

**PUBLIC SERVICES
OMBUDSMAN FOR
WALES**

**ANNUAL ACCOUNTS FOR
THE YEAR
ENDED 31 MARCH 2006**

PUBLIC SERVICES OMBUDSMAN FOR WALES

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Report of the Ombudsman

HISTORY AND STATUTORY BACKGROUND

Following joint consultation by the National Assembly's First Minister and the Secretary of State for Wales it was decided with all party support that the services provided by the Commission for Local Administration in Wales, the Health Service Commissioner for Wales, and Welsh Administration Ombudsman should be combined into one office. The resultant Public Services Ombudsman (Wales) Act received Royal Assent on 7 April 2005. Prior to the passage of the Act I was appointed to each of the existing Ombudsman roles so that preliminary work could begin on unifying them. With effect from 15 July 2005 I was appointed the Social Housing Ombudsman for Wales under the Housing Act 1996 as amended by the Housing Act 2004.

On 12 October 2005 the National Assembly passed an order to commence the Public Services Ombudsman (Wales) Act 2005: the great majority of its provisions came into force with effect from 1 April 2006, but certain provisions, including those enabling the appointment of the Ombudsman, were brought into force with immediate effect. I was formally appointed Public Services Ombudsman for Wales by Her Majesty the Queen on the recommendation of the Secretary of State for Wales with effect from 12 October 2005 for a fixed term of seven years.

ACCOUNTS DIRECTION

Under the Accounts Direction issued by the H M Treasury dated 10 May 2006 consent was given to prepare one single resource account for the Health Service Commissioner for Wales, the Welsh Administration Ombudsman and the Social Housing Ombudsman for Wales together with the financial results of the Commission for Local Administration in Wales as long as they were prepared in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (the FReM) issued by HM Treasury which was in force for 2005-06.

The accounts have been prepared so as to:

(a) give a true and fair view of the state of affairs at 31 March 2006 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended; and

(b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by the National Assembly for Wales or material transactions that have not conformed to the authorities that govern them.

COMBINED ACCOUNTS

These combined accounts for the period 1 April 2005 to 31 March 2006 cover all the above offices having regard to the different legislation under which the offices fell. The legal requirements to prepare accounts are set out below:

Commission for Local Administration in Wales (CLAW)

The Commission received from the Welsh Assembly Government a grant that was top sliced from the Revenue Support Grant allocated to local authorities in Wales. A Financial Memorandum setting out the arrangements agreed between the Welsh Assembly Government and the Commission (with the consent of the Treasury) was brought into effect in March 2005. Under that document there was an obligation to prepare annual accounts.

Health Service Commissioner for Wales (HSCW)

Paragraph 10 of Schedule 1A to the Health Service Commissioners Act 1993, as amended by Schedule 10 of the Government of Wales Act 1998 required the HSCW to prepare annual accounts.

Welsh Administration Ombudsman (WAO)

WAO had to prepare annual accounts in accordance with Paragraph 9 of Schedule 9 of the Government of Wales Act 1998.

Social Housing Ombudsman for Wales (SHOW)

The obligation to produce accounts was contained in Schedule 2A paragraph 13 of the Housing Act 1996 (as inserted by section 228 of the Housing Act 2004) and covered the period from 14 July 2005 when the office was established.

All of the above obligations were abolished with effect from 1 April 2006 with the implementation of the Public Services Ombudsman (Wales) Act 2005.

AUDITORS

The Auditor General for Wales is the External Auditor of the PSOW's accounts. The cost of the audit for 2005-06 was £14k. An additional £2.5k is also disclosed in these accounts relating to the audit of 2004-05. So far as I am aware, there is no relevant audit information of which the auditors are unaware and I have taken all the steps I ought to have taken to make the auditors aware of any relevant audit information and to establish that the auditors are aware of that information.

AIMS AND OBJECTIVES

The purpose of the Public Services Ombudsman for Wales is to investigate independently and impartially complaints made by members of the public about the way they have been treated by a public body. I expect public bodies to treat people fairly, considerately, and efficiently. If I uphold a complaint I will recommend appropriate redress. I also have an important role to investigate complaints that local authority members have broken the Code of Conduct.

I aim to provide a first class Ombudsman service to Wales by:

- (a) investigating complaints as thoroughly as necessary and as quickly as possible
- (b) raising awareness of the Ombudsman service and making it easily accessible to potential users
- (c) using lessons learnt from my investigations to promote good practice and good governance by public bodies
- (d) ensuring good governance and effective management within my office.

MAIN ACTIVITIES

The principal activities of PSOW covered by these accounts were:

- (a) investigation of complaints from members of the public against local authorities in Wales;
- (b) investigation of allegations against members of local authorities (including town and community councils) of breaches of their authority's code of conduct for members;
- (c) investigation of complaints from members of the public against NHS bodies, family health service practitioners and independent providers of NHS Services in Wales;

- (d) investigation of complaints against the National Assembly for Wales and Assembly sponsored public bodies; and
- (e) investigation of complaints against registered social landlords.

