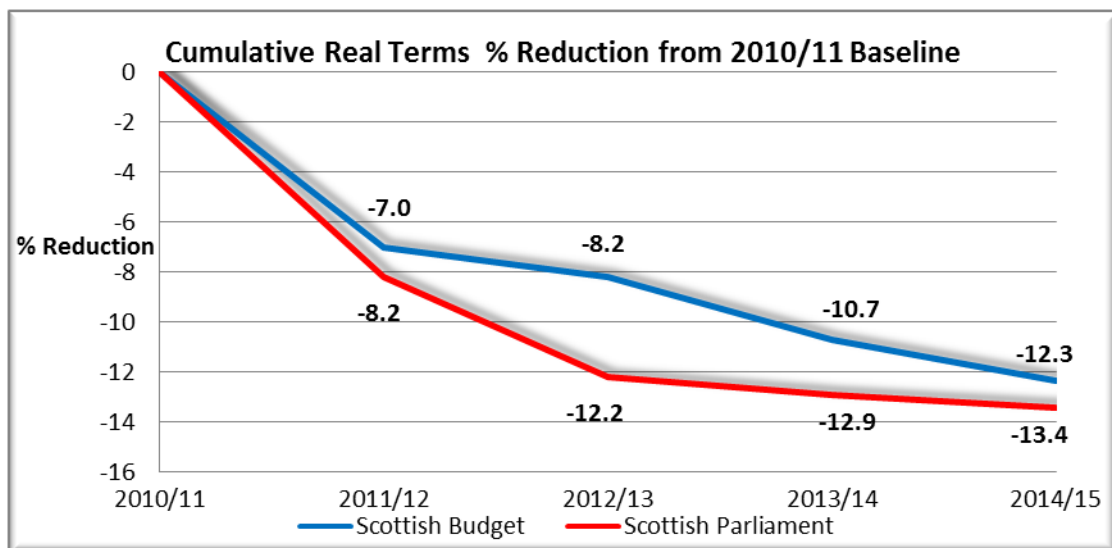


RESOURCE ALLOCATION FOR 2012-13 AND FUTURE YEARS

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 terms 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 one year, we are firmly on track to deliver the programme of savings identified. By the end of 2012-13, we will have achieved a 12.2% real terms reduction in the SPCB's budget, which means that we will have delivered almost all of 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 deliver 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 13.4% (1.1% below the 12.3% 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 pay freeze which extends to 31 March 2013 provides a high degree of certainty for the SPCB's 2012-13 budget proposals as it covers over 60% of the SPCB's total expenditure.
7. The 2012-13 budget submissions from Officeholders are on track to achieve the same level of real term savings as the rest of the SPCB's budget.
8. There is a considerable degree of flexibility in the timing of planned project expenditure, particularly in the 2012-13 financial year. This would allow the initial work for an external security facility (ESF), if approved, to be undertaken in 2012-13, without requiring additional funding.
9. From 2013-14 onwards, the risks to the SPCB's budget are more significant and the Corporate Body's attention is drawn to the following areas :-
 - pay settlement pressures following the end of the current pay freezes (for SPS staff, Members' pay and expenses)
 - Inflation, especially for energy costs and contracts
 - project expenditure requirements, particularly for the ESF, if approved.
10. We anticipate that, if the ESF project is approved, we may need to seek additional funding in the SPCB's 2013-14 budget submission (due in November 2012). However, the potential amount will depend on the timing of the decision and, in particular, what proportion of the ESF costs can be met from the 2012-13 budget. The SPCB's indicative forecast for 2013-14 does not currently include an estimate for this potential additional funding requirement.

Issue

11. The purpose of this paper is to invite the Corporate Body to approve the proposed budget bid for 2012-13 and to consider indicative proposals for the subsequent 2 years to 2014-15. We are due to submit the bid to the Finance Committee by 10 November.

12. The Corporate Body noted draft budget proposals for 2012-13 at its meeting on 28 September and we have now finalised the bid in line with that discussion.
13. This paper provides a more detailed analysis of the 2012-13 budget proposals and seeks to bring out the key issues facing the Corporate Body and senior management in setting the budget for 2012-13 and for the subsequent years covered by the UK Comprehensive Spending Review (CSR) and the Scottish Spending Review (SSR).

