

Agenda – Finance Committee

Meeting Venue:

Committee Room 5 – Tŷ Hywel

Meeting date: 9 January 2020

Meeting time: 09.00

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

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The Committee resolved on 18 December 2019 to exclude the public from the start of the meeting

1 Welsh Government Draft Budget 2020–21: Private briefing with expert adviser

(09:00–09:15)

Dr Edward Jones, Lecturer in Economics, Bangor University

2 Introductions, apologies, substitutions and declarations of interest

(09:15)

3 Paper(s) to note

(09:15)

(Pages 1 – 4)

Minutes of meeting held on 11 December 2019

Minutes of meeting held on 18 December 2019

4 Welsh Government Draft Budget 2020–21: Evidence session 2

(09:15–10.15)

(Pages 5 – 22)

Dr Victoria Winckler, Director, Bevan Foundation

Dr Helen Tilley, Senior Research Fellow, Wales Centre for Public Policy

Anna Nicholl, Director of Strategy, Wales Council for Voluntary Action

Research brief



5 Welsh Government Draft Budget 2020–21: Evidence session 3

(10.15–11.15)

(Pages 23 – 62)

Sophie Howe, Future Generations Commissioner for Wales

Cathy Madge, Lead Change Maker, Office of the Future Generations
Commissioner

Alex Chapman, Consultant, New Economics Foundation

Paper 1 – Written evidence from the Future Generations Commissioner for
Wales

Research brief

Break: 11.15–11.30

6 Welsh Government Draft Budget 2020–21: Evidence session 4

(11.30–12.10)

(Pages 63 – 78)

Edward Evans, Company Director and Secretary, Civil Engineering Contractors
Association Wales

Research brief

Break: 12.10–13.00

7 Welsh Government Draft Budget 2020–21: Evidence session 5

(13.00–14.00)

(Pages 79 – 91)

Robert Chote, Chairman, Office for Budget Responsibility

Andy King, Budget Responsibility Committee member, Office for Budget
Responsibility

Research brief

- 8 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of this meeting and the start of the next meeting on 15 January 2020**
(14.00)
- 9 Welsh Government Draft Budget 2020–21: Consideration of evidence**
(14.00–14.30)
- 10 Scrutiny of the Wales Audit Office and the Auditor General for Wales’s Annual Report and Accounts 2018–19 and Estimate 2020–21**
(14.30–14.40) (Pages 92 – 156)
Paper 2 – Letter from the Auditor General for Wales and Chair of the Wales Audit Office – 23 December 2019
- 11 Ministerial Direction – NHS pension arrangements for 2019/20**
(14.40–14.45) (Pages 157 – 162)
Paper 3 – Letter from the Permanent Secretary – December 2019

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Wednesday, 11 December
2019

Meeting time: 11.00 – 11.27

This meeting can be viewed
on [Senedd TV](#) at:

<http://senedd.tv/en/5781>

Attendance

Category	Names
Assembly Members:	Llyr Gruffydd AM (Chair) Rhun ap Iorwerth AM Alun Davies AM Mike Hedges AM Nick Ramsay AM Mark Reckless AM
Committee Staff:	Bethan Davies (Clerk) Leanne Hatcher (Second Clerk) Georgina Owen (Second Clerk) Samantha Williams (Deputy Clerk) Martin Jennings (Researcher) Owen Holzinger (Researcher) Craig Griffiths (Legal Adviser)

1 Introductions, apologies, substitutions and declarations of interest

1.1 Apologies were received from Rhianon Passmore AM.



2 Paper(s) to note

2.1 The minutes and papers were noted.

2.1 Letter from Minister for Finance and Trefnydd – Second Supplementary Budget 2019–20 – 25 November 2019

2.2 Letter from Minister for Finance and Trefnydd – Welsh Government’s consultation to amend the Government of Wales Act 2006 (Budget Motions and Designated Bodies) Order 2018 – 28 November 2019

2.3 Letter from Auditor General for Wales to Chair of Equality, Local Government & Communities Committee – Consultation on the Local Government & Elections (Wales) Bill – 5 December 2019

3 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of this meeting and the start of the next meeting on 18 December 2019

3.1 The motion was approved.

4 Consideration of the forward work programme

4.1 The Committee considered its forward work programme.

5 Consideration of proposals to amend the Public Audit (Wales) Act 2013: Consideration of draft report and draft Bill

5.1 The Committee approved the draft report and agreed to consult on the draft Bill.

6 Inquiry into a legislative budget process: Consideration of draft report

6.1 The Committee considered the draft report and agreed to write to the Minister for Finance and Trefnydd.

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 4 – Tŷ Hywel

Meeting date: Wednesday, 18 December
2019

Meeting time: 09.05 – 11.52

This meeting can be viewed
on [Senedd TV](#) at:

<http://senedd.tv/en/6064>

Attendance

Category	Names
Assembly Members:	Llyr Gruffydd AM (Chair) Rhun ap Iorwerth AM Alun Davies AM Mike Hedges AM Nick Ramsay AM Mark Reckless AM
Witnesses:	Rebecca Evans AM, Minister for Finance and Trefnydd Andrew Jeffreys, Welsh Government Matt Wellington, Welsh Government
Committee Staff:	Bethan Davies (Clerk) Leanne Hatcher (Second Clerk) Samantha Williams (Deputy Clerk) Martin Jennings (Researcher) Dr Edward Jones (Expert Adviser)



1 Welsh Government Draft Budget 2020–21: Private briefing with expert adviser

1.1 The Committee received a private briefing from the expert adviser Dr Edward Jones, Lecturer in Economics, Bangor University.

2 Introductions, apologies, substitutions and declarations of interest

1.1 Apologies were received from Rhianon Passmore AM.

3 Welsh Government Draft Budget 2020–21: Evidence session 1 (Minister for Finance and Trefnydd)

3.1 The Committee received evidence from Rebecca Evans AM, Minister for Finance and Trefnydd; Andrew Jeffreys, Director, Welsh Treasury; and Matthew Wellington, Head of Budget Delivery, Welsh Government.

4 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of this meeting and the start of the next meeting on 9 January 2020

4.1 The motion was approved.

5 Welsh Government Draft Budget 2020–21: Consideration of evidence

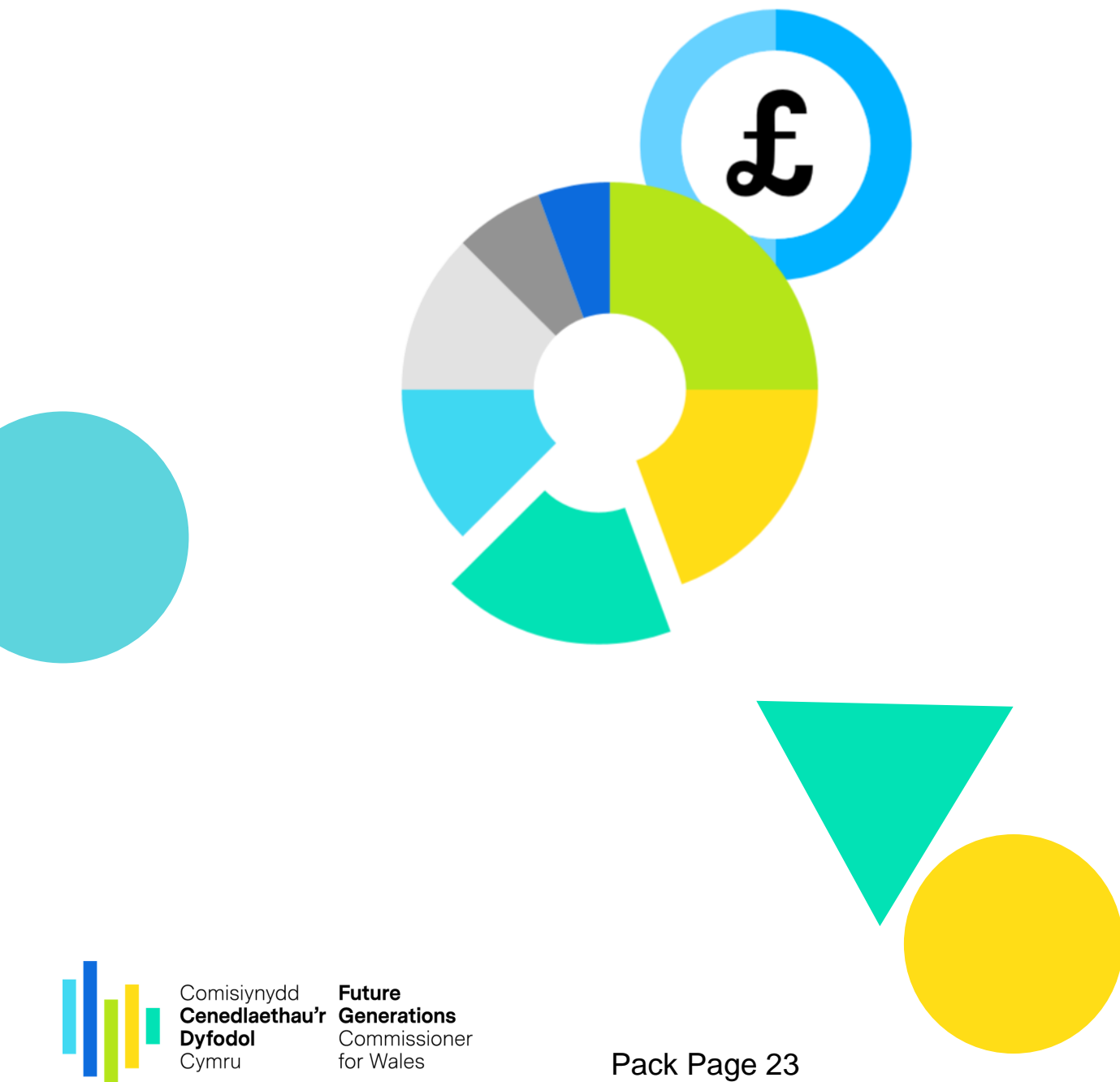
5.1 The Committee considered the evidence received.

Document is Restricted

A Briefing for Assembly Members

How the Welsh Government draft budget 2020-21 is taking account of the Well-being of Future Generations Act

December 2019



Summary

The Welsh Government budget is the single biggest decision (or set of decisions) that is taken by a public body in Wales each year. As well as determining how public services are funded, the budget process and specific decisions send important signals about priorities across our public services and whether those priorities are shifting in line with the aspirations set out in the Well-being of Future Generations Act (WFG Act).

As the budget is such an important set of decisions for the future of Wales, I monitor and assess the draft budget each year and provide evidence to the National Assembly for Wales Finance Committee.

This year my focus is on:

DECARBONISATION - How is the Welsh Government meeting the declaration of a Climate Emergency through budget decisions and allocations?

PREVENTION - How is the Welsh Government using the definition of prevention to embed preventative approaches through budget decisions and allocations?

Through engagement with National Assembly for Wales Committee staff, it is clear that these topics are of interest to Members across different Committees. This briefing therefore provides an overview of:

- My expectations of how the budget should be changing in relation to decarbonisation and prevention;
- My views on the progress from Welsh Government, including a high level assessment of commitments in the draft budget narrative published on 16 December;
- Questions that Members could consider exploring further in relation to decarbonisation and prevention, as part of budget scrutiny.