MANAGEMENT COMMENTARY

Following the changes at the end of the 2004-5 financial year, namely,

- (a) the bringing together of the CLAW office and the HSCW / WAO office to one site at Bocam Park, Pencoed;
- (b) the development of a new complaints case management computer system and;
- (c) significant changes to operating procedures and staffing structures;

this has been a year of shadow running in advance of the legislation changes arising from the Public Services Ombudsman (Wales) Act 2005. As with any new body there have been regular reviews of how the changes were impacting. It has been necessary to strengthen the Assessment Team and to appoint Investigation Managers to support the two Directors in managing their investigation teams, in view of the sustained increase in caseload. The organisation has responded well to the changes and the whole process has gone smoothly. The Representative Council continues as the forum for consulting local union representatives on matters affecting staff.

The achievements of the past year are set out in greater detail in the statutory annual report for 2005-06. The funding from the National Assembly for Wales was £2.68 million. This sum was not fully committed due to uncertainty at the year end over the financing of the deficit arising from membership of the Local Government Pension Scheme. Discussions are still continuing between the Welsh Assembly Government and Cardiff and the Vale Pension Fund on the amount of the deficit in the Fund relating to CLAW and the method of financing it.

The Office of the Parliamentary and Health Service Ombudsman (OPHSO) continued to provide certain services notably the provision of expert clinical opinion on NHS complaints through a service level agreement. Any costs incurred have been included in these accounts in the period they fell due. All material accounting policies adopted are as shown in Note 1 to the accounts. There have been no departures from the requirements of the Financial Reporting Manual which have not been disclosed in the accounts.

GOING CONCERN

The Balance Sheet at 31 March 2006 showed a negative taxpayers' equity after taking account of the deficits arising from two of the three pension arrangements. These deficits reflected the inclusion of liabilities falling due in future years which will be financed by the National Assembly for Wales as required by Schedule 1 of the Public Services Ombudsman (Wales) Act. Provision of the amounts required for 2006-07 has been requested and there is no reason to believe that future provision will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

CORPORATE GOVERNANCE

In the offices of Health Services Commissioner for Wales, the Welsh Administration Ombudsman and the Social Housing Ombudsman for Wales I acted as a corporation sole whereas I as Local Commissioner and Ann Abraham as the Parliamentary Commissioner for Administration formed the Commission for Local Administration in Wales. I was the Accounting Officer for the offices of HSCW, WAO and SHOW. In respect of CLAW I was a sub accounting officer under the Accounting Officer of the National Assembly for Wales.

REMUNERATION

Details of my remuneration are shown in the Remuneration Report. Ann Abraham received no remuneration in her capacity as an ex officio member of CLAW.

PENSION LIABILITIES

The pension obligations to present and past employees are discharged through:

- (a) The Principal Civil Service Pension Scheme (PCSPS);
- (b) The Local Government Pension Scheme administered through the Cardiff and Vale of Glamorgan Pension Scheme (the Fund); and
- (c) The pensions paid directly to former Commissioners or their dependents.

Fuller details are given in Note 3 to these Accounts.

EMPLOYMENT POLICY

PSOW recruits on the principle of selection on merit through fair and open competition and is committed to equality of opportunity for all staff. The PSOW has also undertaken to comply with the provisions of the Disability Discrimination Act 1995, as well as meeting all other statutory requirements.

PAYMENT OF SUPPLIERS

PSOW is committed to compliance with the Late Payment of Commercial Debt Regulations 2002. The payment policy is to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later. During 2005-06 86% of invoices were paid in accordance with this policy (compared with approximately 95% in 2004-05). The reduction in performance arose from having to redirect mail to the new address and initial delays in processing invoices through the new systems.

AUDIT COMMITTEE

During the year an Audit Committee was established to support me in my role as Accounting Officer. The independent Chair is Laurie Pavelin CBE FCA who in his previous role within the National Assembly for Wales has considerable experience of public sector accounting and financial management. The other members of the committee are Elizabeth Thomas in her capacity as Legal Advisor to PSOW together with me as the Accounting Officer.

THE FUTURE

It will be necessary to consolidate the changes that have already occurred, and to carry out further work to ensure there continues to be a smooth transition in implementing the Public Services Ombudsman (Wales) Act 2005 from 1 April 2006. The most significant changes to my jurisdiction enable me to consider complaints of maladministration against Town and Community Councils and to consider NHS complaints at an earlier stage.

POST BALANCE SHEET EVENTS

There have been no events since the balance sheet date that have not been disclosed in these accounts that would affect materially the understanding of these financial statements.

Adam Peat
Accounting Officer

5 October 2006

REMUNERATION REPORT

At 1 April 2005 I held the offices of Commissioner for Local Administration for Wales, Health Commissioner for Wales and Welsh Administration Ombudsman. On the 14 July 2005 I was appointed Social Housing Ombudsman for Wales and then on 12 October 2005 I was appointed Public Services Ombudsman for Wales. The only remuneration I received was in my capacity as Local Commissioner. The post was graded as the equivalent of Group 6.1 of the Judicial Salary Structure. With effect from 1 April 2006 my office as Public Services Ombudsman for Wales was regraded to Group 5 of the Judicial Salary Structure.