Objectives

14. 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.
15. 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.
16. 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 is appropriate.

Overview for the proposed 2012-13 budget submission

17. Following last month's publication of the SSR, the 2012-13 Scottish Budget¹ shows an increase of 0.9% compared to the 2011-12 Budget in cash terms (equivalent to a real terms² reduction of 1.6%). Measured against the 2010-11 baseline budget, the 2012-13 Scottish Budget has reduced by 3.1% in cash terms over two years (equivalent to a real terms² reduction of 8.2%).
18. As a result of the comprehensive planning which we undertook last year and the work we have subsequently done to successfully implement a

¹ As measured by the total Departmental Expenditure Limit (DEL) for the Scottish Budget. Figures are as reported by the Scottish Government following publication of the Scottish Spending Review on 21 September 2011.

² "Real terms" figures are calculated using the latest published Treasury deflators, which are currently 2.9% for 2011-12 and estimated at 2.5% for 2012-13.

challenging programme of saving options, the SPCB is able to confirm its 2012-13 budget at the level which we advised to the Finance Committee last November in our indicative forecast. This shows a reduction of 2.0% in cash terms compared the 2011-12 approved budget and 7.4% in cash terms compared to the 2010-11 baseline (equivalent to real term¹ reductions of 4.4% and 12.2% respectively).

19. 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.
20. The proposed budget for revenue expenditure is £72.3m. This represents a £1.7m (2.3%) decrease on the 2011-12 budget in cash terms. The total budget for capital expenditure is £1.5m. This is a £0.2m (15.4%) increase in cash terms on the 2011-12 budget.
21. Together, these come to £73.8m which represents an overall decrease of £1.5m (2.0%) against the 2011-12 budget. It therefore represents a reduction in real terms of 4.4%, as measured by the latest published Treasury deflators², and it is a higher percentage saving than the 1.6% real terms reduction in the Scottish Budget's DEL, as set out in the SSR on 21 September¹.
22. The proposed budget leaves limited capacity to deal with new or unexpected cost pressures and the SPCB will be aware that expenditure in 2011-12 is continuing the trend of running closer to budget than in previous years. The budget currently includes a total revenue contingency of £1.25m for 2012-13, half the level of the previous year. The budgeted contingency for 2011-12 was higher to reflect the inherent uncertainty of providing for resettlement grants and winding up costs following the May election. As ever, setting the contingency requires a number of judgements to be made, taking account of risk and the potential timing of project expenditure. The Corporate Body is invited to consider the adequacy of this provision. Clearly, adjustments to it would affect the overall proposed budget.
23. The total proposed budget submission for 2012-13 is shown in Schedule 1(a). This Schedule also shows the 2010-11 outturn and the current year (2011-12) approved budget to provide context to the figures.

Staff Costs

24. Staff pay including use of contractors is budgeted at £21.9m, a net reduction of £0.4m (2.0%) in cash terms from the approved 2011-12 budget (equivalent to a 4.7% 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 £1.2m (5.1%) in cash terms (equivalent to a real terms reduction of 9.0%).

25. The cash reduction is the direct result of actively reviewing staffing requirements across all areas of the Parliament through a series of structured office and cross functional reviews. The reviews of security arrangements and clerking, together with targeted reductions in other areas, generated significant savings in the SPCB's 2011-12 staff pay budget submission. The programme of reviews now incorporates committed savings for 2012-13 from Finance, BIT, Procurement, Media Relations and other offices. As noted last year, the reductions from these reviews are partly offset by an increase of £225k in staff and contractor costs in respect of the decision to bring the broadcasting contract in house with effect from August 2011. However, this produces a significant overall saving, with a higher compensating reduction of £394k shown in running costs over the two years (ie a net saving of £169k).
26. The Voluntary Early Severance / Early Retirement Scheme (VER/ES) offered by the SPCB in 2010-11 has resulted in 34 staff leaving the organisation, either at the end of 2010-11 or during the current financial year. The £1.7m cost of the VER/ES Scheme was fully accounted for in the SPCB's 2010-11 resource accounts and will pay for itself through recurring savings within 18 months. We expect the overall headcount to reduce from its 2010-11 baseline by between 40 and 50 by the end of 2012-13.
27. The pay deal negotiated with the TUS in 2010-11 provides for a pay freeze for SPS staff through to the end of the 2012-13 in return for a guarantee of no compulsory redundancies. This provides the SPCB with considerable certainty in budgeting for staff pay next year and in real terms represents a reduction of 5.2% over the two years.
28. The staff pay budget 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.
29. 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 £0.7m or 3% of salaries for the current financial year. However, we have reduced this factor to £0.4m or 2% of salaries for the 2012-13 budget to reflect the fact that we are now experiencing a lower level of staff turnover than when we previously set this factor. It is important to note that this remains a significant budget assumption and there is still a risk, particularly if vacancies are filled through use of the redeployment scheme, that a lower level of staff turnover and vacancies would put pressure on the SPCB's staff pay budget. In mitigation of this risk, the Corporate Body should also note that a large proportion of

