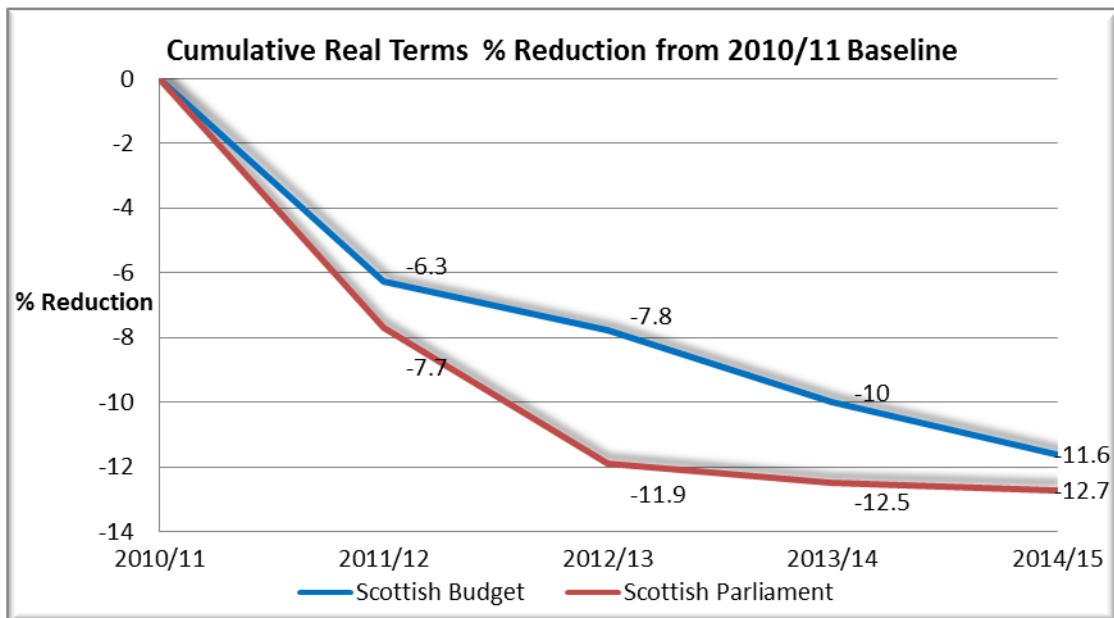


RESOURCE ALLOCATION FOR 2013-14 AND FUTURE YEARS

Executive Summary

1. The SPCB has committed to reduce its budget in line with the real-terms reduction in the Scottish Budget over the period of the UK Comprehensive Spending Review (CSR). The chart below shows the projected real terms¹ reductions in the SPCB's budget, measured against the equivalent reductions in the overall Scottish Budget for the four years from the 2010-11 baseline through to 2014-15.



2. In anticipation of future budget reductions, we started a resource planning exercise in early 2010 to identify saving options well before the CSR was published. This enabled the SPCB to target the majority of its required savings towards the start of the four year period. We advised the Finance Committee of our projected budget savings for 2011-12 through to 2014-15 in November 2010 and our current budget proposals remain unchanged from the figures we committed to in those indicative forecasts.
3. After two years, we are firmly on track to deliver the programme of savings identified. By the end of 2012-13, we will have achieved an 11.9% real terms reduction in the SPCB's budget, which means that we will have

¹ The 'real terms' figures are calculated using the latest published Treasury deflators.

delivered the four year percentage savings target for the overall Scottish Budget in just half that time.

