

Public Services Ombudsman for Wales

2nd Supplementary Budget Motion 2021/22

Explanatory Memorandum to the Chair of the Finance Committee

This Supplementary Budget submission has been completed consistently with Standing Orders 18A.2 and 20.36 of the Welsh Parliament dated November 2021.

Background

The Estimate for 2021/22, presented to the Committee in October 2020, showed Resource and Cash requirements unchanged from the 2020/21 budget at £5,110k and £5,070k respectively. No additional resources were sought, with the intention of self-funding increases in pay costs resulting from staff salary increments. In accordance with expectations, in September 2020, of a public sector pay freeze, no allowance was made for a pay award. However, a pay award offer of 1.75% has now been made by local government employers (rejected by trade unions) with pay offers considerably in excess of this being agreed or proposed in both private and public sectors.

I have endeavoured to contain in-year pressures by making in-year savings where possible. Since nearly 80% of the budget is taken up by staff costs, that has meant that I have delayed filling some posts, which creates its own challenges at a time when incoming caseload (to end October) is up 29% on 2019/20 (and up 57% on 2020/21). I have also reduced planned expenditure on staff training.

Whilst these measures allow me to meet 1.75% of the currently anticipated cost of the pay award, amounting to £65k, I am unable to manage any additional pay award.

I anticipated that IT costs would continue in line with the 3-year plan as part of the wider Technology Roadmap to 2029/30. However, the new IT support provider has identified critical improvements that are needed ensure that systems are resilient and secure.

These one-off pressures were not anticipated in the first Budget Motion and necessitate me making this Supplementary Budget submission.

Previous Supplementary Budget submissions

Over the last seven years I have used the Supplementary Budget process only in respect of extraordinary/one-off events. I have always looked to manage within the budget allocated and do not make Supplementary Budget submissions lightly. The occasions I have made Supplementary Budget submissions have been:

- To meet the costs of a High Court judgment against a decision of the Adjudication Panel for Wales in a high-profile Code of Conduct case
- Capital fit out costs for accommodation at Bocam Park following changes to accommodation and a new lease agreement.
- To vary the budget between revenue and capital at nil net cost

- To return cash to the Welsh Consolidated Fund – this related to pensions, with cash returned in 2017/18 and in 2020/21, totalling £1.3 million.

The overall net effect of Supplementary Budget submissions during my tenure has been a net repayment to the Welsh Consolidated Fund of just under £1 million.

For completeness, I would add that I was also requested to use the Supplementary Budget process, instead of the Estimate, for sector-wide changes to employer pension contributions and for the costs of new powers once the 2019 Public Services Ombudsman (Wales) Act received Royal Assent and commencement dates were set.

Supplementary Budget Sought

I propose a variation to the annual budget motion in compliance with Standing Order 20.36 in respect of:

- A contingency sum of £85k being the additional amount we would contractually have to pay staff should the pay award be settled at 4%, and not 1.75%.
- One-off IT costs of £91k to manage weaknesses identified in IT systems that were not known at the time the original estimate was prepared in September 2020.

Staff Salaries and Related Costs

Staff pay is linked to Local Government NJC pay negotiations. The latest pay offer of 1.75% has been made by the employers' side but not accepted as of December 2021. There is still a great deal of uncertainty over the timing and final amount of the pay award, and our expectation is the pay award will be settled at around 4% by the end of March 2022. This is based on a settlement agreed in Scotland that will result in council workers receiving a pay rise of between 3.4% and 4.7%. Although I assumed a pay freeze in the Estimate, I intend to fund any pay award up to 1.75% from existing approved budgets through savings already identified.

Having consulted with the Finance Control Department within the Permanent Secretary's Group I have been advised to include a contingency in our Supplementary Budget that that would cover a pay award of up to 4%, of which we will fund 1.75%. There is no mechanism for PSOW to draw down more cash than is allowed within an approved Budget Motion, and therefore if the pay award is more than 1.75%, we would be unable to meet our contractual obligations to staff. This amounts to £85k, however, if the pay award is settled at less than 4% I will return all excess contingency as part of our year balance repaid to the WCF under the Government of Wales Act 2006.

IT

I am mindful of the ongoing cyber security threats to all IT systems, and of the office's increasing reliance on IT systems for all its work and communications. The changes introduced to support effective working at home during the pandemic further increase the dependence on IT systems. I therefore commissioned my new IT support provider to review IT systems to identify risks to security, resilience and performance.

Their report has identified critical investment required to manage security and performance deficiencies. The total cost is £91k comprising £70k revenue and £21k capital of which £88k is one-off and £3k recurring. Whilst these are significant costs, I am mindful of the huge costs of loss of IT systems and/or data and the high cost in non-productive staff time if systems are lost. Whilst the actual costs of loss of IT systems and/or cyber-attack (possibly leading to data loss) will vary substantially depending on the nature of the incident and the size of the organisation, recent estimates (Ponemon Institute) are that a cyber security incident could cost around £2.9m to manage and resolve, as well as being hugely disruptive for staff and service users.

In this context I concluded that I must follow the expert advice and make the improvements and updates recommended, without delay.

A break-down of the costs can be provided confidentially to the Committee if requested but, for obvious reasons, I do not wish these to be in the public domain.

These changes are summarised below:

	Resource £000s	Cash £000s
Budget Motion 2021/22	5,110	5,070
Pay award contingency	85	85
ICT Security and Resilience Upgrades		
Revenue (one-off)	67	67
Revenue (recurring)	3	3
Capital (one-off)	21	21
Depreciation*	2	-
Resources Required	5,288	-
Cash Requirement		5,246
Increase	178	176

* Note: An increase of £2k in depreciation will result from the capital element.

The existing and proposed revised budgets are shown in full overleaf.

Supplementary Budget	2021/22		
Public Services Ombudsman for Wales	Budget	Changes	Revised Budget
	£000s	£000s	£000s
Staff salaries and related costs	3,985	85	4,070
Premises and facilities, including leases	379		379
Professional fees	246		246
ICT costs	212	70	282
Office costs	99		99
Travel, training and recruitment	75		75
Communications	46		46
Total Revenue Expenditure	5,042	155	5,197
Total Income	(17)		(17)
Net Revenue Expenditure	5,025	155	5,180
Capital Expenditure	25	21	46
Total Operational Resource	5,050	176	5,226
Depreciation and amortisation charges	60	2	62
Total Resource Expenditure	5,110	178	5,288
Depreciation and amortisation charges	(60)	(2)	(62)
Other non-cash movements	20		20
Cash Requirement from WCF	5,070	176	5,246