



Memorandum on the set-up costs of the Wales Audit Office

October 2003

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1. In April of this year, the Secretary of State for Wales published a draft Public Audit (Wales) Bill for consultation and pre-legislative scrutiny. The Bill, if enacted, would bring together the existing work of the National Audit Office Wales and the Audit Commission in Wales into a single audit body to be headed by the Auditor General for Wales and to be known as the Wales Audit Office. The current working assumption is that this body will be established on 1 April 2005.
2. The Regulatory Impact Assessment published with the Bill recognised that it is not possible to establish a body of this nature without cost. For example, the body would need to arrange for the provision of stand-alone information technology services whereas both the National Audit Office Wales and the Audit Commission in Wales operate using central information technology systems. The Government has estimated (in the Regulatory Impact Assessment) that the costs of establishing the Wales Audit Office should not exceed £500,000. The Secretary of State recognised, however, that at that stage it was difficult to provide any definitive estimate of costs.
3. Some of these transitional costs will have to be incurred in 2004-05 if the new body is to be established on 1 April 2005. Following consultation with colleagues in the Audit Commission in Wales, I am now able to provide the Audit Committee with an indication of the nature and possible scale of the set-up costs that I am likely to incur in 2004-05. These are set out in the table at Annex A and in its accompanying explanatory notes. At this early stage my “best guess” is that the amount I shall need is £400,000. However, some of these estimates will continue to be a best guess until the Bill has reached the statute book and we are able to refine them, for example by issuing invitations to tender for the provision of services.
4. As the Bill has not yet been formally introduced into Parliament, I could not include any transitional costs likely to be incurred in 2004-05 in my main

estimate of income and expenses for that year that will be considered by the Committee on 23 October 2003. This paper is therefore presented for information only at this stage and I propose to submit a formal supplementary estimate to the Committee for 2004-05 once the Bill has received its second reading in the House of Commons.

5. I must stress that the costs set out in Annex A are only indicative at the moment. A good deal of work remains to be done on specifying exactly what is needed, preparing specifications and letting contracts; only then would more accurate estimate be available. However, it would not be regular or appropriate for me to start on this work at this relatively early stage of the legislative process.
6. Some of the one-off costs that will be incurred in establishing the Wales Audit Office will fall after April 2005, once the new organisation has come into existence. This is likely to apply particularly to any work needed to complete its accommodation and information technology infrastructure. At this stage, in the absence of firm information on the total costs involved and their timing, I cannot say exactly how much will be needed in addition to the £400,000 that I am likely to be requesting for 2004-05. In the meantime, since I have no reason to challenge the total cost of £500,000 estimated by the Government, my working assumption for 2005-06 is that I shall require the balance, £100,000 or an amount close to it. As these costs will fall in 2005-06, I shall bring them to the Committee's attention at its equivalent meeting next autumn when my Estimate for that year is due to be considered.

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Forecast transitional costs for the Wales Audit Office to be incurred in 2004-05

<i>Element</i>	<i>Forecast 2004-05 cost £000</i>	<i>Note reference</i>
Project Manager	110	i
Human resources: technical and legal advice	70	ii
Information Technology	150	iii
Accommodation	50	iv
Contingency	20	
TOTAL	400	

Explanatory notes

- i. A good deal of practical work is necessary to ensure that the creation of the Wales Audit Office - effectively a merger of the National Audit Office Wales and Audit Commission in Wales plus the acquisition of certain stand-alone central services - proceeds as smoothly as possible. The Audit Commission and the National Audit Office plan to appoint a project manager to undertake this work following an open competition.
- ii. The most important element of the new organisation if it is to be successful is its staff. Employees of the National Audit Office Wales and Audit Commission in Wales, although the functions they carry out are in many cases similar, currently have different terms and conditions, working practices, grades, career structures, remuneration arrangements and pension schemes. Harmonising all these elements when employment contracts are transferred to the Wales Audit Office is likely to require a high level of specialist human resources input.

- iii. Effective, reliable information technology is now critical to running efficient organisations. Currently both the National Audit Office Wales and Audit Commission in Wales rely largely on information technology services provided by their parent organisations. If the Wales Audit Office is to function properly from its inception, it needs to have an information technology infrastructure in place, including its own email server, network link between the two existing offices and software licences.

- iv. The National Audit Office Wales and Audit Commission in Wales currently both have their own strong identities and cultures, which need to be brought together within the new organisation. To help start this process before the Wales Audit Office is created, the two existing organisations may wish to co-locate some of their staff. This is likely to have cost implications for the preparation of workstations, rewiring etc.