
Other Staff Costs	343	66	177	243	100
Travel and Subsistence	2,509	391	1,727	2,118	391
Information	13,242	3,839	7,772	11,611	1,631
Broadcasting	180	44	149	193	(13)
Communications	1,239	515	730	1,245	(6)
Computers	75	22	53	75	-
Catering Supplies	-	-	-	-	-
Office Supplies	844	271	436	707	137
Consultancy and Professional Services	1,411	397	947	1,344	67
Accommodation	34	4	19	23	11
Security	22,135	7,341	14,794	22,135	-
Non-cash Expenditure	462	210	285	495	(33)
Total	69,934	24,375	43,446	67,821	2,113
Capital Expenditure	788	525	333	858	(70)

Department of Facilities

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Receipts	(9,023)	(2,799)	(5,420)	(8,219)	(804)
Salaries	20,365	8,511	11,525	20,036	329
Other Staff Costs	457	98	233	331	126
Travel and Subsistence	210	55	122	177	33
Information	52	18	29	47	5
Communications	3,215	1,265	1,954	3,219	(4)
Computers	-	-	-	-	-
Catering Supplies	3,978	1,312	2,804	4,116	(138)
Office Supplies	742	282	402	684	58
Consultancy and Professional Services	2,456	388	2,743	3,131	(675)
Accommodation	34,380	15,072	19,603	34,675	(295)
Security	-	-	-	-	-
Non-cash Expenditure	12,103	5,145	6,958	12,103	-
Total	68,935	29,347	40,953	70,300	(1,365)
Capital Expenditure	14,690	3,732	9,939	13,671	1,019

Department of Information Services

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Receipts	(962)	(298)	(613)	(911)	(51)
Salaries	13,656	5,485	8,224	13,709	(53)
Other Staff Costs	219	47	192	239	(20)
Travel and Subsistence	463	110	251	361	102
Information	2,687	970	1,603	2,573	114
Broadcasting	-	-	-	-	-
Communications	86	41	41	82	4
Computers	159	116	136	252	(93)
Catering Supplies	-	-	-	-	-
Office Supplies	105	58	58	116	(11)
Consultancy and Professional Services	1,182	239	983	1,222	(40)
Accommodation	187	71	85	156	31
Security	137	32	137	169	(32)
Non-cash Expenditure	148	267	(75)	192	(44)
Total	18,067	7,138	11,022	18,160	(93)
Capital Expenditure	95	51	78	129	(34)

Department of Resources

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Receipts	-	-	-	-	-
Salaries	6,840	3,240	4,206	7,446	(606)
Other Staff Costs	1,207	565	756	1,321	(114)
Travel and Subsistence	33	3	16	19	14
Information	65	22	26	48	17
Communications	3	2	2	4	(1)
Computers	40	32	28	60	(20)
Catering Supplies	-	-	-	-	-
Office Supplies	60	42	34	76	(16)
Consultancy and Professional Services	1,930	466	1,300	1,766	164
Accommodation	-	-	-	-	-
Security	-	-	-	-	-
Non-cash Expenditure	200	19	105	124	76
Total	10,378	4,391	6,473	10,864	(486)
Capital Expenditure	20	-	-	-	20

Office of the Chief Executive

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Receipts	-	-	-	-	-
Salaries	1,228	513	730	1,243	(15)
Other Staff Costs	25	6	19	25	-
Travel and Subsistence	4	-	3	3	1
Information	42	18	21	39	3
Communications	1	-	1	1	-
Computers	4	-	4	4	-
Catering Supplies	-	-	-	-	-
Office Supplies	24	8	14	22	2
Consultancy and Professional Services	291	25	228	253	38
Non-cash Expenditure	-	2	-	2	(2)
Total	1,619	572	1,020	1,592	27
Capital Expenditure	-	-	-	-	-

**Parliamentary Security
Coordinator**

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Salaries	78	24	67	91	(13)
Other Staff Costs	1	-	1	1	-
Travel and Subsistence	-	-	2	2	(2)
Information	-	-	-	-	-
Communications	-	-	-	-	-
Catering Supplies	-	-	-	-	-
Office Supplies	62	-	1	1	61
Consultancy and Professional Services	-	-	-	-	-
Non-cash Expenditure	-	-	60	60	(60)
Total	141	24	131	155	(14)
Capital Expenditure	-	-	-	-	-

PICT

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Receipts	-	-	-	-	-
Salaries	9,690	4,411	5,416	9,827	(137)
Other Staff Costs	317	136	166	302	15
Travel and Subsistence	26	2	15	17	9
Information	113	65	37	102	11
Communications	2,186	707	1,112	1,819	367
Computers	5,266	2,248	2,550	4,798	468
Catering Supplies	-	-	-	-	-
Office Supplies	64	8	31	39	25
Consultancy and Professional Services	25	6	10	16	9
Accommodation	31	11	20	31	-
Non-cash Expenditure	2,557	727	1,252	1,979	578
Total	20,275	8,321	10,609	18,930	1,345
Capital Expenditure	3,880	252	1,410	1,662	2,218

Project Provision

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Salaries	4,512	1,312	2,830	4,142	370
Other Staff Costs	105	24	76	100	5
Travel and Subsistence	9	2	6	8	1
Information	30	-	30	30	-
Broadcasting	-	-	-	-	-
Communications	-	2	(2)	-	-
Computers	2,975	664	573	1,237	1,738
Catering Supplies	-	-	-	-	-
Office Supplies	1	-	1	1	-
Consultancy and Professional Services	83	32	53	85	(2)
Accommodation	-	-	-	-	-
Security	-	-	-	-	-
Non-cash Expenditure	2	334	(310)	24	(22)
Total	7,717	2,370	3,257	5,627	2,090
Capital Expenditure	1,161	36	957	993	168

Grants in Aid

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Other Staff Costs	-	-	-	-	-
Catering Supplies	-	-	-	-	-
Office Supplies	-	-	-	-	-
Consultancy and Professional Services	-	-	-	-	-
Grants	3,951	1,876	1,749	3,625	326
Total	3,951	1,876	1,749	3,625	326
Capital Expenditure	-	-	-	-	-

Central Provision

	2010/11 Original Budget	Actuals to August 2010	Forecast September to March 2011	2010/11 Forecast Outturn	Variance
	£000s	£000s	£000s	£000s	£000s
Resource Costs					
Salaries	-	-	-	-	-
Other Staff Costs	20,000	-	20,000	20,000	-
Travel and Subsistence	-	-	-	-	-
Information	-	-	-	-	-
Communications	-	-	-	-	-
Computers	-	-	-	-	-
Catering Supplies	-	-	-	-	-
Office Supplies	-	-	-	-	-
Consultancy and Professional Services	115	-	115	115	-
Accommodation	-	-	-	-	-
Non-cash Expenditure	-	-	-	-	-
Total	20,115	-	20,115	20,115	-
Capital Expenditure	(634)	-	-	-	(634)