

Peredur Owen Griffiths AS
Chair of Finance Committee
Welsh Parliament
Tŷ Hywel
Cardiff Bay
CF99 1SN

10 May 2022

Dear Peredur

I am writing to bring to the Committee's attention the Commission's proposed change to its approved 2022-23 budget through the Supplementary budget process.

In summary, the Commission is proposing to increase its resource budget by £2.061 million, the majority of which relates to International Financial Reporting Standard (IFRS) 16 – Leases, and to increase its net cash requirement by £325k.

The Commission is proposing the following changes:

- **International Financial Reporting Standard (IFRS) 16 – Leases** – an increase of £1.736 million in the overall budget, with no increase in the net cash requirement.
- **Changes to the budget identified for the Independent Remuneration Board's Determination on Members' Pay and Allowances** – no increase in the overall amount, however changes are proposed to the individual budget lines resulting in no overall increase
- **Costs to support the administration of the Independent Remuneration Board and the Standards Commissioner's Office** – a net increase of £150k in the overall budget and net cash requirement; in light of this increase, additional transparency on these costs in this and in future laid budgets is also proposed,
- **Staffing costs** – an increase of £175k in the overall budget and net cash requirement, to reflect the increase in employer National Insurance contributions.

The Commission is therefore proposing a Supplementary budget for its total Budget of £65.003 million, an increase of £2.061 million. The increase in the net cash requirement will be £325k as set out in table 2 of the Explanatory Memorandum.

The effect on the overall Commission budget for 2022-23 is shown in the table below:



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£M	Approved Budget	Proposed IFRS 16 adjustments	Proposed IRB and other staffing adjustments	Proposed revised Budget
Resource Budget	£43.425	£1.736	-£0.084	£45.077
Members' budget	£17.552	-	-	£17.552
Standards Commissioner	£0.165	-	-£0.068	£0.097
Remuneration Board	-	-	£0.477	£0.477
AME Budget	£1.800	-	-	£1.800
Total	£62.942	£1.736	£0.325	£65.003

In accordance with Standing Order 20.32, following your Committee's consideration of this request, the Commission will be laying an explanatory memorandum noting this Supplementary Budget request.

A copy of this explanatory memorandum is attached for your convenience and includes greater detail on these proposed changes. Also attached in Annex 1 is additional information on the costs requested to support the administration of the Independent Remuneration Board. If you need further information, please let me know.

Additional request for resource

The Commission has noted the Committee's concerns that the 2022-23 budget document laid in November 2021, highlighted scenarios that could lead to in-year supplementary budgets, such as the increase in National Insurance payments, which would lead to requests for further resource.

The Committee noted in its report that the Commission should focus in the first instance on making savings and efficiencies to cover in-year pressures, and only use supplementary budgets as a last resort but recognised the value in dynamically managing the budget in response to external factors and changing priorities,

The Committee has also requested that the Commission funds in-year pressures **it has control over** from savings/efficiencies and has asked that the Commission does not assume any increase in funding, in line with its **Statement of Principles**.

It is clear however that the increase in National Insurance contributions for Commission staff, estimated as £175k, is outside of the Commission's control, however, mindful of the Committee's concerns, the Commission has reviewed the pressures on the 2022-23 budget and any potential savings or efficiencies that could arise, to assess whether an increased budget, to fund National Insurance contributions, is required.



The overall impact of decisions taken in response to the additional demands on the Commission has resulted in unprecedented pressure on the Commission budget.

This pressure includes the additional support required by the IRB, additional support for Members business support (MBS), support for hybrid plenary, increased cyber security support, support for Member security enhancements etc.

The Commission will seek to fund this additional staffing pressure, during 2022-23, from a short term reduction in the project fund, savings arising from the higher than anticipated current level of vacancies and potential savings arising from the lower than expected level of e.g. travel, hospitality etc.

However, these savings, and any additional savings arising from the outcome of the Capacity Review and new Ways of Working strategy, are not likely to be sufficient to meet the current identified shortfall in 2022-23. It is therefore recommended that the first supplementary budget recognises this additional pressure, created by the increase in National Insurance contributions, on the staffing budget.