permanent posts are now at the maximum point of a salary band, reflecting the Parliament's relatively low level of staff turnover.

Staff Related Costs

30. Staff-related costs are budgeted at £0.8m, £82k (8.9%) less than the current financial year. This follows a more significant reduction last year (of 25%), through savings in travel and expenses, job related training and through more cost effective corporate training arrangements.
31. 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.
32. Staff related costs also include provision for childcare vouchers.

Property costs

33. Property Costs of £7.7m show a net increase of £281k (3.8%) on the 2011-12 budget.
34. Rates, at £4.3m, account for over half of total property costs and £247k of the total year on year increase in property costs is attributable to this element. This is because the rates poundage charge was set at a higher level than had originally been estimated when setting the 2010-11 budget last November.
35. The carbon management charge of £44k budgeted for 2012-13 is an increase of £39k on the current year's original approved budget. This is due to a change to the rules governing the Carbon Reduction Commitment. The money raised by the UK Government from the sales of allowances to cover the carbon emissions of an organisation was originally intended to be recycled back to CRC participants, but is now to be retained by the Government.
36. Excluding the carbon charges noted above, utility costs of £946k remain broadly at 2011-12 levels for next year (a slight decrease of £10k, 1.0%). 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.

37. Maintenance costs are projected to increase by 2.5% from £1,725k in 2011-12 to £1,768k in 2012-13. 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.
38. Cleaning costs are budgeted to remain at £515k.

Running Costs

39. Running costs of £7.1m are projected to decrease by £528k (6.9%) over the 2011-12 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, individual increases in respect of Restaurant Service, IT Support and Software Support & Maintenance have been more than offset by reduced costs for Mail Screening, Broadcasting, Printing, Information Centre Stock, Police and General Advisors.

Income

40. The projected shop income of £234k is shown in Schedule 2 and represents a 2.2% reduction against the 2011-12 budget. We also 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

41. A provisional 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 £1.4m (an increase of £0.8m against 2011-12) and capital projects totalling £1.5m (an increase of £0.2m against 2011-12).
42. The overall project budgets in 2012-13 deliberately allow flexibility to schedule individual projects according to the SPCB's priorities and future decisions on which projects are approved. In particular, this is expected to enable the initial work for an external security facility, if approved, to be undertaken by the SPCB in 2012-13, without requiring additional funding.

Members' Costs

43. 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 in turn advised by the SSRB. The budget for 2012-13 assumes Members' pay is frozen at current levels until 31 March 2013, as previously advised to the Finance Committee by the Presiding Officer in his letter of 10 November 2010. Depending on decisions made in due course in respect of Westminster MPs' salaries for 2012-13, the Scottish Parliament may need to discuss the mechanism to achieve this. It should be noted that the year on year increase of £171k (1.6%) in the proposed budget is a result of the increased number of ministerial posts in the Scottish Government, which is met from the SPCB's budget.

44. Members' Costs are budgeted at £12.9m, which is £122k less, in cash terms, than the 2010-11 budget. The reduction is wholly attributable to the financial assistance to registered parties (Short Money). This element has reduced due to the May 2011 election returning fewer members from the opposition parties. The proposed budget for the Members' Expenses Scheme is unchanged from 2011-12, reflecting the agreed freeze in Members' Expenses to 31 March 2013. The budget is calculated on the assumption that not all members will claim the full entitlement, reflecting our experience of the scheme to date.