 SOPHIE HOWE
**Future Generations
Commissioner for Wales**



Contents

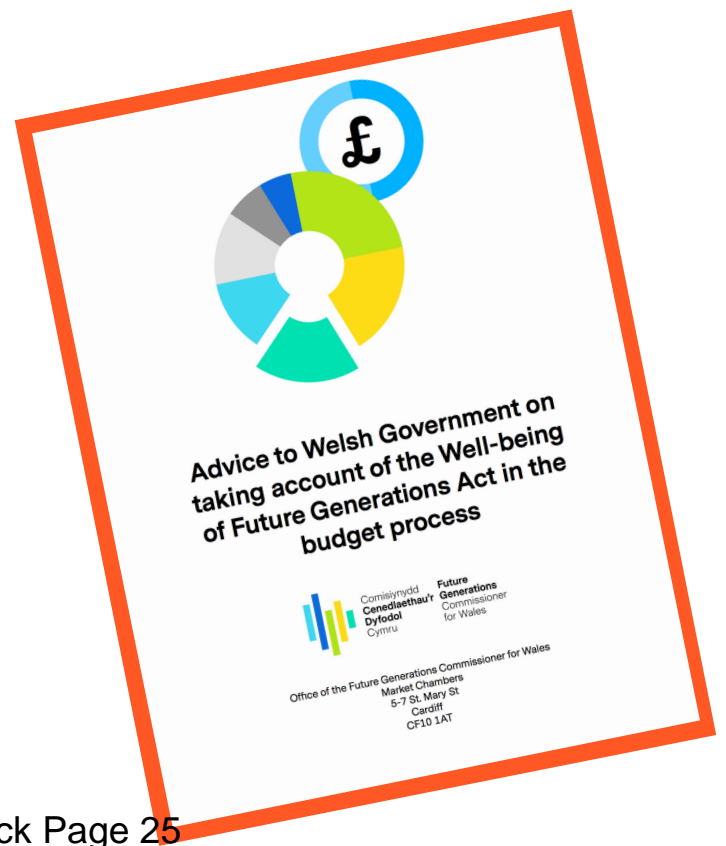
01	1) Investing in the Climate Emergency
06	2) Investing in preventative approaches
11	3) Assessing year-on-year progress in the budget
14	4) Taking further steps to a longer term approach

These sections are based upon the recommendations included in the advice *Advice to Welsh Government on taking account of the Well-being of Future Generations Act in the budget process*, which I published in December 2018.

▶ This can be accessed at <https://futuregenerations.wales/wp-content/uploads/2018/12/2018-11-29-FGC-Budget-Recommendations-ENG.pdf>

Within this briefing you will find references to recommendations:

- Recommendations issued by the Future Generations Commissioner for Wales are highlighted in **orange**.
- Recommendations issued by Assembly Committees, which support our recommendations can be found in **blue**.



Section 1

Investing in the Climate Emergency

Based on my scrutiny of the budget last year, my advice included two recommendations for Welsh Government to ensure that investment in decarbonisation reflects ambition:

Recommendation: Welsh Government clearly articulate how the actions set out in the Low Carbon Delivery Plan will be funded in order for us to meet our statutory emission reduction targets.

Recommendation: Welsh Government considers and sets out the level of cross Government investment needed to meet our targets, particularly in relation to: i. Transport; ii. Housing / buildings; iii. The transition to a low carbon Wales.

On the 21 March 2019 Welsh Government published its first Low Carbon Plan - “Prosperity for All: A Low Carbon Wales”.

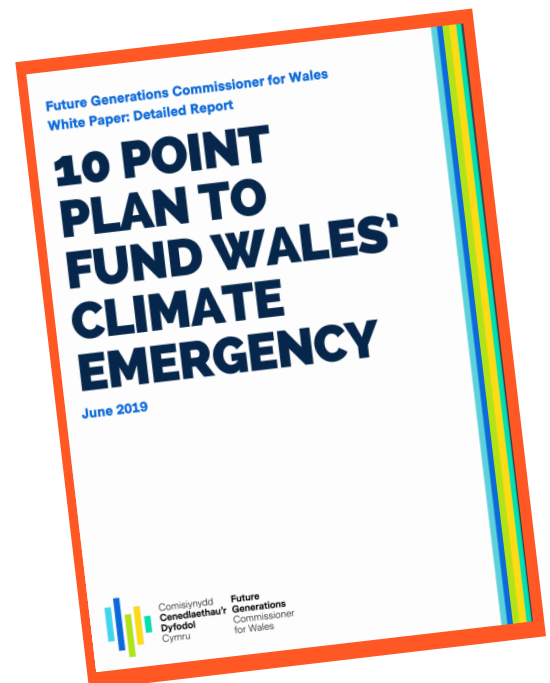
On the 29 April Welsh Government and the National Assembly for Wales declared a Climate Emergency, and in May the UK Committee on Climate Change published its advice to UK Governments on achieving Net Zero by 2050.

▶ This can be accessed at:
<https://futuregenerations.wales/wp-content/uploads/2019/06/10-Point-Plan-to-Fund-Wales-Climate-Emergency-Detailed-Report.pdf>

In June I published a Ten Point Plan to fund Wales’ Climate Emergency which includes proposals for increasing investment in key areas including sustainable transport, low/zero carbon buildings and homes, renewable energy, land and nature-based solutions.

Although it’s difficult to calculate the exact amount of funding needed, we know that responding to the climate emergency will require a much greater level of investment across the board.

My Plan recommends a total allocation of £991 million to support decarbonisation in the Welsh Government budget for 2020-21 which is in line with the UK Committee on Climate Change (UKCCC) estimates of around £30 billion over the period to 2050 (or 1-2% of GDP).



My view on progress from Welsh Government

“For a more structural and longer-term approach, the Ten Point Plan issued by the [...] Future Generations Commissioner sets out an approach to be considered and used as guidance...”

► Extinction Rebellion Cymru
- Response to Finance Committee
consultation, September 2019

Over the last 3 months I have requested information from Ministers, and detailed responses to the following questions:

1. Building on the actions set out in the Low Carbon Delivery Plan, what are the key opportunities for decarbonising investment in relation to your portfolio and how do these relate to revenue and capital spend?
2. What is your assessment of the allocations identified in my 10 Point Plan, and if you disagree with the suggestions what are your proposals?
3. How are you assessing how much you are spending overall on decarbonisation actions, and do you have a method for classifying decarbonisation spend?
4. On the basis of the points above, what specific changes will there be in the 2020-21 draft budget?

I have had several conversations with Government Ministers and officials: whilst engagement has been positive, and they have been broadly supportive, discussions and responses to date have lacked detail referring to pockets of funding for activities but no evidence of systemic or transformational change.

Other findings include:

- There appears to be a disconnect between policy commitments that have been made (for example in Low Carbon Wales) and budget allocations.
- The declaration of a climate emergency doesn't appear to be reflected in discussions about budget process and allocations, often referring to challenges and constraints.
- There appears to be no evidence that Welsh Government has a clear process to classify or assess how much they are currently spending (or need to spend) on decarbonisation actions to deliver the statutory carbon budgets or targets.
- There is no consistent approach to undertaking Carbon impact assessments (CIAs) for major infrastructure projects, it is not clear how the carbon impact is informing decisions (on projects or funding) and there is no central collation of the CIAs across Government.
- For example although the recent Wales Infrastructure Investment Plan (WIIP) pipeline update 2019 mentions additional investment of £14.5 million for active travel, it isn't clear how overall the WIIP update is prioritising measures to address the climate emergency with 64% of Welsh Government's transport budget currently allocated to building roads.

My view on progress from Welsh Government

I have challenged Government about how they understand the extent to which decisions are 'decarbonising' – i.e. understanding the current carbon impact of investment decisions and the decarbonisation impact and potential of future decisions. It is clear that Government have no consistent approach to do this at the moment, and they have asked me to resource this work.

I have focused on transport as a key area that Welsh Government can make progress, particularly as progress in reducing transport sector emissions are behind our target. During discussions with Government we identified several challenges and constraints in this area, mainly due to the majority of capital funding already being committed for 2020/21, responsibility for rail infrastructure not devolved to Wales, and there being limited scope for current funding allocations to change significantly. It seems clear that the Government's current focus is on decarbonising road transport and not on the potential for public transport and active travel to achieve significant modal shift.

Our findings are supported by the Climate Change, Environment and Rural Affairs Committee '[Annual Report on the Welsh Government's progress on climate change, 2019-20](#)' recommendations (published 18 December 2019) which include:

Recommendation 6. The Welsh Government's draft Budget should explain and demonstrate clearly how funding allocations will support the decarbonisation priority.

Recommendation 10. The Welsh Government should include an assessment of the costs, benefits and impact on decarbonisation of each policy and proposal included in the next iteration of its decarbonisation plan.

Recommendation 11. The Welsh Government should introduce a mechanism, such as a carbon impact assessment, to report to the Assembly any policy decisions that will result in a significant increase in carbon output.

▶ The full report can be seen at <https://www.assembly.wales/laid%20documents/cr-ld12934/cr-ld12934%20-e.pdf>

My view on progress from Welsh Government

Feedback on Draft Budget

Within the Draft Budget, I welcome the £59 million (37%) increase in total spending on sustainable travel with an allocation of £219 million in 2020/21 for concessionary fares, bus support, smart cards, youth discounted travel schemes, local transport priorities and sustainable and active travel. This will encourage decarbonisation of transport and greater levels of physical activity.

I also welcome the announcement of £140 million in new capital funding for climate and environment – this takes the total capital spending specifically on climate and environment over the 5% threshold. Alongside investments of £30 million in electric vehicle infrastructure, low emission vehicles and in new metro systems (for North Wales), and continued funding in the new rail franchise this demonstrates the Government’s dedication to investing in proactive solutions to the climate crisis.

Whilst I welcome the rise in capital investment in active travel, public transport, and electric vehicle infrastructure by £80 million, this appears to have been met by a similarly significant rise in capital investment in new roads. As such the proportion of capital spent on active and public transport is still slightly below the 60% level recommended in my 10 Point Plan. The £140 million package also includes £25 million capital funding to extend the Innovative Housing Programme, £8.2 million for a carbon neutral house project within Coleg Y Cymoedd and funding to address our nature crisis, although these allocations fall short of what I recommended in my Plan.

However whilst the budget has targeted investment at measures “which current evidence supports as being the areas where Welsh Government can have the greatest impact to deliver our first carbon budget” it remains the case that there is no holistic impact assessment of the net carbon impact of the budget and there is no detailed evidence to show how they have prioritised spending decisions accordingly. This means the Government cannot tell us whether the way in which they are spending their money is leading to an increase or decrease in carbon emissions. As a result, despite efforts to invest in sustainable travel, we are concerned that the Government’s other capital investments, such as in roads, may be undermining its carbon reduction progress.

I call on the Government, from now on, to forensically analyse every aspect of its expenditure, especially capital spend, in terms of carbon impact and publish details on the overall carbon impact of their budget.

Questions that Members could consider asking as part of scrutiny of the draft budget for 2020/21

1) Overall approach to investing in the Climate Emergency

- What key changes will there be in the 2020-21 draft budget to reflect the declaration of a climate emergency?
- What are the key budget allocations that demonstrate Welsh Government is serious about taking action on the climate emergency?

2) Understanding the carbon impact of budget allocations

- How are you assessing current spend on decarbonisation and what allocations are required over the next 5, 10, 20 years to achieve our statutory targets?
- How are you assessing the carbon impact of major investment decisions to ensure capital spend is line with emission reduction targets?

3) Decarbonising transport

- Will current budget allocations ensure we reach the target* for transport sector emissions when we're currently not on target?
- How are you assessing the carbon impact of major investment decisions to ensure capital spend is line with emission reduction targets?
- Is spending 63% of the transport capital budget on roads compatible with the climate emergency declaration?

4) Decarbonising housing

- Since the publication of the “Decarbonising Homes” report in July what progress has been made to secure funding for retrofitting Wales’ homes and what commitments are there in the 2020-21 budget?

* Transport sector emissions have reduced by 3% since 1990; the targets are a 14% reduction by 2020 and a 43% reduction by 2030 compared to the 1990 baseline.

Section 2

Investing in preventative approaches

Prevention is one of the five ways of working set out in the Well-being of Future Generations Act, and it is important that there is a shift in investment from reactive to preventative approaches, to stop problems from occurring as well as stopping them from getting worse.

Last year I welcomed the definition of prevention included in the budget narrative.