* Details of my salary and pension entitlements for the year ended 31 March 2006

follow:

*	Salary	Real increase in pension and related lump sum	Total accrued Pension at 31 March 2006	CETV of Pension at 31 March 2006	CETV of pension at 31 March 2005 (Restated)	Real increase in CETV as funded by employer	Benefits in kind
	£000	£000	£000	£000	£000	£000	£000
Adam Peat Public Services Ombudsman for Wales	115-119	6	51	1,176	940	35	-

The salary and pension figures shown in the table above represents full entitlements. Supporting information is provided in Notes i-iii below

* I am assisted in carrying out my responsibilities by Andrew Walsh and Elizabeth Thomas and together we form the Senior Management Team . As provided for within DAO12/00 the other members of the Senior Management Team have withheld their consent to disclosure of their remuneration and pension benefit details. Their salaries were within the pay scales of £47k to £60k.

* **Items subject to audit examination**

Notes

(i) **Salary**

Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

(ii) **Pension arrangements**
Civil Service Pensions

These pension benefits are provided through the Civil Service pension arrangements.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

(iii) **Benefits in Kind**

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

Adam Peat

Accounting Officer

5 October 2006

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

1. Under the enactments the Public Services Ombudsman for Wales as Accounting Officer or Sub Accounting Officer is responsible for preparing the accounts for each financial year, in conformity with the Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources in discharging his various offices during the year.
2. The accounts are prepared on an accruals basis and must show a true and fair view of the state of affairs of the offices held, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.
3. As Accounting Officer or sub accounting officer the Public Services Ombudsman for Wales has responsibility for preparing the Office's accounts and for transmitting them to the Auditor General for Wales.
4. In preparing the accounts there is a requirement to comply with the *Financial Reporting Manual* prepared by the Treasury, and in particular:
 - (a) observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - (b) make judgements and estimates on a reasonable basis;
 - (c) state whether applicable accounting standards, have been followed, and disclose and explain any material departures in the accounts; and
 - (d) prepare the accounts on a going concern basis.
5. My responsibilities as Accounting Officer include the responsibility for the propriety and regularity of the public finances for which I, as Accounting Officer, am answerable, the keeping of proper records and the safeguarding the assets are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in *Government Accounting*.

STATEMENT ON INTERNAL CONTROL

1. **Scope of Responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control which supports the achievement of the Public Services Ombudsman for Wales's purpose as defined in statute and its strategic aims and objectives whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am independent of the National Assembly for Wales but am accountable to its Audit Committee for the use of resources made available to support my statutory functions

2. **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of my policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been progressively developed during the 2005-6 financial year and further developed in 2006-07 following the creation of PSOW and accords with Treasury guidance.

3. **Capacity to handle risk**

I am continuing to institute robust internal control arrangements to ensure that the Office has the capacity to identify, assess and manage risk effectively.

The Senior Management Team that I chair has the responsibility for overseeing risk management. The processes are being developed in order to ensure that corporate and operational risks can be actively managed. In addition the Audit Committee that has been established and which has met on two occasions has considered an initial report on establishing a risk register. I have already benefited from the considerable public sector financial management experience of the chairman Mr Laurie Pavelin CBE FCA.

4. The risk and control framework

To ensure that there are appropriate processes I have prepared a Corporate Governance Framework and this is being implemented within the timetable set out in that document. This has included the establishment of the Audit Committee that has been referenced above and the appointment of Bentley Jennison as Internal Auditors.

The measures introduced are:

- (a) a management structure together with further meetings designed to consider risk and the effectiveness of the system of internal control;
- (b) a business planning process to evaluate past performance, plans and targets and set forward plans and targets; the business plan for 2006-07 and later years will evaluate the risks to these and the strategies for managing them;
- (c) a process of risk assessment involving the mapping of areas of key risks affecting the achievement of business objectives. This will inform decision making and will help influence the internal audit programme; and
- (d) within the risk management processes to preparation of a business continuity plan that will be periodically reviewed and tested to provide for a phased recovery from events that would impair our operational capability.

5. Review of effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. In conducting such a review I have the support of the Audit Committee, and following the appointment of Bentley Jennison as Internal Auditors I will be informed of their evaluations of the system of internal control together with any comments that have been made by the external auditors in their management letter and other reports.

6. Significant Internal Control Problems

I have not experienced any significant control problems, as defined in Government Accounting, in the year.

Adam Peat

Accounting Officer

5 October 2006

***THE CERTIFICATE AND REPORT OF THE AUDITOR GENERAL FOR WALES TO
THE MEMBERS OF THE NATIONAL ASSEMBLY FOR WALES***

I certify that I have audited the financial statements of the Public Services Ombudsman for Wales for the year ended 31 March 2006 under paragraph 10 of Schedule 9 to the Government of Wales Act 1998, paragraph 11 of Schedule 1A to the Health Services Commissioners Act 1993 and paragraph 14 of Schedule 2A to the Housing Act 1996. These comprise the Summary of Resource Outturn, the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Resources by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with paragraph 9 of Schedule 9 to the Government of Wales Act 1998, paragraph 10 of Schedule 1A to the Health Service Commissioners Act 1993, paragraph 13 of Schedule 2A to the Housing Act 1996 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland) which I have chosen to adopt as the basis of my approach to the audit of financial statements.

