

## **Public Services Ombudsman for Wales**

### **1<sup>st</sup> Supplementary Budget Motion 2022/23**

#### **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 – Staff costs & income**

The UK Government has implemented a 1.25% increase in employer's National Insurance contributions for 2022/23. This was referred to in our Estimates submission in October 2021 and equates to an annual cost of £38k.

The increase in National Insurance contributions for staff is outside of the Ombudsman's control and, similar to the Senedd Commission, we did not include this additional cost pressure in our estimate on the advice of Welsh Government. We were advised that, as in previous years, such charges should be handled in the aggregated Welsh budget through an in-year supplementary budget allocation. That treatment reflects the approach when employers' pension contributions increased significantly in 2019/20.

We are also providing additional payroll work and support for the Future Generations Commissioner and propose to include additional expenditure of £2k, matched by additional income. This element will increase resource expenditure by £2k, fully offset by income, so will not change net resource or net cash.

Our overall supplementary budget submission seeks a net increase of £38k.

#### **Additional Resources Sought**

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

- A sum of £38k to cover the National Increase in employers National Insurance contributions
- Additional income and costs of £2k as a result of PSOW providing additional payroll work for the Future Generations Commissioner

## Background – IFRS 16

A new accounting standard, International Financial Reporting Standard 16 - Leases ('IFRS 16'), had been due to take effect from financial year 2020-21. Due to the pandemic, a decision was initially made to defer the implementation of IFRS 16 until 1 April 2021. In November 2020 an additional announcement was made to further defer the implementation until 1 April 2022.

IFRS 16 requires all leases to be accounted for on a consistent basis. Previously, leases classified as "operating leases" were not recognised and were reported "off-balance sheet". This change primarily affects the treatment of the lease of our office building at Bocam Park, which is not currently classified as an asset and is not depreciated.

From 1 April 2022, the building will be recognised as a right-of-use asset and it will be depreciated over the anticipated future lease period. This change results in an increase to the depreciation and interest finance charges in the Ombudsman's budget. The overall PSOW resource budget will therefore increase. However, these changes will not increase the cash requirement from the Welsh Consolidated Fund. There will be no change in the amount of rent paid to the landlord on implementation of IFRS 16, however the accounting presentation will be different.

## Variation of Resources Sought

As a result of IFRS 16 we are therefore proposing a supplementary budget to reflect the following changes:

- Premises and facilities – a decrease of £198k
- Change in working capital – an increase of £198k
- Interest charges – an increase of £7k
- Depreciation – an increase of £204k

These IFRS 16 changes increase the Ombudsman's overall resource budget by £13k, however there is no increase in the net cash requirement.

## Ongoing Pressures

We are all facing a period of increased inflation, much higher than anticipated last September when our Estimate was submitted. We will work to contain cost increases as far as possible but we do not include a contingency in our budget so, as indicated in our Estimates submission, we cannot rule out the need for a further supplementary budget later in the year.

Supplementary Budget 2022/23	£000s	£000s	£000s	£000s
PSOW Expenditure	Budget Laid	Changes NI increase/FGC	Changes IFRS 16	Revised Budget
Staff salaries and related costs	4,182	40		4,222
Premises and facilities, including leases	369		(198)	171
Professional fees	234			234
IT costs	250			250
Office costs	119			119
Travel, training and recruitment	60			60
Communications	65			65
<b>Total Revenue Expenditure</b>	<b>5,279</b>	<b>40</b>	<b>(198)</b>	<b>5,121</b>
Total Income	(17)	(2)		(19)
<b>Net Revenue Expenditure</b>	<b>5,262</b>	<b>38</b>	<b>(198)</b>	<b>5,102</b>
Capital Expenditure	5			5
<b>Total Resources Required</b>	<b>5,267</b>	<b>38</b>	<b>(198)</b>	<b>5,107</b>
Depreciation and amortisation charges	70			70
Depreciation – leased assets	-		204	204
Interest charges – IFRS 16	-		7	7
<b>Total Resource Expenditure</b>	<b>5,337</b>	<b>38</b>	<b>13</b>	<b>5,388</b>
Depreciation – total	(70)		(204)	(274)
Interest charges – IFRS 16	-		(7)	(7)
Change in working capital – IFRS 16	-		198	198
Other non-cash movements	20			20
<b>Cash Requirement from WCF</b>	<b>5,287</b>	<b>38</b>	<b>-</b>	<b>5,325</b>