Prevention is working in partnership to co-produce the best outcomes possible, utilising the strengths and assets people and places have to contribute. Breaking down into four levels, each level can reduce demand for the next:

- Primary prevention (PP) – Building resilience – creating the conditions in which problems do not arise in the future. A universal approach.
- Secondary prevention (SP) – Targeting action towards areas where there is a high risk of a problem occurring. A targeted approach, which cements the principles of progressive universalism*.
- Tertiary prevention (TP) – Intervening once there is a problem, to stop it getting worse and prevent it reoccurring in the future. An intervention approach.
- Acute spending (AS) – Spending, which acts to manage the impact of a strongly negative situation but does little or nothing to prevent problems occurring in the future. A remedial approach.

*progressive universalism is a determination to provide support for all, giving everyone and everything a voice and vested interest, but recognises more support will be required by those people or areas with greater needs.

Source: Welsh Government Draft Budget 2019-20 Detailed proposals

Section 2

Investing in preventative approaches

However, I felt that the application of the definition last year was very limited, so I included four recommendations about prevention in the advice I published for Government in December 2018.

Recommendation: Welsh Government should apply the prevention definition across all spend in a systematic and robust manner, clearly defining what they are trying to prevent and showing a clear line of sight through spending on evidence-based actions across Government. They should consider working with organisations with expertise in this field to ensure their approach is effective.

Recommendation: Welsh Government should consider what a better balance of spend is in relation to primary, secondary and tertiary prevention.

Recommendation: Welsh Government should ask other public services (particularly local government and health boards) to apply the definition of prevention to their spend, to identify the key opportunities for investment in primary and secondary prevention.

Recommendation: Taking on board the recommendations of the Children, Young People and Education Committee, the Welsh Government should consider applying the actions set out in the Mental Health Policy Commission report 'Investing in a Resilient Generation: Keys to a Mentally Prosperous Nation' internally, particularly in relation to which part of Government takes a strategic lead in ensuring there is a whole system approach to prevention.

Finance Committee also made relevant recommendations in their report on last year's budget:

Recommendation 6: The Committee recommends that the Welsh Government considers how any future additional funding for health services can be targeted toward prevention and should also consider establishing partnership arrangements around any such funding.

Recommendation 14: The Committee recommends that the Welsh Government keeps the definition of preventative spend under close and constant review, including active engagement with both stakeholders and this Committee.

Recommendation 15: The Committee recommends that the Welsh Government prioritises an integrated approach across Government with respect to preventative spending, both cross-department, and multi-year

My view on progress from Welsh Government

I have seen limited evidence that Government have tried to apply the prevention definition across spend in systematic and robust manner.

The draft budget narrative includes more references to prevention than previous budgets, particularly in relation to investing in programmes that increase opportunities and tackle poverty.

However the narrative includes very few references to the types of prevention that are being funded – I think this is a missed opportunity for Government departments to collectively understand what they are trying to prevent and the best balance of spend to achieve this.

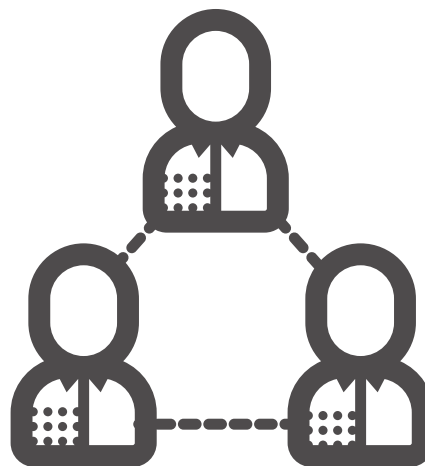
In recognition of the scale of the challenge of embedding preventative approaches, I advised Government to work with organisations with expertise in this field – they have not done so. I have resourced Social Finance to work with Government, particularly in relation to exploring a pilot Social Impact Bond to reduce entry into care for Looked After Children (as set out on p.26 of the budget).

“NHS Wales organisations support an approach to further protect funding for preventative measures that recognise the importance of improving population health outcomes and sustainability of services in the longer term.”

▶ NHS Confederation
- Response to Finance Committee consultation, September 2019

There is little evidence that Government is considering what a better balance of spend is in relation to primary, secondary and tertiary prevention, clearly defining what they are trying to prevent and showing a clear line of sight through spending on evidence-based actions.

I have written twice to Ministers, and met with several Ministers, asking a number of specific questions about how they have applied the prevention definition to their portfolios and the answers I have received have been general examples of how policy areas reflect the WFG Act.



My view on progress from Welsh Government

“...it is difficult to disaggregate preventative expenditure (because there is not yet a common service level definition and early intervention can be exercised across a spectrum of need); but we agree that additional costs/austerity has very probably led to a real terms cut in preventative spending including those areas listed in the Committee’s document.”

▶ Neath Port Talbot Council
Response to Finance Committee consultation, September 2019

There is some evidence that WG is asking other public services to apply definition to their spend – I have seen examples in relation to the NHS and Housing.

However, there is far greater scope for the definition to be meaningfully considered across services, with Local Government being a particular gap.

There is no evidence that WG are considering a ‘whole government’ approach to prevention, which is what I recommended. The section of their ‘budget improvement plan’ on prevention is positive but relies on the Treasury to drive progress – this is not a whole Government approach to embedding preventative approaches.

Prevention of Homelessness

In order to better understand the extent to which conversations are happening across Government in relation to prevention I have focused on the prevention of homelessness.

Whilst I have found that conversations are happening across Government this is not clear in the budget narrative, and these conversations are largely focused in the space of tertiary prevention with little consideration given to collaborative opportunities for primary and secondary prevention. I believe there are further opportunities to align funding and consider whether it is achieving the best outcomes in terms of preventing homelessness. I am working closely with the Homelessness Action Group, chaired by Jon Sparkes from Crisis, on this.

▶ Information about the work of the Homelessness Action Group can be seen at <https://gov.wales/homelessness-action-group>

Questions that Members could consider asking as part of scrutiny of the draft budget for 2020/21

“It was disappointing that when we asked the Cabinet Secretary for specific examples of primary, secondary or tertiary prevention within his budget, he was unable to provide a single example.”



Equality, Communities and Local Government Committee, draft budget scrutiny 2019-20

1) Overall commitment to embedding prevention (focus on outcomes)

- What role does your department play in delivering the overall vision of shifting to preventative approaches, and what contribution are you currently making?
- How do you know you are investing in the programmes that will make the most difference?

2) Understanding the balance of spend in relation to prevention

- How have you used the prevention definition: what assessment have you made of the proportion of your investment that is in primary/secondary/tertiary prevention, or in the acute space?
- Have you made changes to how you invest in prevention for the 2020-21 budget?

3) Encouraging other bodies to use prevention definition

- How are you encouraging other public bodies to use the definition of prevention?

4) Whole Government approach to prevention

- How are you ensuring that a whole Government approach to prevention can be taken with clear leadership and accountability for progress?

Section 3

Assessing year on year progress in the budget

In my advice to Government I emphasised that it needed to be easier for stakeholders to understand what is changing in relation to the budget, and understand what simple changes and more transformational change looks like.

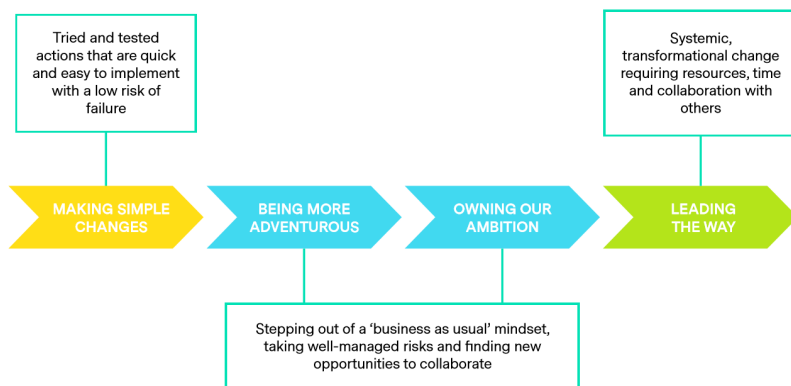
Finance Committee also made similar recommendations:

Recommendation: Welsh Government should work with my office to develop a 'Journey Checker' to set out what good should look like in how the budget process evolves over at least the next 10 years.

Recommendation: Welsh Government should make it clearer how the six priority areas are driving different decisions through considering future trends and scenarios, holistically applying the prevention definition and using opportunities to make system-wide collaborative investments.

Recommendation 8: The Committee is keen to understand how the "journey tracker" will be used by the Welsh Government to accelerate its implementation and integration of the objectives of the Well-being of Future Generations Act and recommends that its use is reflected in the draft Budget 2020-21

Recommendation 9: The Committee recommends that the Welsh Government continues to demonstrate how it embeds the Well-being of Future Generations Act in decision making throughout its organisation, engaging as fully as possible Scrutiny of the Welsh Government Draft Budget 2019-2020 with the Future Generations Commissioner to deliver the cultural change necessary within the Welsh Government.



▶ This diagram is the basis of my 'Journey Checker' - for examples please see my website <https://futuregenerations.wales/the-art-of-the-possible/>

My view on progress from Welsh Government

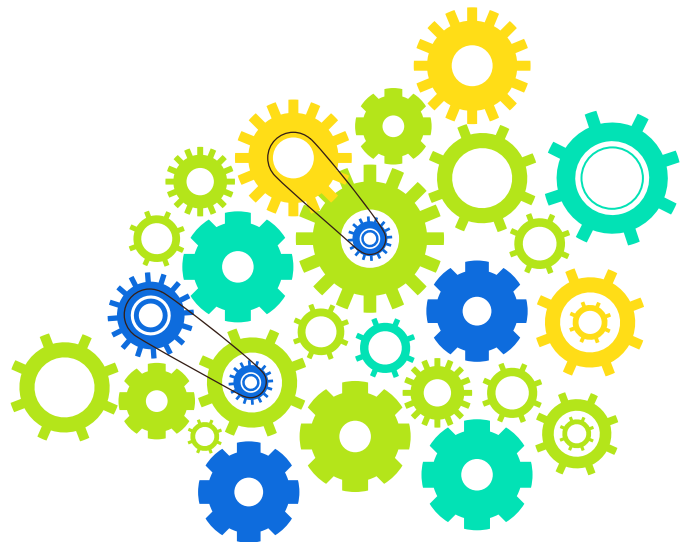
Welsh Government chose to do this work themselves, with a focus on an approach that will be useful to them - they framed this as a 'Budget Improvement Plan'. I am pleased that they have published a draft of this Plan as part of the draft budget 2020-21.

The Plan is a helpful start to understanding what progress in relation to the budget process could look like, and I welcome the fact that it takes a broad view across the Welsh Treasury. I understand that officials have engaged internally within Government on this Plan, and I look forward to seeing how they take on board comments as they engage externally.

Whilst the Plan is a good start, I think there are a number of areas in which it could be strengthened to better reflect the aspirations of the WFG Act and to enable stakeholders to better understand progress – these include:

1) Raise the level of ambition and vision

To reflect the aspirational nature of the WFG Act, the Plan should include more ambitious and transformational actions within a longer-term timeframe, including consideration of what a budget that fully embeds the Act might look like.



▶ The Welsh Government Budget Improvement Plan can be seen at <https://gov.wales/sites/default/files/publications/2019-12/budget-improvement-plan.pdf>

My view on progress from Welsh Government

2) Enable stakeholders to hold spending outcomes to account and track how transformational the change is

The Plan should enable stakeholders to track how spending decisions are changing as well as tracking how the budget process is changing. Welsh Government could learn from the New Zealand Well-being Budget in this regard: wellbeing objectives are first selected, and then cross-government groups make spending proposals against these objectives (with impact assessments alongside). The New Zealand Government selects proposals and then publishes the spending decision shifts that took place as a result of this process.