4. The profile of our annual budget reduction shown in the chart above is therefore considerably steeper in the first two years of the CSR than the overall Scottish Budget, as we have delivered our savings early. It levels off in the remaining two years, although it still shows a further modest real terms saving in each of the final two years, finishing at a cumulative real terms reduction of 12.7% (1.1% below the 11.6% target for the overall Scottish Budget).
5. The savings have been achieved by a combination of pay freezes (for SPS staff, Members' pay and expenses), staff reductions and a change management programme, which has covered every aspect of the Parliament's operations. We are confident that the planned programme of recurring annual savings will enable us to continue to meet our key service requirements. However, it is important to recognise that the high level of year on year reductions achieved in the first two years could not be sustained in the longer term without impacting on service levels.
6. The current pay freezes, which cover over 60% of the SPCB's total expenditure, extend to 31 March 2013. The budget for 2013-14 and beyond incorporates a modest provision for future pay settlements in line with current public sector pay projections.
7. The proposed 2013-14 budget includes the projected cost of the External Security Facility (ESF), which was approved by the SPCB on 6 September 2012. It has been possible to accommodate the planned 2013-14 expenditure on the ESF within the SPCB's previous overall indicative forecast by:-
 - spreading the construction cost of the ESF over two financial years (2012-13 and 2013-14)
 - making earlier than expected efficiency savings from our series of office reviews
 - deferring some discretionary projects which might otherwise have been scheduled for 2013-14 (eg IT network refresh, replacement of broadcast equipment and energy efficiency investments)
 - utilising £0.5m of the central contingency which had been included in the SPCB's 2013-14 indicative forecast.
8. The 2013-14 budget submissions from Officeholders are on track to achieve the same level of real term savings as the rest of the SPCB's budget.

Issue

9. The purpose of this paper is to invite the Corporate Body to approve the proposed budget bid for 2013-14 and the indicative proposal for 2014-15. We are due to submit the bid to the Finance Committee by 8 November.

10. The Corporate Body noted draft budget proposals for 2013-14 at its meeting on 3 October and we have now finalised the bid in line with that discussion.
11. This paper provides a more detailed analysis of the 2013-14 budget proposals and seeks to bring out the key issues facing the Corporate Body and senior management in setting the budget for 2013-14 and for the remaining period covered by the UK Comprehensive Spending Review (CSR) and the Scottish Spending Review (SSR).

Objectives

12. The Corporate Body has already committed to reduce its overall budget in line with the future real-terms reduction in the Scottish budget, while seeking to deliver efficient parliamentary services to Members and the public. This matches our approach in recent years when we have consistently set the SPCB's budget at a steady or declining proportion of the overall Scottish Budget.
13. In the previous Parliamentary Session, in advance of the anticipated reductions in public sector budgets, the Corporate Body agreed to take a strategic approach (based on an across-the-board review of all SPCB expenditure) to implementing year-on-year budget reductions for the period covered by the CSR.
14. The Corporate Body reaffirmed its commitment to the three overriding priorities of supporting parliamentary business, supporting Members in undertaking their parliamentary duties, and engagement, but recognised that changes to the shape and level of services might be required. A key challenge for the corporate body is to ensure that the balance of resources devoted to those priorities remains appropriate.

Overview for the proposed 2013-14 budget submission

15. The 2013-14 Scottish Budget² shows a decrease of 0.1% compared to the 2012-13 Budget in cash terms (equivalent to a real terms reduction of 2.5%). Measured against the 2010-11 baseline budget, the 2013-14 Scottish Budget has reduced by 3.3% in cash terms over three years (equivalent to a real terms reduction of 10.0%).
16. As a result of the comprehensive planning which we undertook over the past two years and the work we have subsequently done to successfully implement a challenging programme of saving options, the SPCB is able to confirm its 2013-14 budget at the level which we advised to the Finance Committee last November in our indicative forecast. This shows an increase of 1.8% in cash terms compared the 2012-13 approved budget

² As measured by the total Departmental Expenditure Limit (DEL) for the Scottish Budget.

and a reduction of 5.7% in cash terms compared to the 2010-11 baseline (equivalent to real term¹ reductions of 0.6% and 12.5% respectively).