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government of Wales Act 1998, the Health Service Commissioners Act 1993, the Housing Act 1996, and HM Treasury directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Public Services Ombudsman for Wales has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 11 and 12 reflects the Public Services Ombudsman for Wales' compliance with HM Treasury's guidance on the Statement on Internal Control and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Public Services Ombudsman for Wales' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Ombudsman's Report, the Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Public Services Ombudsman for Wales' circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

OPINION

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government of Wales Act 1998, the Health Services Commissioners Act 1993, the Housing Act 1996, and directions made thereunder by HM Treasury, of the state of the Public Services Ombudsman for Wales' affairs as at 31 March 2006 and the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government of Wales Act 1998, the Health Services Commissioners Act 1993 and the Housing Act 1996; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
11 October 2006

Wales Audit Office
2-4 Park Grove
Cardiff
CF10 3PA

SUMMARY OF RESOURCE OUTTURN

for the year ended 31 March 2006

	2005-06						2004-05	
	Estimate		Outturn					
	Gross Expenditure	Income	Net Total	Gross Expenditure	Income	Net Total	Net total outturn compared to estimate saving/(excess)	Prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000
<i>Administration Costs</i>	2632	(8)	2624	2301	(7)	2294	330	1797
<i>Total Resources</i>	2632	(8)	2624	2301	(7)	2294	330	1797
<i>Net Cash Requirement</i>			2681			2952	(271)	1723
<i>Note 2</i>								

The notes on pages 20 to 35 form part of these accounts

OPERATING COST STATEMENT*for the year ended 31 March 2006*

	Note	2005-06	2004-05
		£000	£000
Administration costs:			
Staff costs	3	1473	1266
Other non staff administration costs	4	828	547
Gross Administration Costs		2301	1813
Operating Income	5	(7)	(16)
Net Administration Cost		2294	1797
NET OPERATING COST and NET RESOURCE OUTTURN		2294	1797

All activities commenced in the period are continuing.

Statement of Recognised Gains and Losses

	Note	2006	2005
For the year ended 31 March		£000	£000
Actuarial gain / (loss) on Pension Scheme	3	<u>50</u>	<u>(120)</u>
Total recognised gains (losses) in year		<u>50</u>	<u>(120)</u>

The notes on pages 20 to 35 form part of these accounts

BALANCE SHEET*for the year ended 31 March 2006*

	Note	2005-06	2004-05
		£000	£000
Fixed assets			
Tangible fixed assets	6	275	289
Intangible fixed assets	7	95	126
		<u>370</u>	<u>415</u>
Current Assets			
Debtors due within one year	8	266	66
Cash at bank and in hand	9	358	629
		<u>624</u>	<u>695</u>
Current liabilities			
Creditors due within one year	10	(181)	(606)
Net current assets		<u>443</u>	<u>89</u>
Total assets less current liabilities		<u>813</u>	<u>504</u>
liabilities			
Creditors due after one year	10	(63)	-
Provisions	11	(812)	(884)
		<u>(875)</u>	<u>(884)</u>
		(62)	(380)
Pension Fund Deficits			
	3	(840)	(920)
		<u>(902)</u>	<u>(1300)</u>
Taxpayers' Equity			
General Fund	15	<u>(902)</u>	<u>(1300)</u>

Adam Peat**Accounting Officer****5 October 2006**

The notes on pages 20 to 35 form part of these accounts

CASH FLOW STATEMENT*for the year ended 31 March 2006*

	Note	2005-06	2004-05
		£000	£000
Net cash outflow from operating activities	16	(2560)	(1579)
Capital expenditure and financial investment	17	(392)	(144)
Financing from Welsh Assembly		2681	2123
(Decrease) / Increase in Cash	18	(271)	400

The notes on pages 20 to 35 form part of these accounts

RESOURCES BY AIMS AND OBJECTIVES*for the year ended 31 March 2006*

Objective:	2005/2006			2004/2005		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
To deal with all complaints referred to the Health Services Commissioner for Wales impartially, objectively, effectively and expeditiously	287	-	287	474	-	474
To deal with all complaints referred to the Welsh Administration Ombudsman impartially, objectively, effectively and expeditiously	72	-	72	118	-	118
To deal with all complaints referred to the Commission for Local Administration for Wales impartially, objectively, effectively and expeditiously	1898	(7)	1891	1221	(16)	1205
To deal with all complaints referred to the Social Housing Ombudsman for Wales with effect from 14 July 2005	44	-	44	-	-	-
Net operating costs	2301	(7)	2294	1813	(16)	1797