Links to the New Zealand Well-being Budget:

- ▶ (May 2019 budget)
https://treasury.govt.nz/sites/default/files/2019-06/b19-wellbeing-budget_1.pdf
- ▶ (Guidance)
<https://treasury.govt.nz/sites/default/files/2018-12/budget19-guidance.pdf>

3) Further embed the key elements of the WFG Act, particularly in relation to the 5 ways of working

Whilst the Plan is a helpful way to understand progress, it could go further in reflecting the key elements of the WFG Act, particularly in framing how the budget is enabling focus on Government's well-being objectives, and taking greater account of the five ways of working (particularly 'long term' and 'prevention').

Questions that Members could consider asking as part of scrutiny of the draft budget for 2020/21

1. What is your level of vision and ambition with this work? Do you have a clear idea of what a budget that fully embeds the Well-being of Future Generations Act would look like?
2. How is this Plan going to enable stakeholders to understand what is changing year on year, both in terms of process and in terms of spend?

Section 4

14

Taking further steps to a longer term approach

In the advice I published for Government in December 2018, I included two recommendations that related to Government taking a longer-term approach, which would in turn enable other public services and organisations to plan for the long term.

Recommendation: Welsh Government must demonstrate how they are applying the principles of the WFG Act in responding to the UK Government Spending Review in 2019.

Recommendation: Welsh Government should use the Spending Review as an opportunity to explore options for multi-year spending commitments to public bodies.

Welsh Government have faced significant challenges in budget planning this year, due to the uncertainty around the UK's exit from the European Union, the UK political context and the announcement of a one-year Spending Round rather than a full Spending Review.

I appreciate that these challenges have made taking a longer-term approach more difficult for Government over the past year. For that reason I will not focus on this area of work in my scrutiny of the draft budget for 2020-21.

However I do expect that some progress has been made on the internal preparations required. I will continue to monitor this area with a particular focus on how Welsh Government responds to the UK Government Spending Review that is due to take place next year.



CHANGE MAKER
(BUDGET, PREVENTION, HEALTH)

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CHANGE MAKER
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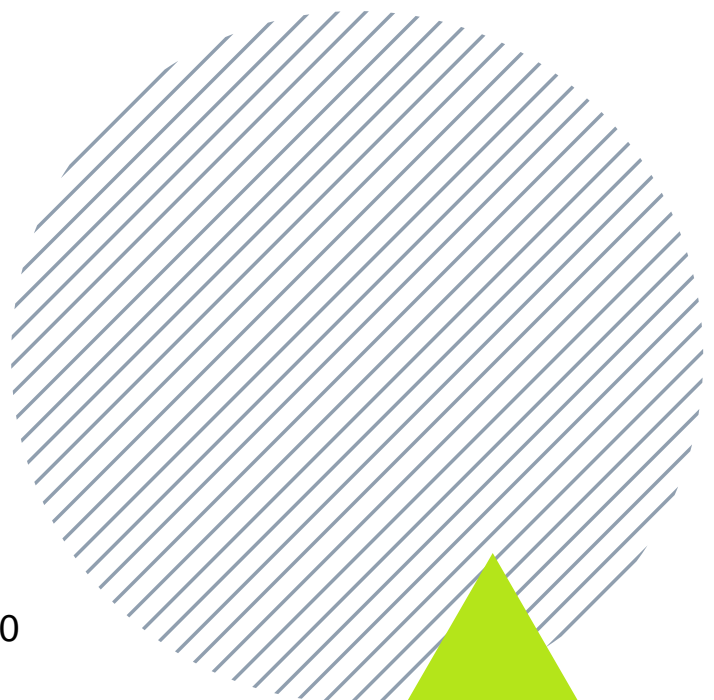
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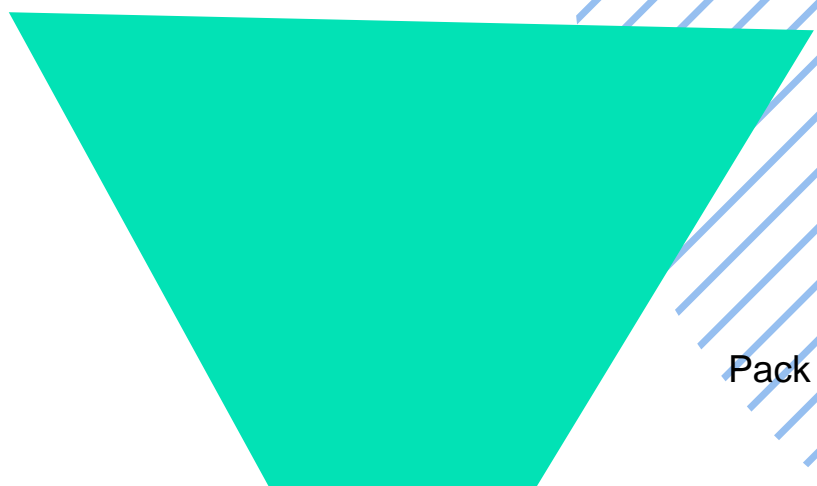
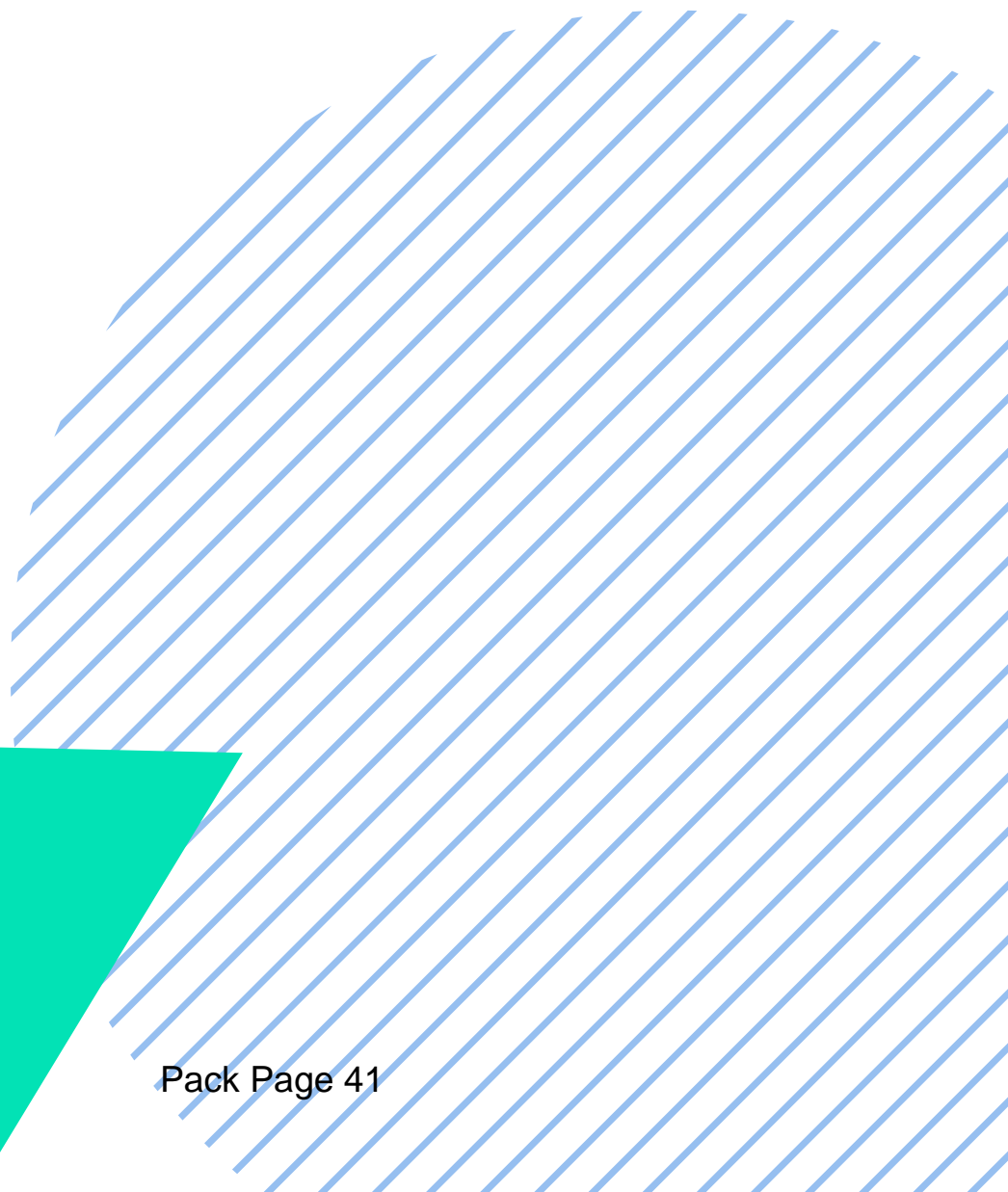


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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

Mr Llyr Gruffydd AM
Chair of the Finance Committee
National Assembly for Wales

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Reference: IE19013/AC172/caf

Date issued: 23 December 2019

Dear Llyr

Wales Audit Office Estimate of income and expenses for the year ended 31 March 2021 and Fee Scheme 2020-21

Further to the Finance Committee's [report on the Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales](#), we are pleased to attach a copy of our modified Estimate for the year ended 31 March 2021, for your information.

We would welcome the Committee's advice as to whether we should formally lay this modified Estimate.

We also attach the proposed Fee Scheme for 2020-21, so have not included this in the modified Estimate.

In its report, the Committee recommended that, prior to the Fee Scheme 2020-21 being laid before the Assembly, details be provided to the Committee as to how the £240,000 increase in fee income relates directly to the cost of delivering the Auditor General's audit work. We provide this explanation below.

Our modified Estimate recovers a marginally higher proportion of our cost base through fees (64%) instead of from WCF funding, as compared with our original proposals (62%). Our modified Estimate sets fee income (the accruing resources budget ambit) at £14.004m for next year. This is £240,000 more than allowed for in our original Estimate, but still £471,000 lower than the current year (2019-20).

Hourly rates are calculated to recover costs over the quantum of the Auditor General's work – other than those costs which are met from WCF. The modification described above has the effect of increasing our hourly fee rates as we have reduced the contribution to our running costs received from WCF. However, it is important to remember that fees are calculated by the equation of

hourly rates x audit hours, so whilst fee rates will increase, audit hours are expected on average to decrease as a result of audit efficiencies. This informs our assumptions around fee scales reducing by circa 0.7%, meaning that many of our audited bodies will see reductions in their fees – just a smaller reduction than we had originally planned.

Although our modified Estimate is dependent on a £240,000 increase in fee income, the fact remains that fees will continue to be (in effect) subsidised by the funding we receive from WCF. We remain able to ensure, therefore, that fees charged will be ‘no more than full cost’ under the Public Audit (Wales) Act 2013.

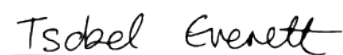
Headlines in the attached Fee Scheme are:

- The average increase in hourly rates is 3%
- Audit efficiencies will deliver an average **decrease** in fee scales of 0.7%
- Audited bodies should only face a fee increase if local circumstances justify an increase in the audit work being undertaken.

One final point of clarification, to confirm, where we have invoiced for fees in instalments over the audit period and the overall amount charged exceeds the actual cost of the completed work (due to audit efficiencies), we process the refund either via credit notes or cash refunds, depending on the preferences of each audited body. This does not contravene the ‘no more than full cost’ rule in the Act.

We attach a copy of our proposed Fee Scheme for 2020-21 which we will need to lay before the Assembly in time for this to be published before the start of the new financial year. Please let us know if you have any questions that we can respond to before the Fee Scheme is laid.

Yours sincerely



ISOBEL EVERETT
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Estimate of Income and Expenses of the Wales Audit Office for the year ended 31 March 2021 (modified)



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Jointly prepared and laid before the National Assembly for Wales under Section 20(1) of the Public Audit (Wales) Act 2013

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

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Adrian Crompton
Auditor General for Wales

Isobel Garner
Chair, Wales Audit Office

Preface

For each financial year, Section 20 of the Public Audit (Wales) Act 2013 requires the Auditor General and the Wales Audit Office jointly to prepare an estimate of the income and expenses of the Wales Audit Office and to lay that estimate before the National Assembly at least five months before the beginning of the financial year to which it relates.