17. By starting the future resource planning exercise early, implementing a number of the saving options identified and reducing staff numbers in 2011-12 through the voluntary early severance / early retirement scheme, the SPCB has achieved a higher proportion of the longer term savings required in first two years of the Comprehensive Spending Review, thereby relieving pressure on the final two years of the CSR period.
18. The proposed budget for revenue expenditure is £72.1m. This represents a £141k (0.2%) decrease on the 2012-13 budget in cash terms. The total budget for capital expenditure is £3.0m. This is a £1.5m (100.0%) increase in cash terms on the 2012-13 budget.
19. Together, these come to £75.1m which represents an overall increase of £1.4m (1.8%) against the 2012-13 budget. It therefore represents a reduction in real terms of 0.5%, as measured by the latest published Treasury deflators.
20. As a result of funding the ESF from within the SPCB's previously advised forecast, the amount available for a central revenue contingency has been reduced to £0.5m. This leaves limited capacity to deal with new or unexpected cost pressures and the SPCB will be aware that expenditure in 2012-13 is continuing the trend of running closer to budget than in previous years. The Corporate Body is invited to consider the adequacy of this provision. Clearly, adjustments to it would affect the overall proposed budget.
21. The total proposed budget submission for 2013-14 is shown in Schedule 1(a). This Schedule also shows the 2010-11 baseline budget and the current year (2012-13) approved budget to provide context to the figures.

Staff Costs

22. Staff pay including use of contractors is budgeted at £22.0m, a net increase of £42k (0.2%) in cash terms from the approved 2012-13 budget (equivalent to a 2.3% reduction in real terms). This continues the downward trend in staff pay budgets reported last year. Since the baseline year of 2010-11, the staff pay budget has reduced by £1.1m (4.9%) in cash terms (equivalent to a real terms reduction of 11.8%).
23. As a result of the following actions, we have delivered or, in some cases, exceeded the original savings targets for 2013-14 for staff and other costs:
 - a) A reduction of 65 full time equivalent posts from our staff complement (approximately one in eight) compared to the 2010-11 baseline including :-

- a Voluntary Early Retirement / Early Severance Scheme in which 34 staff left the organisation.
 - a reduction in the senior management complement, following a review.
- b) A programme of service reviews for the whole organisation, both cross-cutting and at office level, to deliver the overall staff cost savings targets.
- c) A pay freeze for Parliament staff up to 31 March 2013, worth £1.0m in real terms, accompanied by a guarantee of no compulsory redundancies for the same period.
24. The proposed staff pay budget for 2013-14 and beyond incorporates a modest provision for future pay settlements in line with current public sector pay projections and negotiations with the TUS on the future pay settlement for parliament staff have commenced, in line with the SPCB's agreed remit. The budget also takes account of the projected movement of staff up through the incremental pay scales on the SPCB's single pay spine. This is a prudent budget assumption, reflecting the contractual entitlements for existing staff.
25. We know from experience that staff turnover reduces the net cost of incremental pay progression. This is therefore reflected in a vacancy factor, which is applied to the staff pay budget as a credit. The vacancy factor is budgeted at £0.4m or 2% of salaries, in line with the figure budgeted for the current financial year.

Staff Related Costs

26. Staff-related costs are budgeted at £0.8m, £26k (3.1%) less than the current financial year. Given the need to maintain levels of service as overall staff numbers are reduced, in order to achieve the real terms reductions in the staff pay budget, it will be important to ensure that adequate budgets remain available for staff support and redeployment, particularly through training in new systems and skills.
27. Staff related costs also include provision for childcare vouchers.

Property costs

28. Property Costs of £8.0m show a net increase of £281k (3.6%) on the 2012-13 budget.
29. Rates, at £4.5m, account for over half of total property costs and £236k of the total year on year increase in property costs is attributable to this element. This is partly because the rates poundage charge was set at a

higher level than had originally been estimated when setting the 2012-13 budget last November.

30. Utility costs of £946k remain at 2012-13 levels for next year. We benefit from the use of the competitively priced Scottish Government negotiated contract for electricity, but the indications are that energy prices will rise over the coming years. However, we have restricted the impact of this projected increase on our budget by continuing our efforts to drive down energy consumption through targeted investment in energy efficiency initiatives and by encouraging good practice by all building users.
31. Maintenance costs are projected to increase by 4.0% from £1,768k in 2012-13 to £1,838k in 2013-14. The nature of this work is that there will be peaks and troughs over the years in line with FM's 25 year maintenance plan, though we aim to smooth these as much as possible.
32. Cleaning costs are budgeted to reduce by 2.9% to £500k.