Commissioners' and Ombudsman's Costs

45. The officeholders budget submission for 2012-13 totals £8,230k, which represents a reduction of 2.6% in cash terms compared to 2011-12. A summary of the individual officeholder budget submissions is shown in schedule 4.

46. It represents a reduction of 9.1% in cash terms on the baseline of 2010-11, which is on course for the target of 9.2% we have set for 2013-14. Indicative bids for 2013-14 indicate that budgets will reduce to £7,988k, directly in line with the target set.

47. On the individual budgets, officeholders have identified savings of between 1% to 7% on their 2011-12 budgets (Schedule 4).

48. The SPCB will be aware of the proposal from the Commission for Ethical Standards in Public Life for Scotland to restructure the officeholder posts. The Commission's bid is based on this proposal and includes funding for consequential staffing changes. As discussed with the SPCB at its last meeting, a further paper on the proposal will be considered at the SPCB meeting on 4 November 2011. The bid from the Commissioner for Children and Young People also includes provision for staff changes which are subject to SPCB approval. A separate paper covers the proposed staff changes.

49. The level of contingency provided directly within the Commissioners' and Ombudsman's budget is set at £250k, in line with the level of call against

the contingency in earlier years. We are in discussion with the Scottish Information Commissioner about his new case handling system which is being funded from the 2011-12 central contingency as some of these costs may now fall into 2012-13.

New Functions

50. The SPCB will wish to note that the Government is also currently giving consideration to the possibility of other functions transferring to SPCB supported bodies during 2012-13. We would expect any transfer of functions to be accompanied by the appropriate funding from the Scottish Government for the first year but thereafter it will form part of the officeholder budget submission. We are aware that at present consideration is being given to the possibility of the police complaints function (or part of it) transferring to the Ombudsman – this is out to public consultation, and the complaints handling element of British Waterways in Scotland also transferring to the Ombudsman (this is likely to have minimal impact and no funding implication).

Contingency

51. The budget paper contains a proposed contingency which we recommend be set aside, within the overall Corporate Body budget bid, for emergency/unforeseen issues and for new initiatives/projects. 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.

52. The appropriate level of contingency is a matter of judgement. We recommend a total revenue budget contingency of £1.25m comprising the following two elements:

- a specific “ring-fenced” contingency of £0.5m to be set aside and used for emergency only;
- a general contingency of £0.75m to be used in respect of actual and potential cost pressures. We will discuss this with the Corporate Body in more detail at the meeting and would welcome their views before a final amount is set.

53. In assessing the appropriate level of contingency, the Corporate Body will want to consider the risks for the 2012-13 financial year.

- The pay freeze to 31 March 2013 for SPS staff, Members Pay and Members’ Expenses significantly reduces budgetary uncertainty.
- The approval and timetable of a major project increases budgetary uncertainty.

54. From a financial control and governance perspective, it is important to ensure that the level of contingency is not excessive.

2013-14 and 2014-15 Indicative Forecasts

55. Schedules 1(b) and 1(c) provide indicative forecasts for 2013-14 and 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 £2,883k (3.6%) in cash terms compared to the 2010-11 baseline budget and is equivalent to a reduction of 13.4% in real terms.

56. In assessing the appropriate budgetary provision for future years, the Corporate Body will want to consider the following risks:-

- The timing and amount of project expenditure each year, particularly in respect of the proposed external security facility.
- Pay settlement pressures for SPCB staff following a two year pay freeze.
- Equivalent pressures for MSP pay and expenses following a two year pay freeze.
- Potential increases to employers funding contribution rate for pensions (both for SPCB staff and Members). NB this has been significantly mitigated by the move to calculate future pension increases using CPI rather than RPI.
- Inflationary pressures, in particular for energy and contract prices.
- Additional scrutiny responsibilities for the Parliament (in particular, implementation of the Scotland Bill proposals).

Publication

57. This paper, including schedules 1 to 4, can be published after the SPCB has completed giving evidence on the 2012-13 budget to the Finance Committee.

Decision

58. The Corporate Body is invited to approve the proposed budget bid for 2012-13 and to consider indicative proposals for the subsequent 2 years to 2014-15.

P E GRICE

Clerk/Chief Executive