In accordance with Section 20 of the Act, each estimate must cover (amongst other things) the resources required by the Auditor General for the exercise of his statutory functions.

For 2020-21, the [estimate](#) was laid at the Assembly on 25 October 2019 and was considered by the Assembly's Finance Committee on 5 November 2019.

The Committee may make any modifications to the estimate which it considers appropriate, but no modification can be made unless:

- the Auditor General and the Wales Audit Office have been consulted; and
- any representations that either may make have been taken into account.

The Committee consulted the Auditor General and the Wales Audit Office on modifications to the estimate and laid its [report](#) on the estimate on 2 December 2019. This document reflects the modifications made.

The Welsh Ministers must each year move a motion in the National Assembly under Section 125 of the Government of Wales Act 2006 that includes authorisation of the resources to be used (including accruing resources) and payments to be made by the Wales Audit Office. This Estimate sets out the amounts to be included in respect of the Wales Audit Office.

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Foreword

The Wales Audit Office exists to give the National Assembly and the people of Wales confidence in a high-performing and accountable public sector. With public trust in government, institutions and professionals in decline, our work is more important than ever in safeguarding the integrity of our devolved democracy in Wales.

Our wide-ranging programme of value for money work is vital to robust parliamentary accountability through the National Assembly's Public Accounts, Finance and other Committees. We audit the accounts and governance of over 800 public bodies across Wales, providing the principal means of assurance about how public money in Wales is being managed. From the Welsh Government itself to the smallest community council, through almost every area of public service delivery, the Auditor General can follow the public pound wherever it is spent.

The total annual cost of delivering this independent assurance and insight represents a little over 1 penny for every £10 spent on public services in Wales. In 2020-21, our cost to the public purse will be lower than the current year.

The UK's impending exit from the European Union is an unprecedented test for the National Assembly, Welsh Government and the wider public sector across Wales. Financial sustainability is a very real and growing risk for some public bodies. Public services are under increasing pressure to respond to social and demographic changes, rapid technology advancement, climate change, reforms to funding mechanisms and more complex governance models such as City Deal partnerships. And, as both society and technology changes, new risks of fraud and corruption arise.

At the same time, the audit profession itself is under scrutiny. After several well-publicised private sector corporate failures and concerns about the adequacy of local public audit arrangements in England, independent reviews have recently made recommendations to strengthen quality, independence and the scope and expectations of audits. Many of these recommendations are already features of our existing public audit model in Wales, but we are not complacent. Our focus continues to be on delivering independent, rigorous and high-quality audit, and in delivering continuous improvements in our own operations.

In 2018, a new Auditor General for Wales (AGW) was appointed. Since then, the Wales Audit Office Board, and whole organisation, have embraced a shared commitment to unleash our full potential to help the National Assembly hold government to account for spending public money and to drive improvements in public services. This is the first opportunity for the new AGW and Board to submit an Estimate shaped by that vision and our ambitions to:

- fully exploit our unique perspective, expertise and depth of insight;
- strengthen our position as an authoritative, trusted and independent voice;
- increase our visibility, influence and relevance; and
- be a model organisation for the public sector in Wales and beyond.

It provides for an overall real-terms **reduction** in the total revenue budget of the Wales Audit Office of 3%, excluding the biennial cost of the National Fraud Initiative.

We are acutely aware of our responsibility to other parts of the public sector to contain our own operating costs and the fees we charge, provided that does not risk audit quality and the assurance we can provide. This Estimate describes our Smarter, Leaner, Better value-for-money programme and the opportunities we see to continue to drive cost savings and efficiencies in our business model in the years ahead. Building on significant savings made across previous years, our savings target for 2020-21 is £476,000 – a tough challenge for us to achieve and in addition to recyclable vacancy savings of £870,000.

Almost two thirds of our £22 million annual income is derived from the fees we charge to the public bodies we audit. Over the past four years we have successfully delivered real-terms reductions in fees for most of these public bodies.

The Finance Committee is familiar with the inflexibility in our existing statutory funding regime. It significantly constrains the Auditor General's ability to redeploy any capacity released by efficiencies in our fee-earning activities to other types of audit work.

To go some way to overcoming this inflexibility, this Estimate switches c1% of resource from fee income to funding from the Welsh Consolidated Fund (WCF). This transfer between our funding sources of £180,000 will enable us to contain the annual fees that we charge to public bodies through delivering planned audit efficiencies, whilst retaining audit capacity and expertise. We will use that specialist capacity to provide the National Assembly and others with assurance and insight from our annual accounts work that we would otherwise not be able to deliver. Importantly, there will be no net increase in our costs or funding to achieve this.

In addition to this shift, we will use additional revenue and capital resources from the WCF to support planned investment in our digital capacity and capabilities, primarily to expand on our early work on data analytics, leading to longer-term savings and increased impact, and to strengthen our cyber security arrangements.

To deliver this we include an increase of £220,000¹ in the funding that we receive from the WCF. Our fee income will fall by £471,000, so the cost of public audit in Wales will be lower next year than it is this year.

We expand on our plans through this document, which we have developed in accordance with the [Statement of Principles](#)² published by the Finance Committee in May 2019 and the follow-on briefing the Committee provided from the Minister for Finance and Trefnydd in July 2019. This document also reflects the modified proposals supported by the Committee in its report published 2 December 2019.

Our [Annual Report and Accounts](#) sets out our record of achievement for the last financial year. In March this year we laid our [Annual Plan for 2019-20](#) at the Assembly. This Estimate secures funding for our forward priorities for 2020-21, and our Annual Plan for that year will then be laid before the National Assembly in March 2020.



Isobel Everett
Chair, Wales Audit Office



Adrian Crompton
Auditor General for Wales

¹ See Exhibit 5

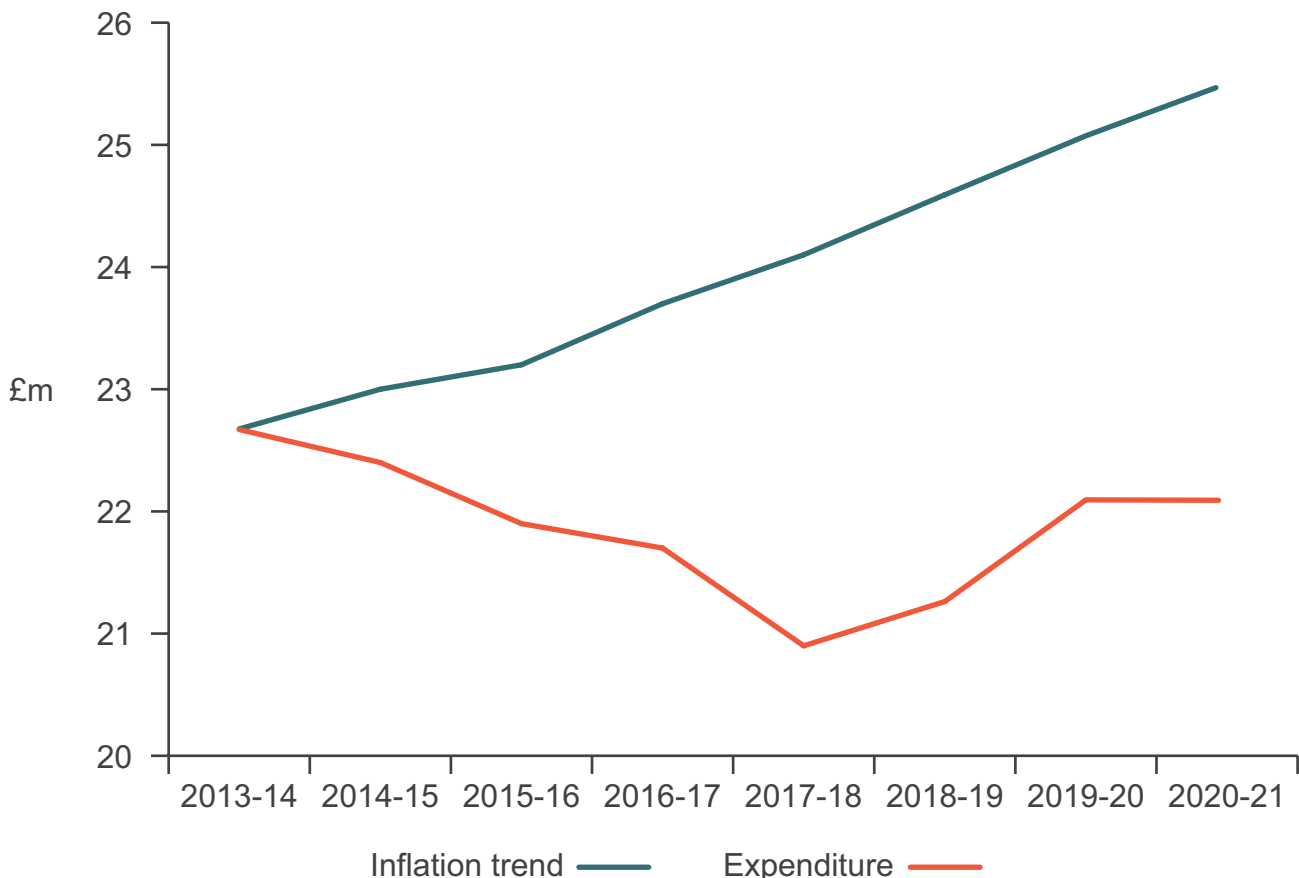
² See Appendix 1

Value for money at the Wales Audit Office

Cost of public audit in Wales

- 1 Since the establishment of the Wales Audit Office Board in 2013-14, we will have reduced the cost of public audit in Wales by 14% in real terms³. This is represented in **Exhibit 1**. The cumulative savings generated across those years will amount to over £16 million.
- 2 We have achieved this reduction in expenditure despite allocating additional resources to new areas of spend during the period, such as Investigative Studies, growth in our Good Practice Exchange work, our investment in a graduate training scheme and in organisational transformation.

Exhibit 1 – the cost of public audit 2013-14 to 2019-20



- 3 Our Estimate for 2020-21 requires that we make savings of £476,000 to balance the budget along with £870,000 savings from staff turnover. We set out below the framework we will employ to identify these savings.

³ Based on GDP deflators published by ONS, June 2019.

Value for Money (VfM) Framework - Smarter, Leaner, Better



Our people

- Aligning resources with Wales Audit Office ambitions
- Skills mix and workforce re-modelling
- Supply/demand modelling
- Reviews of support services and audit delivery

Achieved so far⁴ (savings £967,000)

- Increased use of graduate trainees £178,000
- Reduced number of Directors £587,000
- Reduced contractor expenditure £100,000
- 2015 review of corporate services £102,000

Future potential

- Refresh resourcing plans for audit work
- Tight alignment to work to ambitions
- Strategic Workforce Planning



Time savings



Places

- Smarter working – office space and travel
- Estates strategy
- Building efficiency
- T&S scheme
- IT enabled

Achieved so far (savings £132,000)

- 10% travel cost savings from 2016 review £120,000
- Travel costs contained despite in-sourced Firms' work
- Reduced travel costs re investment in VC/Skype
- Savings from North Wales office move £12,000

Future potential

- Cost savings arising from Ways of Working project
- Estates strategy review



Processes

- Data and digitally enabled
- Smarter working – systems and processes are necessary efficient and effective
- Assembly review of Public Audit (Wales) Act 2013 (PAWA)
- Corporate change programme
- Integrated resourcing

Achieved so far

- Expenses system efficiencies
- Governance reporting efficiencies

Future potential

- PAWA review
- Audit efficiencies from Data Analytics
- On-going process reviews
- Corporate change programme
- Integrated resource deployment



Procurement

- Cost effective procurement
- In-sourcing Firms' work

Achieved so far (savings £785,000)

- In-sourcing firms' work in 2016 £640,000
- Payroll and internal audit outsourcing £75,000
- IT systems £70,000

Future potential

- Firms' contracts end 2020
- Review use of procurement frameworks

⁴ Annual savings identified since 2013

Budget 2020-21

Our Annual Plan Ambitions

- 4 Our Annual Plan for 2019-20 set out the following ambitions for the work of the Wales Audit Office and the Auditor General. This Estimate sets out the funding required for 2020-21 if we are to achieve these ambitions.