Remuneration Board's Determination for Senedd Members

We continue to be mindful of our commitment regarding any underspend against the Remuneration Board Determination budget in this and in future years. Accordingly, we are adopting the same principle as in previous year for any unutilised sum identified during 2022-23; we will not draw down any identified underutilisation and will present a second supplementary budget to amend the original laid budget, if the underspend is deemed significant.

Yours sincerely



Ken Skates MS

cc Manon Antoniazzi, Nia Morgan

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



Supplementary Budget 2022-23: Explanatory Memorandum

May 2022



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Supplementary Budget 2022-23: Explanatory Memorandum

May 2022





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Background

The **2022-23 Commission Budget** was included in the Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 17 November 2021, following scrutiny by the Senedd's Finance Committee.

The budget motion provided the Commission with £62.942 million of Resource Budget in relation to:

- £43.425 million for Senedd services; and
- £17.552 million for the Remuneration Board's Determination for Members of the Senedd.

A further £1.800 million was provided for non-cash accounting adjustments in respect of the Members of the Senedd Pension Scheme, through the Annually Managed Expenditure budget and £0.165 million was provided for costs associated with the office of the Standards Commissioner.

This Explanatory Memorandum is laid in compliance with Standing Order 20.32, in support of changes to be proposed to the Commission's approved 2022-23 budget, via a Supplementary Budget Motion.

Explanatory memorandum

The effect of the Commission's supplementary budget will be to increase the overall Commission budget by £2.061 million and increase the net cash requirement by £325k. The following changes are proposed:

- International Financial Reporting Standards (IFRS) 16 – Leases – an increase of £1.736 million in the overall budget, with no increase in the net cash requirement.
- Changes to the budget identified for the Independent Remuneration Board's Determination on Members' Pay and Allowances – no increase in the overall amount, however changes are proposed to the individual budget lines resulting in no overall increase
- Costs to support the administration of the Independent Remuneration Board and the Standards Commissioner's Office – a net increase of £150k in the overall budget and net cash requirement; in light of this increase, additional transparency on these costs in this and in future laid budgets is also proposed,
- Staffing costs – an increase of £175k in the overall budget and net cash requirement, to reflect the increase in employer National Insurance contributions.

International Financial Reporting Standards (IFRS) 16 – Leases

The new accounting standard, International Financial Reporting Standard 16 - Leases (“IFRS 16”), had been due to take effect from financial year 2020-21. A decision was then made by HM Treasury and the Financial Reporting Advisory Board (“FRAB”) to defer the implementation of IFRS 16 until 1 April 2021. In November 2020 a further announcement was made by the FRAB 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 the Tŷ Hywel building in Cardiff Bay. Tŷ Hywel is not currently classified as an asset and is not depreciated.

From 1 April 2022, it will be recognised as a right-of-use asset, 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 Commission’s budget. These charges will be partially offset by a decrease in the office rental cost shown in the budget. The overall Commission budget will 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.

The Commission is therefore proposing a supplementary budget to reflect the following changes:

1. Accommodation and facilities cost – a decrease of £2.78 million (reduction in rental charges – mainly Tŷ Hywel)
2. Capital expenditure – an increase of £16k (recognising a new pool car lease)
3. Interest Charges – an increase of £1.1 million (a requirement of IFRS 16)
4. Depreciation – an increase of £3.4 million (mainly the depreciation of Tŷ Hywel).

These IFRS 16 changes increase the Commission overall budget by £1.736 million, however there is no increase in the net cash requirement.

Independent Remuneration Board's Determination for Senedd Members

The Independent Remuneration Board (IRB) is the independent body that determines the pay and remuneration of Members and their staff and the system of financial support needed for Members to fulfil their responsibilities as elected representatives.

The Determination provides funds to cover the expenses associated with being a Member and / or an Office Holder, for example:

- running an office and engaging with constituents;
- salaries and travel expenses of support staff;
- residential accommodation in Cardiff for Members whose home is a significant distance away (eligibility criteria apply); and
- support for the Party Groups and policy research.