Running Costs

33. Running costs of £7.0m are projected to decrease by £125k (1.7%) over the 2012-13 budget levels. Running costs mainly consist of the SPCB's outsourced contracts for the provision of goods and services. They also include the SPCB's engagement initiatives in respect of Parliament led events and contributions to the Business Exchange and Futures Forum. Within the overall running costs total, inflation linked increases in respect of the IT Support contract have been more than offset by reduced costs projected for Restaurant Services, Mail Screening and Police contracts.

Income

34. The projected shop income of £224k is shown in Schedule 2 and represents a 4.3% reduction against the 2012-13 budget. We continue to seek opportunities to increase the revenue generated from catering services and events. However, it should be noted that this is accounted for as an offset against running costs, rather than as income.

Project Costs

35. An analysis of projects scheduled to be taken forward or continued over the next financial year is attached at Schedule 3. This sets out an analysis of revenue project expenditure totalling £1.5m (an increase of £180k against 2012-13) and capital projects, including the ESF, totalling £3.0m (an increase of £1.5m against 2012-13). As noted above, the decision to proceed with the ESF has resulted in deferring some discretionary projects which might otherwise have been scheduled for 2013-14 (eg IT network

refresh, replacement of broadcast equipment and energy efficiency investments).

Members' Costs

36. Members' pay is set at 87.5% of the salary payable to Members of the House of Commons and the additional salary entitlements for ministers and officeholders are determined in line with MSP salaries. Under the current arrangements, any increase is set by reference to MP salaries, which are now independently determined by IPSA. The budget for 2013-14 assumes that MP salaries will be increased by 1%, in line with IPSA's recent announcement. It should be noted that the year on year increase of £129k (1.2%) in the proposed MSP pay budget varies slightly from this figure as a result of two offsetting factors:-

- an increase in the number of ministerial posts in the Scottish Government, compared to the SPCB's 2012-13 budget.
- A 0.8% decrease in the SPCB's employers' contribution to the Members' pension scheme.

37. Members' Costs are budgeted at £13.3m, in line with the indicative forecast set last year. This represents an increase of £349k (2.7%) on the 2012-13 budget and follows a 2 year freeze in Members' Expenses, which was agreed by the Parliament. At the end of this period, the standard uprating provisions of the Members' Expenses Scheme will resume. The budget is calculated on the following assumptions:-

- that indexation of the Office Cost, Staff Cost and other relevant provisions will be effective from 1 April 2013
- not all Members will claim the full entitlement, reflecting our experience of the scheme to date.

Commissioners' and Ombudsman's Costs

38. The Officeholders' budget submission for 2013-14 totals £8,059k, which represents a reduction of 2.1% in cash terms compared to 2012-13. A summary of the individual officeholder budget submissions is shown in schedule 4.

39. This represents a reduction of 11.0% in cash terms on the baseline of 2010-11, which exceeds the overall target of 9.2% we had set for 2013-14. In real terms, the cumulative saving equates to 17.4%.

40. The level of contingency provided directly within the Commissioners' and Ombudsman's budget is set at £300k for 2013-14, £50k higher than for the current year. This is to make some provision for potential one-off relocation costs in respect of the officeholders, which would enable us to secure savings in the medium term.

Contingency

41. The budget paper contains a proposed contingency of £0.5m, which we recommend be set aside, within the overall Corporate Body budget bid, for emergency/unforeseen issues. This is prudent budgetary practice and helps, among other things, to ensure that individual group and office line budgets are not artificially inflated by speculative bids.
42. The appropriate level of contingency is a matter of judgement. From a financial control and governance perspective, it is important to ensure that the level of contingency is not excessive.

2014-15 Indicative Forecast

43. Schedules 1(b) and 1(c) provide an indicative forecast for 2014-15. The Corporate Body is invited to note that the total SPCB budget for 2014-15 is projected at £76.8m. This is a reduction of £2,884k (3.6%) in cash terms compared to the 2010-11 baseline budget and is equivalent to a reduction of 12.7% in real terms.

Publication

44. This paper, including schedules 1 to 4, can be published after the SPCB has completed giving evidence on the 2013-14 budget to the Finance Committee.

Decision

45. The Corporate Body is invited to approve the proposed budget bid for 2013-14 and the indicative proposal for 2014-15.

P E GRICE
Clerk/Chief Executive