Fully exploit our unique perspective, expertise and depth of insight

- Maximise the power of our unique insight through more integrated team working and knowledge sharing.
- Search proactively for synergies and trends within the information that we hold.
- Focus on what matters most and will make the biggest difference to the public and public bodies.



Strengthen our position as an authoritative, trusted and independent voice

- Bring trusted commentary and evidence to the fore on the right issues at the right time.
- Ensure we clearly lay out the facts and concisely explain why we have arrived at a particular conclusion or interpretation.
- Be alert and responsive to new opportunities to share audit knowledge and insight where it can add value.



Increase our visibility, influence and relevance

- Have an overtly outward focus and engage in a way that resonates with a wide range of audiences.
- Influence the thinking and behaviour of others and shape the wider public debate.
- Seek and be receptive to ideas and lines of thought from outside Wales and outside the public sector.



Be a model organisation for the public sector in Wales and beyond

- Since we form audit judgements on others, make sure we consistently practise what we preach.
- Provide clear, consistent and authentic leadership and increase the pace of our decision making.
- Empower people throughout the organisation to come up with new ideas and effect positive change.

Overview of expenses and income 2020-21

- 5 We have aligned our Estimate format with our Annual Report & Accounts to provide easy readability across our spending plans and actual out-turn.
- 6 Our total planned expenditure for 2020-21 is less in cash terms than for the current financial year – representing a reduction of 2.4% in real-terms. If the cyclical cost of the National Fraud Initiative (NFI) is excluded, our expenditure next year would be 3% lower in real-terms.

Exhibit 2 – expenses and income 2020-21

Expenses	Estimate 2020-21 £'000	Estimate ⁵ 2019-20 £'000	Increase/ (Reduction) £'000
Staff costs	16,379	15,917	462
Short term contract staff	311	737	(426)
Travel and subsistence	1,205	1,216	(11)
Accommodation	940	993	(53)
Private sector firms	598	905	(307)
Irrecoverable VAT	500	500	-
ICT	546	480	66
Wales Audit Office governance	300	300	-
External training	289	289	-
Translation	145	165	(20)
Legal and professional fees	180	162	18
Depreciation	280	280	-
Other supplies and services	675	739	(64)
Savings target	(476)	(540)	64
TOTAL	21,872	22,143	(271)
Cyclical NFI costs	130	-	130
Expenses total	22,002	22,143	(141)

⁵ Per Supplementary Budget Memorandum approved by the Assembly's Finance Committee on 15th May 2019

Income	Estimate 2020-21 £'000	Estimate 2019-20 £'000	Increase/ (Reduction) £'000
Audit Fees	12,375	12,377	(2)
EU Agricultural Funds Audit	759	900	(141)
Grant certification fees	870	1,198	(328)
INCOME TOTAL	14,004	14,475	(471)
Total to be funded from WCF	7,998	7,668	330

Exhibit 3 – expenses breakdown 2020-21

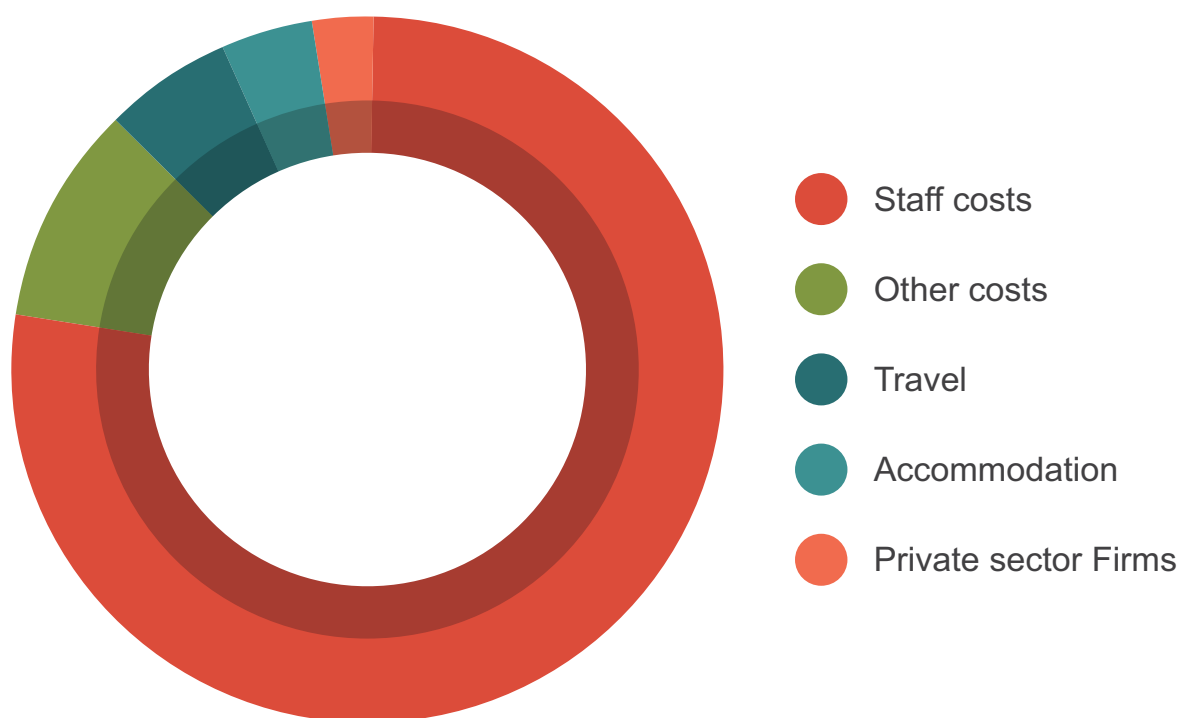
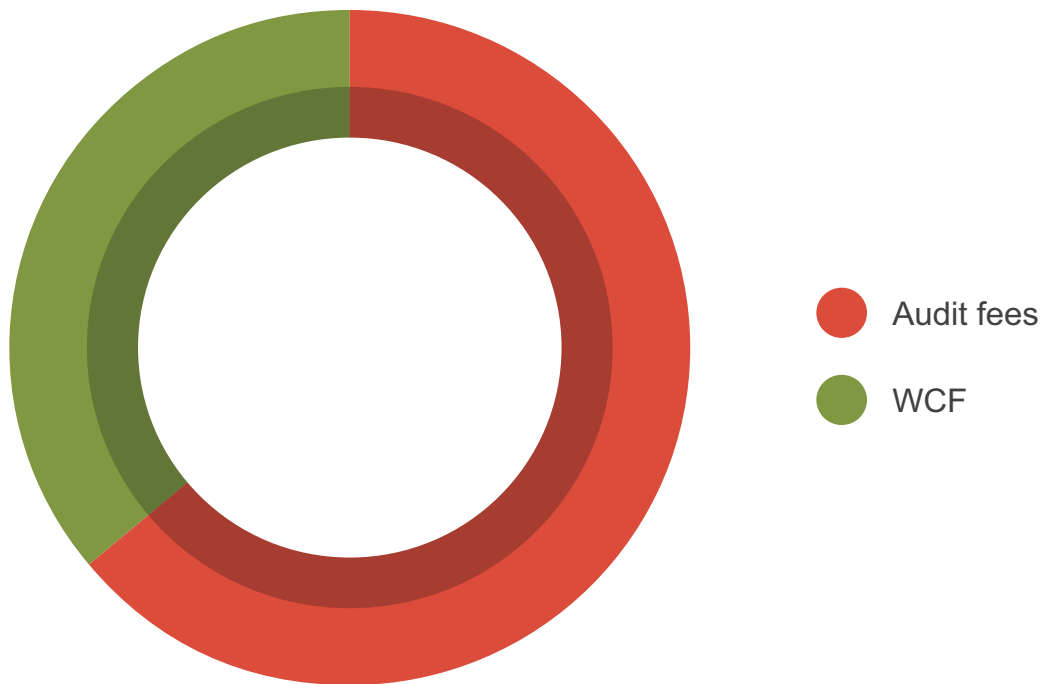


Exhibit 4 – income breakdown 2020-21



Explanation of the main expense areas

Staff costs £16.4 million (77% of expenditure)

- 7 Most of our expense is in respect of the cost of employing our staff. Our budget for 2020-21 includes provision for 273 full time equivalent roles. In line with Welsh Government guidelines⁶ we have included an indicative 2% budget increase in anticipation of a pay settlement for the year, from April 2020.
- 8 We anticipate a marginal increase in overall staff numbers from 2019-20, reflecting a leaner and more cost-efficient staff/grade mix, an extension of our highly-regarded graduate trainee and apprentice programmes, and some essential specialist capacity and expertise for our Data Analytics project and to meet our cyber security requirements. Our use of short-term contract staff is reducing as we recruit more trainees and apprentices.

⁶ Letter dated 19th July 2019 from Minister for Finance and Trefnydd

Travel and subsistence £1.2 million (6% of expenditure)

- 9 Our budget for 2020-21 shows a small reduction as compared to the previous year, based on an expected reduction in travel in response to our Ways of Working project.
- 10 We anticipate that further savings will materialise and contribute to our global savings target as we fully implement the recommendations from the 'Ways of Working' transformation project. This will likely see more of our staff working remotely or from 'audit hubs' rather than travelling daily to client sites.
- 11 A value for money review of our travel scheme will be carried out by the end of this year. In agreement with the Assembly's Finance Committee, we have appointed our external auditors, RSM UK LLP to undertake this review.

Accommodation £0.9 million (4% of expenditure)

- 12 We currently have 3 office bases: in Cardiff, Abergele and Swansea – the leases on each of these come to an end between 2021 and 2025. Our Estates Strategy is being updated, considering the findings of our Ways of Working project, to consider the best solutions for our future accommodation needs.

Private Sector Firms £0.6 million (3% of expenditure)

- 13 In January 2019 the Board agreed, following detailed consideration of an options appraisal and business case, that the Wales Audit Office would no longer contract out audit work to private sector firms. Current contracts come to an end in the autumn of 2020 after which time the work will be carried out by Wales Audit Office staff. The change will in no way reduce audit quality and provides the opportunity to realise other benefits including:
 - reduced costs to enable the Wales Audit Office to achieve its medium-term financial plan and strategy;
 - in line with our workforce planning principles, avoidance of redundancies (and as associated costs) for Wales Audit Office staff following the anticipated loss of income from audit of EU Agricultural funds and Welsh Government grants certification work; and
 - avoidance of the costs of contract management and dispute resolution;
 - potential to deliver more tailored service to audited bodies, such as through our Welsh language provision;
 - ability to support strategic improvement in financial management of the Town and Community Council sector.

- 14 We do not currently anticipate that any significant recruitment will be necessary, as this additional work is expected to align with the end of our existing audit work on EU Agricultural Funds in 2020-21⁷.

ICT £0.5 million (2% of expenditure)

- 15 We plan to spend £546,000 on ICT in 2020-21, mainly on software licences (including Microsoft office and core systems) and line rentals for our ICT infrastructure.
- 16 Our expenditure on ICT is increasing as we increase our use of specialist analytics software and respond to increased requirements for improved cyber security.

Other expenses

- 17 As set out in [Exhibit 2](#), we incur a range of other expenses in running the Wales Audit Office, such as external training, legal and professional fees (including our internal and external auditors), Welsh translation, depreciation of our capital assets and costs associated with the National Fraud Initiative.