The notes on pages 20 to 35 form part of these accounts

Notes to the Financial Statements – for the year ended 31 March 2006

1. **Statement of Accounting Policies**

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (the FReM) issued by HM Treasury which is in force for 2005-06. The accounting policies contained in FReM follow UK generally accepted accounting practise for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of these accounts for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the Public Services Ombudsman for Wales (PSOW) are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 **Accounting Convention**

These accounts have been prepared under the historical cost convention modified to account for any revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 **Tangible Fixed Assets**

Expenditure is capitalised where the asset purchased is expected to have a useful life extending over a number of years and the cost exceeds £1k. Tangible fixed assets are shown at cost less an allowance for depreciation. Assets costing less than £1k may be capitalised providing they are capital in nature and are in total more than £1k. On initial recognition fixed assets are measured at cost, including such costs as installation, which are directly attributable to bringing them into working condition for their intended use. In reviewing the costs of the fixed assets previously acquired and the prices paid for the new acquisitions during the year there is no material difference between the historic net book value of the assets and their replacement cost less depreciation.

In 2004-05 a service charge has been paid to the Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England for the use of its equipment.

1.3 **Depreciation**

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful life. Assets in the course of construction are depreciated from the point at which the asset is brought into use. Except where otherwise noted asset lives are assumed to be the following:

Furniture and fittings	10 years
Fitting out costs	10 years or the lease term if shorter
IT equipment	3 to 5 years
Communications equipment	10 years

1.4 ***Intangible assets***

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1k or more is incurred. Intangible assets costing less than £1k may be capitalised providing they are capital in nature and are in total more than £1k. Except where reliable evidence of current value cannot be readily ascertained these are restated to current value each year. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

1.5 ***Capital Charge***

A credit, reflecting the cost of capital utilised by PSOW, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities except for cash balances.

1.6 ***Value Added Tax***

The offices of the Health Service Commissioner for Wales the Welsh Administration Ombudsman and the Social Ombudsman for Wales were not registered for VAT during the period. Unrecoverable VAT is charged to the most appropriate expenses heading. However the Commission for Local Administration in Wales was able to fully recover VAT and therefore where appropriate transactions made by that body were shown net of VAT. Where appropriate the recovery were made as if the body was partially exempt and the criteria used to determine recovery was the number of complaints received in the quarter for each of the offices held by PSOW.

1.7 ***Pensions***

The pension obligations to present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is largely non-contributory and is unfunded, the Local Government Pension Scheme administered through the Cardiff and Vale of Glamorgan Pension Scheme (the Fund) and by direct payment to three previous Commissioners for Local Administration in Wales. Full details are disclosed in the Notes to the Accounts. The costs of providing these pensions are charged through the Income and Expenditure Account.

1.8 ***Early departure costs***

Where the PSOW is required to meet the additional cost of benefits beyond the normal benefits payable by the appropriate pension scheme in respect of employees who retire early, these costs are charged to the operating cost statement in full when the liability arises.

1.9 ***Operating Leases***

Expenditure under operating leases is charged to the Operating Cost Statement in the period to which it relates. In the case of property leases provision is made for dilapidations that may become payable at the end of the lease.

1.10 ***Staff Costs and Other Administrative Costs***

All salary and associated costs for staff of the PSOW have been charged in full to these accounts.

The methods of cost allocation used are designed to give the most accurate reflection of the costs of running the office of the PSOW. The basis of apportionment is the number of cases received for each of the jurisdictions.

1.11 **Foreign Exchange**

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions.

1.12 **Financial Instruments**

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government bodies are financed, the PSOW is not exposed to the degree of financial risk faced by some business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks faced by the Office in undertaking its activities. Cash is PSOW's only financial instrument.

2. **RECONCILIATION OF RESOURCES TO NET CASH REQUIREMENTS**

	Note	2005-06 estimate £000	2005-06 outturn £000	Net total outturn compared to estimate saving/(excess) £000	2004-05 outturn £000
<i>Net Total resource Outturn Operating Cost Statement</i>		2624	2294	330	1797
<i>Fixed assets acquisition</i>	6/7	57	43	14	493
<i>Accruals adjustments:</i>					
<i>Non- cash items</i>	3/4	-	(36)	36	(60)
<i>Changes in working capital other than cash</i>	6	-	562	(562)	(511)
<i>Use of provisions</i>	11	-	89	(89)	4
<i>Net cash requirement Cash Flow Statement</i>		2681	2952	(271)	1723

Explanation of the variation between Estimated Net Cash Requirement and Outturn:

The variation arose because of the uncertainty at the year end over the financing of the deficit arising from membership of the Local Government Pension Scheme.

3. Staff Numbers and Costs

The average number of whole-time equivalent persons employed (including senior management) during the year was as follows:

	2005-06	2004-5
	No.	No.
Complaint investigation	23	20
Establishment & support staff	11	9
Total	34	29

The aggregate employment costs were as follows:

	2005-06	2004-05
	£000	£000
Permanent staff		
Salaries	1094	863
Social Security Costs	90	77
Other pension costs	212	140
	1396	1080
Temporary staff		
Social Security costs	89	21
	1	1
	90	22
Non-Cash items		
Charged to provisions for pensions of former ombudsman and Early Retirement Costs	17	134
Net Pension finance costs	(30)	30
Sub-Total	(13)	164
Total employment costs	1473	1266

The costs of temporary staff include seconded staff, persons on temporary contracts and agency staff.