The Commission's 2022-23 budget includes an amount, separately identified, to meet the provisions of the IRB's Determination. The final costs cannot be calculated accurately until after 31 March 2023. The IRB has made changes to the provisions included in its Determination which, although not significant in the overall Commission budget, impact on the individual amounts making up the budget separately identified for the Determination.

These changes are set out in the IRB's [Report on the Review of the Determination for 2022-23](#), dated March 2022.

It is proposed that the overall determination budget line is not increased, but that the individual lines within it are adjusted to reflect the changes, to enable accurate comparatives to be shown in the 2023-24 budget to be laid later this year.

	2022-23 Laid £000	2022-23 Restated £000	Change £000
Senedd Members' salaries and on-costs	£6,453	£6,343	(£111)
Members' Support Staff salaries and on-costs	£9,393	£9,468	£75
Allowances and office costs	£2,206	£2,319	£114
Anticipated underspend	(£500)	(£578)	(£78)
Total	£17,552	£17,552	£0

The Commission is therefore not proposing a supplementary budget for the amount, separately identified, to meet the provisions of the IRB's Determination.

Costs to support the administration of the Independent Remuneration Board and the Standards Commissioner's Office.

The National Assembly for Wales (Remuneration) Measure 2010 states that:

9 Administrative support

The Senedd Commission must provide the Board with such administrative support as the Board reasonably requires to enable it to discharge its functions.

The IRB has set out its forward work programme for the Sixth Senedd, this is documented in its [Report on the Review of the Determination for 2022-23](#), dated March 2022.

This work programme involves significant thematic reviews within the Sixth Senedd and to prepare a revised Determination for the Seventh Senedd. It cannot be delivered within the current limited resources provided by the Commission. The work programme may be revised if Senedd Reform does not go ahead, and the resource need for future years may be scaled back. As a result, the IRB has requested additional staffing to support it in delivering its work programme. This is estimated to be £218k.

The Standards Commissioner has indicated that a lower level of support is likely to be required during 2022-23, a reduction of £68k.

To enable greater transparency in this and in future laid budgets, it is proposed that costs relating to the support of the IRB are removed from the Commission's operational budget and separately identified, in line with the presentation of the support costs of the Standards Commissioner.

	2022-23 Laid £000	2022-23 Adjustment £000	2022-23 Revised £000
Operational Budget	£43,425	(£259)	£43,166
Member related expenditure			
Members' salaries and related costs	£17,552	-	£17,552
Independent Remuneration Board Support Costs	-	£477	£477
Office of the Standards Commissioner	£165	(£68)	£97
Members' Pension Finance Costs (AME)	£1,800	-	£1,800
Total Commission Budget	£62,942	£150	£63,092
Increase			£150

The Commission is therefore proposing a supplementary budget which would increase the budget for the support costs of the IRB by £218k and decrease the costs of the Office of the Standards Commissioner by £68k, an overall net increase of £150k. This will also increase the net cash requirement by £150k. The Commission is also proposing an amended presentation which would increase transparency,

Staffing costs.

The 2022-23 Budget was agreed in Plenary on 17 November 2021 and included the following paragraph highlighting the possibility of a 2022-23 Supplementary Budget, following the announcement that employer National Insurance Contributions would increase by 1.25% from April 2022:

National Insurance costs

The budget is set on the basis of need and has little capacity for additional demands, therefore it is likely that this will result in a Supplementary Budget during 2022. The total impact of the increase is likely to be in the region of £300k across all salary costs (Senedd Members, Member support staff and Commission staff).

The Commission considered the impact of the increase in National Insurance contributions in its 9 May 2022 meeting, in conjunction with other, increasing, pressures on the staffing budget, emerging since its approval in November 2021.

The Finance Committee has requested that the Commission funds in-year pressures **it has control over** from savings/efficiencies and has asked that the Commission does not assume any increase in funding, in line with its Statement of Principles.

It is clear however that the increase in National Insurance contributions for Commission staff, estimated as £175k, is outside of the Commission's control, however the Commission has reviewed the pressures on the 2022-23 budget and any potential savings or efficiencies that could arise, to assess whether an increased budget, to fund National Insurance contributions, is required.

The overall impact of decisions taken in response to the additional demands on the Commission has resulted in unprecedented pressure on the Commission budget.