Income

- 18 We derive income to fund our work from two sources: fees charged to audited bodies (64%) and from the Welsh Consolidated Fund (36%).
- 19 The Wales Audit Office does not generate profits on fees. The Public Audit (Wales) Act 2013 requires that the fees we charge must not exceed the full cost of exercising the function to which the fee relates. This is a particularly restrictive provision that limits our ability to use our resources flexibly. We therefore very much welcome the Finance Committee's intention to develop and consult on a draft Bill to amend the Public Audit (Wales) Act 2013.
- 20 When the Auditor General gave evidence to the Finance Committee in July 2019 in relation to the restrictions of the legislation, he referred to this inflexibility and the particular constraint that it places on his ability to move any staff capacity from fee-earning work to other types of audit work.
- 21 He said, 'Administratively, when I try to take staff who are fee funded away from that work, or encourage them to be more efficient, to free up some of their time to deliver something new and fresh, we're left in this vicious circle...locked into this straitjacket of the 'no more than cost' rule, keeping our resource locked in to particular areas of work, and not freeing it up, as I'd like to be able to do'.

⁷ See paragraph 86

22 In order to overcome this inflexibility, this Estimate therefore proposes reducing fee income by 1.2% and switching that £180,000 to be funded from the WCF instead. This will enable us to retain specialist audit capacity and expertise freed-up through audit efficiencies, to redeploy to new areas of work and achieve greater impact. Importantly, this means the overall cost of the work we undertake will not increase (it has no net impact on the Welsh block), but it will enable us to continue to reduce the annual fees we charge to public bodies through delivering audit efficiencies.

Fee income

- 23 We anticipate two significant reductions in our income from audit fees in 2020-21. These arise in part from Brexit and the expected loss of audit work on EU Agricultural Funds, and from the decision of the Welsh Government to reduce the assurance work we undertake in respect of grant certification.
- 24 In 2019-20, we are receiving just under £1 million in fees to fund our audit of EU Agricultural Funds across Wales. Our Estimate assumes a reduction of around £140,000 for 2020-21 and the complete elimination of this fee income stream in subsequent years, consequent on the UK's departure from the EU.
- 25 Over recent years, the annual fee income generated primarily by our grant certification work for the Welsh Government has declined from around £2.5 million to just £1.2 million in 2019-20. In June 2019, the Welsh Government notified the Auditor General of its intention to discontinue its commissioning of this work with effect from 2019-20. This Estimate therefore incorporates a reduction of £328,000 in grant certification fee income for 2020-21, and we anticipate a further very substantial reduction in this fee income stream in future years.
- 26 To ensure no reduction in overall audit assurance over the operation of the Welsh Government's hypothecated grant expenditure programmes, over the next few months we will consider carefully whether we may need to conduct additional audit work to support the Auditor General's opinions on the Welsh Government's annual accounts, and/or whether more frequent value for money study coverage of grant-funded expenditure is warranted. We will set out our intentions in future Annual Plans and notify the Finance Committee accordingly.
- 27 We are acutely aware of the financial pressures on all parts of the public sector and our responsibility to deliver our audit work as efficiently as possible. We strive consistently, therefore, to minimise the overall cost of audit to public bodies without sacrificing audit quality.

- 28 These changes to our workload, along with the in-sourcing of work from private sector firms have been factored into workforce planning requirements and our medium-term financial and resource planning.
- 29 The combined effect of these changes mean that we will receive over £470,000 less in fee income next year – a reduction of 3.3% in cash and 5% in real terms.
- 30 The income we receive from fees is governed by the Wales Audit Office Fee Scheme, as approved by the Assembly's Finance Committee. Legislation requires us to publish a Fee Scheme at least on an annual basis.
- 31 We will lay our Fee Scheme for 2020-21 before the National Assembly and then confirm estimated fees for next year to our audited bodies.
- 32 In August 2019 we consulted 268 individuals across 96 organisations on our proposed fee scales for 2020-21 which are around 1% lower than those applied for 2019-20.
- 33 We received just 9 responses, suggesting that for most bodies, our fees are not a significant area of concern. Responses received told us that:
- audited bodies welcome the work done by the Wales Audit Office and the professional approach of our staff;
 - audited bodies continue to welcome free participation in the National Fraud Initiative;
 - the proposed reduction in median fee levels is welcomed;
 - there is a continuing expectation that the Wales Audit Office demonstrates value for money in line with the financial pressure being faced by audited bodies;
 - one audited body would welcome more transparency in how fees are set; we will discuss this with them; and
 - for the National Parks, there is concern about how our fees compare with those paid by equivalent bodies in England; again, we will discuss this with them.
- 34 The Board welcomes the feedback and will take it into account in finalising the Fee Scheme.

Welsh Consolidated Fund income

- 35 For 2020-21 we are seeking WCF revenue funding of £7.998 million. After accounting for the cyclical change in funding for the National Fraud Initiative, this represents a 2.6% increase in cash and a 0.7% increase in real-terms on the amount received for 2019-20. A significant proportion of this increase reflects the switch from fee to WCF income described above.
- 36 We explain more in the following section about what we will deliver with the WCF income we receive.

Funding our work - WCF 2020-21

Changes in our call on the WCF 2019-20 to 2020-21

37 This Estimate seeks to increase our call on the WCF by 0.9% in real-terms after accounting for the cyclical increase in NFI funding. The changes are summarised in [Exhibit 5](#).

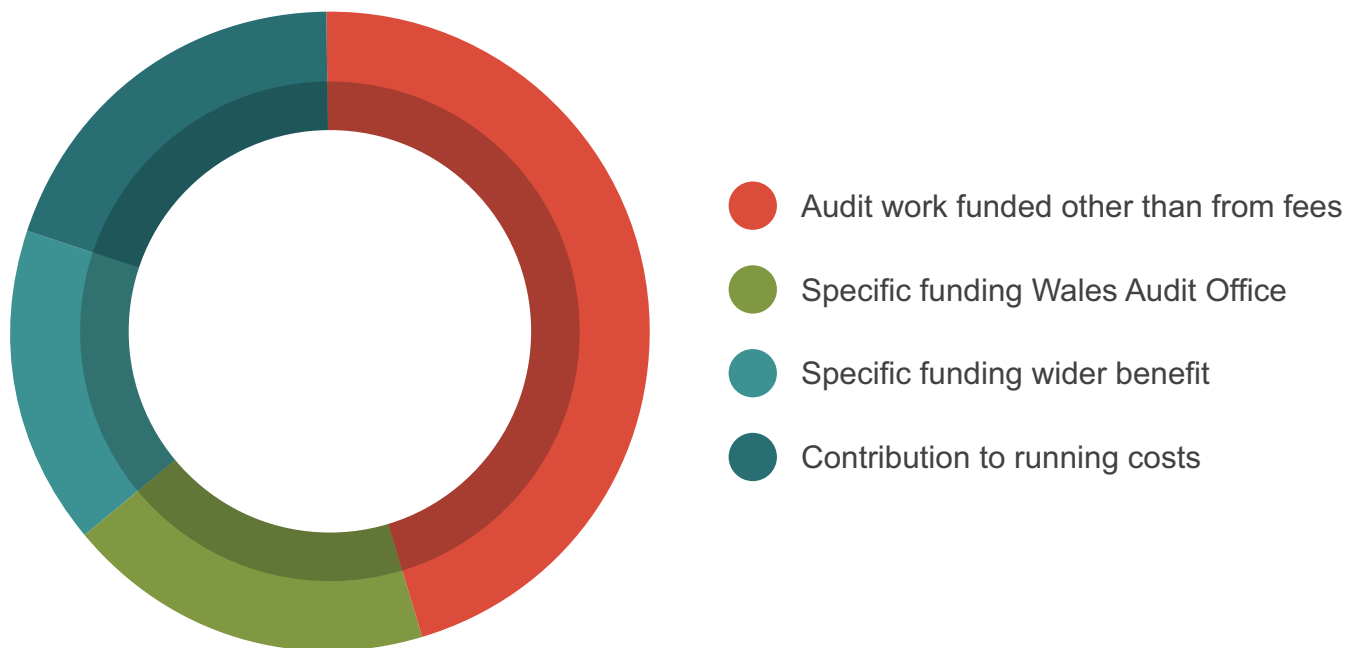
Exhibit 5 – changes in WCF funding from 2019-20 to 2020-21

	Revenue £'000	Capital £'000	Total £'000
2019-20	7,668	210	7,878
Cyclical NFI Funding	130	-	130
Baseline Estimate 2020-21	7,798	210	8,008
Changes for 2020-21			
Capital programme	-	20	20
Audit work funded other than from fees (£180,000 increase less £85,000 returned)	95	-	95
Specific funding supporting the Wales Audit Office (data analytics/cyber security)	225	-	225
Contribution to running costs, being part-provision for a pay agreement	120	-	120
Contribution to running costs to be recovered from fees	(240)	-	(240)
Total WCF Funding 2020-21	7,998	230	8,228
Change from baseline	200	20	220

How we will use WCF funding

38 The Wales Audit Office will use the funding it is seeking from WCF in four main ways, as shown in Exhibit 6.

Exhibit 6 – planned use of £7.998 million WCF revenue funding 2020-21



Audit work funded other than from fees: £3.643 million (£95,000 increase over 2019-20)

- 39 WCF income enables the Auditor General to support the work of the National Assembly directly through his programme of national value for money studies. These are reported to the Assembly's Public Accounts Committee and described in [our Work Programme for 2019-20](#).
- 40 The Committee is one of the key mechanisms for the Assembly to hold to account the organisations which it funds directly or through the Welsh Government. We therefore aim to ensure that the Committee is well-supported by us in its work.
- 41 Increasingly, other Assembly committees are drawing on, or commissioning, Wales Audit Office studies and the specialist knowledge and expertise of our staff. Recent examples include support provided to the External Affairs & Additional Legislation Committee in respect of Brexit; and the Finance Committee in respect of its inquiry into the Welsh Government's capital funding sources. Our aim is to extend further the range and depth of support we provide to the National Assembly and this Estimate includes an element of funding to enable this.
- 42 The funding also allows the Auditor General to respond flexibly to issues that arise during the year, including concerns raised by the National Assembly, its committees, Members or others.
- 43 As previously explained, this Estimate includes provision to switch £180,000 of audit resource from being fee-funded to being WCF-funded.
- 44 We will deploy the capacity and expertise of our auditors to provide added-value commentary and insight arising from our accounts audit work. This will be of direct value to the National Assembly, to those charged with governance throughout the public sector and to the wider public. It will align with our ambition to inspire and empower public service improvement and to explain how public money is being used, going beyond the core assurance statements we currently provide and charge for through fees.

- 45 Specifically, the added flexibility will enable us to undertake annual pieces of work to explore particular themes arising from our accounts work. Examples might include examination of voluntary severance schemes or asset management across the public sector; annual sectoral reviews of financial health and sustainability on a pan-Wales basis; or to report publicly on key facts/issues arising from individual bodies' accounts.
- 46 In 2019-20, our Estimate included £85,000 for audit work reviewing Brexit preparedness across public bodies in Wales. We published a report (and updated this recently) delivered three well-attended 'roadshow' seminars in partnership with Academi Wales, and ran a Good Practice webinar.
- 47 Clearly, there will remain a need for significant assurance and value for money audit work related to the immediate, medium and longer-term impacts of Brexit, but we currently expect to be able to build this into our main programme of work, rather than needing to request additional specific funding. Hence this funding will be reallocated to contain the overall increase for audit work funded other than from fees to £95,000.

Specific funding (supporting the Wales Audit Office) – £1.483 million
(£225,000 increase over 2019-20)

48 Details of these projects are provided in [Exhibit 7](#). More detail on each headline area is provided below.

Exhibit 7 – projects supported by Finance Committee (supporting the Wales Audit Office work programme)

	Estimate 2020-21 £'000	Estimate ⁸ 2019-20 £'000	Additional Funding £'000
Civil Service pensions cost increase 2019-20	732	732	-
Transformation projects	631	406	225
Early closure of Local Government Accounts	120	120	-
Total	1,483	1,258	225

Civil service pensions cost increase 2019-20

49 In 2019-20 the Treasury provided funding to meet additional costs associated with an actuarial review of the Civil Service Pension Scheme and the Assembly subsequently supported the [additional funding for the Wales Audit Office](#).