Two pension schemes are operated on behalf of current staff. Their remains an ongoing liability to meet the pensions of former ombudsmen.

Principal Government Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. PSOW is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. Details can be found in the Financial Reports of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2005-06, employer contributions of £128k were paid to the PCSPS (2004-05 £58k) at rates in the range of 16.2 to 24.6 per cent of pensionable pay, based on salary bands (the rates in 2004-5 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07 the salary bands will be revised and the rates will be in the range between 17.1% and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Details of the various schemes with active members are

(a) *Classic Scheme*

Benefits accrue at the rate of $1/80^{\text{th}}$ of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) *Premium Scheme*

Benefits accrue at the rate of $1/60^{\text{th}}$ of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of $3/80^{\text{th}}$ s of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Member's pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of $3/80^{\text{th}}$ s the member's pension (before commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years.

Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanent prevents them undertaking any gainful employment, service is enhanced to what would have been accrued at age 60.

(c) Classic Plus

This is essentially a variation of *premium*, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

No contributions were due or prepaid to the partnership pension providers at the balance sheet date.

Local Government Pension Scheme

In addition the Commission for Local Administration in Wales participates in the Local Government Pension Scheme (the Fund). The Local Government Pension Scheme provides defined benefits, based on members' final pensionable salary.

In accordance with Financial Reporting Standard No. 17 – Retirement Benefits (FRS 17) disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

The latest actuarial valuation of the Cardiff and Vale of Glamorgan Pension Fund took place on 31 March 2004. Following that review the contribution rates certified for the Commission for Local Administration in Wales at the 31 March 2004 valuation was as follows:

April 2004 to March 2005	300% of member's contributions of 6%
April 2005 to March 2006	324% of member's contributions of 6%
April 2006 to March 2007	348% of member's contributions of 6%
April 2007 to March 2008	372% of member's contributions of 6%

The Commission for Local Administration in Wales' contribution rate over the accounting period was 324% of members' contribution (equivalent to 19.44% of pensionable salary).

Assumptions

The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were:

	31 March 2006	1 April 2005	31 March 2005
	% p.a.	% p.a.	% p.a.
Rate of inflation	2.5	3.1	3.1
Rate of increase in salaries	4.0	4.6	4.6
Rate of increase in pensions	2.5	3.1	3.1
Rate of increase in deferred pensions	2.5	3.1	3.1
Proportion of employees opting to take a commuted lump sum	50%	N/a	N/a
Discount rate	5.4	5.9	6.6

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries it has been assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this will reduce the value of the pension liabilities by £70k and this has been included within Staff Costs on the face of the Operating Cost Statement. As the change in the Regulations occurred in April 2006, our actuaries have no data on take up of the option but consider that 50% is a fair and reasonable assumption.

Cardiff and Vale Pension Fund

The actuary has been informed that the market value of the Cardiff and Vale of Glamorgan Pension Fund at 31 March 2006 was £801.31 million. The asset values as at the accounting date are set out below.

	31 March 2006		31 March 2005	
	Long term rate of return expected (% p.a).	Estimated value at (£M)	Long term rate of return expected (% p.a).	Estimated value at (£M)
Equities	7.3	624.39	7.7	477.05
Property	6.3	35.32	6.7	29.99
Government Bonds	4.3	35.06	4.7	15.14
Corporate Bonds	4.9	94.18	5.3	78.23
Other	<u>4.6</u>	<u>12.36</u>	<u>4.8</u>	<u>24.97</u>
Total	6.8	801.31	7.2	625.38

Funding position

	31 March	
	2006 £000	2005 £000
Share of assets	2780	2180
Estimated funded liabilities	<u>(3620)</u>	<u>(3100)</u>
Deficit Commission for Local Administration in Wales	<u>(840)</u>	<u>(920)</u>

Analysis of amount charged to Net Services Cost

	31 March	
	2006 £000	2005 £000
Current service cost	70	70
Past service costs	<u>(70)</u>	<u>0</u>
Total net services costs	<u>0</u>	<u>70</u>

Analysis of financing income and costs

	31 March	
	2006	2005
	£000	£000
Expected return on pension scheme assets	160	120
Interest on pension scheme liabilities	<u>(210)</u>	<u>(160)</u>
Net return	<u>(50)</u>	<u>(40)</u>

Analysis of amount recognised in Statement of Total Movement in Reserves

	31 March	
	2006	2005
	£000	£000
Actual return less expected return on pension scheme assets	390	110
Experience gains and losses arising on the scheme liabilities	(60)	(210)
Changes in assumptions underlying the present value of the scheme liabilities relating to the change in real discount rate	(330)	(20)
Other	<u> 50</u>	<u> 0</u>
Total actuarial gain / (loss)	<u> 50</u>	<u>(120)</u>