This pressure includes the additional support required by the IRB, additional support for Members business support (MBS), support for hybrid plenary, increased cyber security support, support for Member security enhancements etc.

The Commission will seek to fund this pressure, during 2022-23, from a short term reduction in the project fund, savings arising from the higher than anticipated

current level of vacancies and potential savings arising from the lower than expected level of e.g. travel, hospitality etc.

However, these savings, and any additional savings arising from the outcome of the Capacity Review and new Ways of Working, are not likely to be sufficient to meet the current shortfall. It is therefore recommended that the first supplementary budget recognises this additional pressure on the staffing budget.

	2022-23 Laid £000	2022-23 National Insurance £000	2022-23 Staffing Pressures £000	2022-23 Restated £000	Change £000
Commission Staff Costs	£28,417	£175	£175k	£28,767	£350
Vacancy / Churn Provision	(£1,000)	-	(£175k)	(£1,175)	(£175)
Total Staffing Costs	£27,417	£175	-	£27,592	£175

The Commission is therefore proposing a supplementary budget for £175k in response to the increase in employer National Insurance contributions, £175k to fund additional pressures on the staffing budget, offset by an increase of £175k in the anticipated level of vacancies/churn expected during 2022-23. This would increase the net cash requirement by £175k.

Budget impact

The Supplementary Budget Motion proposes the following:

- An increase in the Commission's budget of £2.061 million.
- A increase in the net cash requirement of £0.325 million.

Budget Ambit

This supplementary budget submission is laid in compliance with Senedd Standing Order 20 to assist in the compilation of the Budget Motion required by Section 126 of the Government of Wales Act 2006. This submission seeks to amend the resource and annually managed expenditure requirements of the Senedd Commission for the year ending 31 March 2023.

The Supplementary Budget Motion authorises the net resources to be used for the services and purposes of Members and Senedd Services. The motion includes the maximum income (or accruing resources) that may be retained for use on those services and purposes instead of being paid into the Welsh Consolidated Fund, and the cash amount that will need to be issued from the Welsh Consolidated Fund to meet the anticipated net amounts falling due for payment by the Commission.

The amended 2022-23 Budget for the Senedd Commission, addressing the revised requirements, is set out in Table 1 below.

Table 1	Revised £000
<p>Resources other than accruing resources for use by the Senedd Commission (“the Commission”) on resource and capital costs associated with the administration and operation of services to support the Senedd; promotion of the Senedd including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board; any other payments relating to functions of the Senedd or the Commission.</p> <p>Resources other than accruing resources for use by the Commission in respect of decisions of the Remuneration Board and expenditure in respect of Members of the Senedd Pension provision.</p>	65,003
<p>Accruing resources for retention pursuant to section 120(2) of the Government of Wales Act 2006 and use by the Commission:</p> <ul style="list-style-type: none"> ▪ from the disposal of fixed assets and other capital income for use on the purchase or acquisition of fixed assets; or ▪ rental income; gifts; grants; recharges and income from commercial sales and other services provided to the public or others for use on administrative costs of the Senedd. 	220
<p>Amount to be issued from the Welsh Consolidated Fund to meet the anticipated amounts falling due for payment in the year in respect of the above services and purposes less expected retainable receipts and recoverable VAT.</p>	59,567

Table 2 below reconciles the net resource requirement to the cash drawing requirement from the Welsh Consolidated Fund.

Table 2: Cash requirement	£'000 2022-23 Laid	£'000 2022-23 Revised
Members' net revenue requirement	17,552	17,552
Office of the Standards Commissioner	165	97
Independent Remuneration Board Costs	-	477
Commission net revenue requirement	42,925	44,561
Net capital requirement	500	516
Annually Managed Expenditure	1,800	1,800
Subtotal	62,942	65,003
Adjustments		
Depreciation	(2,250)	(5,650)
Interest charges/Capital adjustments	-	(1,116)
Rental payments	-	2,780
Movements in provisions	(1,800)	(1,800)
Movement in debtors and creditors	350	350
Subtotal	(3,700)	(5,436)
Net cash requirement from the Welsh Consolidated Fund	59,242	59,567
Increase		£325