Analysis of movement during the year

	31 March	
	2006	2005
	£000	£000
Deficit in scheme at beginning of the year	(920)	(770)
Contributions towards funded liabilities	80	80
Current service cost	70	(70)
Past service costs	(70)	0
Other finance income	(50)	(40)
Actuarial gain / (loss)	<u> 50</u>	<u>(120)</u>
Deficit in scheme at end of year	<u>(840)</u>	<u>(920)</u>

History of experience gains and losses

	31 March	
	2006	2005
Difference between expected and actual return on scheme assets		
Amount	£390k	£110k
Percentage of scheme assets	14.0%	5.0%

Experience gains (losses) on scheme liabilities		
Amount	£80k	(£210k)
Percentage of present value of the scheme liabilities	2.2%	-6.8%
Difference between expected and actual return on scheme assets		
Amount	(£280k)	(£20k)
Percentage of present value of the scheme liabilities	7.7%	-0.6%
Experience gains on scheme liabilities		
Amount	£ 50k	(£120K)
Percentage of present value of the scheme liabilities	1.4%	-3.9%

At the close of the financial year there was considerable uncertainty about the eligibility of those members who wished to remain members of the Local Government pension scheme. This arose out of a commitment given by the National Assembly of Wales that any existing employees who wished to remain in the LGPS could of the members. There were issues about individuals being unable to remain in the LGPS once there was an entitlement to be a member of the Principal Civil service scheme. To overcome this SI 1011 2006 was authorised by the National Assembly of Wales' Presiding Officer on the 31 March 2006 and staff revoked their right to be members of the Principal Civil Service Pension Scheme until they had sufficient information to decide the most appropriate scheme. There will be no new members of the LGPS as it has now been closed. New employees of the Public Services Ombudsman for Wales will be eligible only for the Principal Civil Service Pension Scheme.

Pensions for former Ombudsmen

With the agreement of the Secretary of State for Wales in 1991 and subsequent confirmation by Statutory Instrument 1993 No. 1367 Commissioners became eligible to join the Local Government Pension Scheme. However the pensions of the three previous Local Government Commissioners remain the responsibility of the Commission for Local Administration and are met through the income and expenditure account. Pensions are increased annually in line with the Pension's Increase Order. The total payments during 2005/6 were £67k (£65k in 2004/5). The liabilities arising out of the obligation to finance these pensions together with any dependent pensions has been calculated to be £769k (2005 £821k). The calculation has been carried out internally using life expectancy tables for males and females in Wales obtained from the web site of the Government Actuary's Department. Further details are shown under movements in provisions (Note 12)

4. **Non Staff Administration Costs**

	2005-06	2004-05
	£000	£000
Rentals under operating leases	294	119
Central Service Charge	-	54
External Audit fee	17	12
Travel & Subsistence	51	28
Professional Advisers' Consultancy	97	87
Service charge for fixed assets	-	16
Office supplies, equipment and services	320	201
Sub-total	<u>779</u>	<u>517</u>
Depreciation and amortisation	88	78
Cost of capital credit	(39)	(48)
Sub-total	<u>49</u>	<u>30</u>
Total Other Administration Costs	<u>828</u>	<u>547</u>

Accommodation cost, disclosed under rentals under operating leases, includes service charges which are integral to the lease and the cost of the building rates. The amounts disclosed at Note 11 – Commitments under leases – against land buildings however, only includes the cost of long-term rental and service contracts.

5. **Operating Income**

Most of the income receivable arises from short term investment of surplus funds

	2005-06	2004-05
	£000	£000
Interest receivable	6	11
Other income	<u>1</u>	<u>5</u>
	<u>7</u>	<u>16</u>

6. Tangible Fixed Assets

	Fitting out works	IT equipment	Furniture & other fittings	Telephone equipment	Total
	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2005	174	44	92	22	332
Additions	12	12	13		37
Disposals	-	-	-	-	-
At 31 March 2006	186	56	105	22	369
Depreciation					
At 1 April 2005	17	15	9	2	43
Charged in the year	19	19	11	2	51
Disposals	-	-	-	-	-
At 31 March 2006	36	34	20	4	94
NBV at 31 March 2006	150	22	85	18	275
NBV at 31 March 2005	157	29	83	20	289

7. Intangible Fixed Assets

During the year a new computerised complaints monitoring system was procured. Whilst ownership of the software resides with the Scottish Public Services Ombudsman development costs and a licence fee for the use of the system were incurred by this Office. In addition propriety software for office processes were acquired. The details are:

	2005-06	2004-05
	£000	£000
Cost or Valuation at 1 April	161	-
Additions during year	6	161
Total	167	161
Amortisation at 1 April	(35)	0
Amortisation during the year	(37)	(35)
Total	(72)	(35)
Net book value at 31 March	95	126

8. Debtors

Amounts falling due within one year:

From Government departments

From other parties

Prepayments

2005-06	2004-05
£000	£000
168	43
2	2
96	21
266	66

The major debt outstanding is the recoverable VAT arising out of the activities of the Commission for Local Administration in Wales.

9. Cash at Bank and in Hand

The prime bank accounts were operated under the name of the Commission for Local Administration in Wales until 31 March 2006 when they were changed to Public Services Ombudsman for Wales.

10. Creditors

Amounts falling due in one year

Amounts owed to the Collector of Taxes

Amounts owed to the Parliamentary

Commissioner

Trade creditors

Amounts falling due in more than one year

Trade creditors

Total

2005-06	2004-05
£000	£000
4	16
32	188
145	402
181	606
63	-
244	606

The high level of creditors in 2004-5 arises from the co location of the Bridgend and Cardiff at a single location at Bocam Park. Not only were the two offices brought together just prior to the year end but expenditure on fitting out the offices together with new furniture and computer systems was incurred during the later part of the financial year.

11. Provisions for liabilities and charges

	2005-06		2004-05	
	Early retirement £000	Pensions for Former Commissioners £000	Total £000	Total £000
Balance at 1 April	63	821	884	888
Provided in the year	2	15	17	134
Provisions utilised in the year	(22)	(67)	(89)	(138)
Balance at 31 March	43	769	812	884

12. Commitments under Operating leases

	2005-06		2004-5	
	Buildings £000	Other £000	Buildings £000	Other £000
At 31 March 2006 the Office was committed to making the following payments during the next year in respect of operating leases expiring:				
within one year	44	-	18	-
between two and five years	-	4	77	4
After five years	170	-	149	-
	214	4	244	4

The costs shown within one year relate to an office that has been vacated and the lease is due to expire in March 2007.

13. **Contingent liabilities**

Determination on the deficit arising from the closure of the Commission for Local Administration for Wales part of the Local Government Pension Scheme is ongoing and how it is to be financed. The latest indication from the Actuary is that the closure deficit will be £1.5 million. The National Assembly for Wales have yet to decide for period over which it will meet its obligation to fund the deficit.

The basis of recovering VAT totalling £124k for 2005-06 has not yet been finalised with H M Revenue and Customs. The Ombudsman considers that the method of apportionment applied in 2005-06 is appropriate. No further sums are due because under the Public Services Ombudsman (Wales) Act 2005 there is no entitlement to recover VAT from 1 April 2006.

14. **Capital Commitments**

There were no capital commitments at 31 March 2006

15. **General Fund**

	2005-06	2004-05
	£000	£000
General Fund as at 1st April	(1300)	(1458)
Net operating cost	(2294)	(1797)
Funding by National Assembly for Wales	2681	2123
Cost of Capital Credit	(39)	(48)
Movement in pension deficit	50	(120)
General Fund as at 31st March	(902)	(1300)

16. Reconciliation of operating cost to operating cashflows

	Notes	2005-06	2004-05
		£000	£000
Net operating cost		(2294)	(1797)
Adjust for non cash items	3,4	36	194
(Increase)/decrease in debtors	9	(200)	(6)
Increase/(decrease) in creditors	11	(362)	517
Less movement in creditors relating to items not passing through the OCS		349	(349)
Use of provisions		(89)	(138)
Net cash outflow from operating activities		(2560)	(1579)

17. Capital Expenditure and financial investment

	2005-6	2004-5
	£000	£000
Tangible fixed asset additions	(227)	(142)
Intangible fixed asset additions	(165)	(2)
Net cash outflow from investing activities	<u>(392)</u>	<u>(144)</u>

18. Reconciliation of net cash requirement to increase/(decrease) in cash

	2005-6	2004-5
	£000	£000
Net Cash Requirement	(2952)	(1723)
Financing from Welsh Assembly	2681	2123
(Decrease) / Increase in cash	<u>(271)</u>	<u>400</u>

19. Preparation of Resources by Departmental Aims and Objectives

The PSOW has one primary aim, which is to deal with complaints referred to this PSOW impartially, objectively, effectively and expeditiously. The cost of the various offices has been allocated as follows:

- (a) costs specific to the office are attributed directly to those jurisdictions
- (b) administrative and establishment costs are attributed to the respective offices in accordance with the complaints received under the various jurisdictions.

20. Related-party Transactions

The Ombudsman is a corporation sole established under statute and has had a number of material transactions with the National Assembly for Wales. Also the Ombudsman has had material transactions with Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England. In addition, the Public Services Ombudsman for Wales has had a small number of transactions with other Government Departments and other central government bodies.

There was a material transaction with the partner of one of the members of the management team whereby an offer of £2k was received and accepted for various items of surplus office furniture, equipment and computers that were scheduled for removal and scrapping. The offer was assessed as representing value for money bearing in mind the limited value and saleability of the items concerned (which had been fully written off) and the potential cost of having the items removed and disposed of. The amount has been included within debtors in these accounts.

The Public Services Ombudsman for Wales, the Parliamentary Commissioner for Administration and the Health Service Commissioner for England and any members of their respective Management Teams have not undertaken any material transactions with the PSOW during the reporting period.