⁸ Per Supplementary Budget Memorandum approved by the Assembly's Finance Committee on 15 May 2019

Transformation Projects

- 50 Since 2016 we have allocated funding to deliver strategic transformational change in the way that we deliver our audit work. The funding has supported projects to:
- explore the potential and increase our use of Data Analytics. Our work in this area has demonstrated that technology will deliver efficiencies in our core audit work. Data Analytics has also started to transform the way in which we present and communicate our work and the depth of insight we can provide. This Estimate seeks further funding to enable us to take data analytics beyond the pilot and exploratory phase and to embed it into all of our work;
 - review the way we communicate and engage externally so as to maximise the impact of our work; and
 - review the ways that we work, ensuring that they are 'fit for the future' – for example by using technology to reduce the amount of travel that our staff need to do, and rethinking our operating models to enhance staff well-being and motivation.

Data Analytics

- 51 We expect 5 key benefits from our Data Analytics project
- increased confidence in our work;
 - improved evidence base for our work;
 - expanded range of analytical methods and visualisations;
 - time/cost savings in our audit work and internal processes;
 - our ideas are adopted by others.
- 52 As the project progresses, we are monitoring the extent to which these benefits are being realised.
- 53 Additional funding has been identified to increase our investment in Data Analytics – ensuring that we can access the data of audited bodies safely and securely for maximum benefit.
- 54 The additional funding will allow us to store data securely from our audited bodies and to combat increasing cyber security risks ensuring that we comply with the Data Protection Act (2018).
- 55 The funding will also allow us to increase the size of the team working on this project to allow them to meet the Auditor General's long-term ambitions for the use of Data Analytics in our work.

- 56 Over the medium to long term, once data analytics is fully embedded within our audit work, we believe there is potential to reduce the cost of undertaking an audit of accounts by 5-10%. While it is very difficult to say with certainty the likelihood or exact timescales for securing such efficiencies, it remains a core element of our approach to benefits realisation. What we can say with certainty is that these efficiencies cannot be delivered without further investment in continued experimentation, development and programme delivery.
- 57 Without this additional funding we will continue to develop some data tools but the pace of development will be significantly slower and more ad hoc.

Cyber security and digital vision

- 58 Organisations everywhere are facing an increasing cybersecurity threat from malicious individuals looking to break into systems, steal information and cause damage. Businesses face disruption, significant costs, reputational impact, criticism and fines from the Information Commissioner's Office if systems are compromised.
- 59 The Wales Audit Office needs to increase its preparedness on cyber security in proportion to the risk, ensuring audit data can continue to be handled safely and securely, and that Wales Audit Office is prepared to respond to any future breach that may occur.
- 60 The Wales Audit Office website is increasingly important as the first port of call for those looking to obtain reports or engage with the organisation and its work. We need to ensure that the website is updated and maintained such that it continues to meet standards for accessibility and security.
- 61 We have identified additional funding to cover the cost of a specialist website developer, to purchase essential software and to provide training for improved cyber security.
- 62 If the funding were not available, this would mean the Wales Audit Office's preparedness in respect of cyber security is not where it should be given the threat, and that Wales Audit Office may find it difficult to meet its commitments to accessibility regarding the public website, without scaling back other important areas of activity.

Other transformation projects

- 63 As the transformation projects have moved from feasibility to implementation, the £100,000 previously allocated will be reallocated to the above priorities, containing the additional funding requirement to £250,000.

Early closure of Local Government Accounts

- 64 Our Estimate for 2018-19 identified a 3-year funding requirement to allow us to work closely with Local Government bodies as they prepare for the requirement to have their accounts signed off by 31 July each year as compared to the previous deadline of 30 September.
- 65 By 31 July 2019 the accounts of the four Police, three Fire and Rescue and three National Park authorities had been published by 31 July, as required. The 31 July deadline for the 22 unitary authorities will not apply until 2021. However, we are pleased that 30% of those authorities have already achieved the new deadline in 2019.
- 66 As we have previously indicated to the Finance Committee, 2020-21 will be the final year for which we seek this transitional funding.

Specific funding (for wider public sector benefit) – £1.287 million
(£130,000 increase over 2019-20 being the cyclical increase for NFI)

67 Details of these projects are provided in Exhibit 8.

Exhibit 8 – projects supported by Finance Committee (wider benefit)

	Estimate 2020-21 £'000	Estimate 2019-20 £'000	Additional Funding £'000
Future finance leaders – pan-Wales financial skills development	567	567	-
Good Practice Exchange	540	540	-
National Fraud Initiative (NFI)	180	50	130
Total	1,287	1,157	1,230

Future finance leaders – pan-Wales financial skills development

68 This All-Wales initiative, co-ordinated and led by the Wales Audit Office, was established in 2016 to provide a pool of highly qualified finance professionals for employment across Welsh public bodies. Alongside high-quality financial and leadership training, we also provide secondment opportunities for our graduate trainees to work in other public bodies – helping to prepare them for their future roles managing public finances in Wales.

69 In 2018, with support from the Finance Committee, we were able to extend the programme to include apprenticeships thereby creating new career path opportunities for non-graduates.

70 We are now employing close to 50 graduate trainees and a further 8 apprentices – accounting for around 20% of our total workforce. Not only has this been having a positive impact in our audit skills-mix model, it has also had wider benefits in terms of our organisational culture and diversity.

- 71 2019 was the first year when we have seen some of our trainees who have benefited from the programme supported by WCF funding, qualify and leave the Wales Audit Office.
- 72 Of the 9 trainees who have left us this year, 6 have chosen to stay in the public sector, 5 in Wales and one in England. This means that the public sector is directly benefiting from the investment made as intended when the scheme was established.
- 73 Monies received from the WCF contribute to the costs of running this programme, providing secondees at no charge to other Welsh public bodies and running an annual trainee conference for around 190 finance students from across the public sector in Wales.

Good Practice Exchange

- 74 Funding provided by WCF allows us to run our highly-regarded Good Practice programme free of charge to public bodies and the third sector across Wales. Last year, we connected 1,400 people through 18 shared learning events. 88% of our stakeholders say our good practice work has benefitted public services, so without this funding, those benefits and opportunities will be lost.

National Fraud Initiative (NFI)

- 75 Since 2015 the Finance Committee has supported participation in NFI for all public bodies in Wales at no cost to those bodies. Our last biennial report identified potential savings and over-payments of £5.4 million across Wales's public services, increasing cumulative savings to £35.4 million since 1996 – a significant return on investment.
- 76 The costs associated with this increase by £130,000 in each alternate year to fund the costs of data checking carried out by Cabinet Office.
- 77 Without this funding the costs of carrying out this work would need to be passed on directly to participating bodies as additional fees, potentially resulting in a significant reduction in the number of bodies who opt to take part.

Contribution to running costs £1.585 million (£120,000 reduction from 2019-20)

- 78 Funding is provided from WCF to meet some of the costs of the Wales Audit Office which are not passed on through fees to audited bodies. These include:
- a contribution to the costs of technical support, quality assurance and compliance, being essential elements of ensuring sound public audit;
 - a contribution to our total travel costs, so ensuring that audited bodies are not disadvantaged by their geographical location;
 - investment in staff learning and development; and
 - governance costs, such as for the Wales Audit Office Board, associated support costs and other aspects of ensuring compliance with the Public Audit (Wales) Act 2013.
- 79 For 2020-21 we are requesting an additional £120,000; a proportion of the £320,000 we have included in the Estimate for increases in our pay budget. The balance of the additional pay costs has been included in proposed fee rates for 2020-21 to be reflected in the fees paid by audited bodies.
- 80 In order to reduce our call on WCF in 2020-21, we will allocate £240,000 of running costs to be met from fees rather than WCF. This is in response to the Finance Committee's request for us to limit our call on the WCF and will result in a 3% increase to our fee rates, although there will still be a small reduction in our fee scales due to audit efficiencies.

Capital investment

- 81 Our capital investment priorities for 2019-20 to 2023-24, linked to our medium-term IT and Estates Plans, are set out in [Exhibit 9](#), which we update annually. All capital investment is funded from WCF through this Estimate.

Exhibit 9 – capital investment 2020-21 to 2024-25

	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000
ICT/Digital infrastructure	120	120	150	150	150
Corporate systems	50	60	100	150	200
Estates strategy	40	50	100	500 ⁹	200
Total	210	230	350	800	550

ICT/Digital infrastructure

82 A rolling programme of PC/IT equipment renewal to ensure business continuity and that equipment remains fit-for-purpose and reliable. We have increased the allocation for this priority from 2021-22 to ensure that we are able to respond to improvements in technology to support our digital strategy ambitions.

Corporate Systems

83 Our Ways of Working transformation project identified a need for better, more joined up business information systems to ensure that our staff can work in the most efficient ways. We are committed to ensuring our systems and processes are necessary, simple, efficient and effective and envisage continued investment through the next five years, very much linked to our Smarter, Leaner, Better VfM framework.

Estates strategy

84 During our five-year programme, the leases on our three office buildings in Cardiff, Swansea and Abergele will be due for renewal or ending. Our capital programme provides an early indication of the estimated costs associated with potential moves. It is difficult to estimate costs at this time but changes in the way that we work are expected to result in savings in accommodation costs for which up-front investment will be required.

⁹ This budget may need to increase significantly subject to the outcome of our estate's strategy review. The impact of IFRS16 is also likely to be significant but cannot yet be estimated (see paragraphs 95 to 97).

Potential changes to this budget

85 We set out below issues that may impact our budget for 2020-21 which could result in the requirement for a Supplementary Estimate in year.

EU Agricultural Funds

86 This Estimate was predicated on the UK leaving the European Union on 31 October with a transitional deal that would see our work on EU Agricultural Funds continuing until Autumn 2020 and hence coinciding with the in-sourcing of audit work currently being undertaken by private sector firms. We will need to revisit our assumptions post-General Election.

87 Our budget currently allows for £760,000 income from this work.

88 In the event that the UK leaves the EU in the coming months with no deal, we expect our work to come to an end by March 2020 at the latest. In this event the Wales Audit Office would face two options, each of which would require a Supplementary Estimate:

- to re-allocate those staff to new projects until the autumn with lost income being replaced by additional WCF funding to bridge the six-month gap in expected fee-generating workload; or
- to offer redundancy packages to a number of staff in the knowledge that additional staff would need to be recruited some six months later.

89 Our preferred option would be the former, given the likely costs and management time involved in making staff redundant and then having to undertake a significant recruitment exercise just a few months later.

90 Remaining in the EU would likely impact the work of the Wales Audit Office if the requirement to audit EU Agricultural Funds continues after autumn 2020. We are developing contingency plans to provide the additional, possibly temporary, resource that this would require.

Public sector pay increases

91 We have made an indicative provision for a 2% increase in our pay budget in line with the position communicated to us by the Minister for Finance and Trefnydd.

92 If pay deals in excess of this are agreed across the wider public sector, then this position may not be sustainable in terms of our ability to attract and retain staff, and it could become necessary for us to revisit this with the Finance Committee.

New reporting standards

- 93 International Financial Reporting Standard 16 (IFRS 16) on accounting for leases is due to be introduced from 2020-21.
- 94 The impact of accounting for the depreciation and interest associated with the capitalisation of existing leases as compared to the annual running costs of those leases is not significant for the Wales Audit Office due to the short amount of time remaining on our property leases. No adjustment is therefore required to our budget for this change in 2020-21.
- 95 There will potentially be a change to our capital expenditure requirement in 2022-23 as shown in [Exhibit 9](#) if we enter into a new lease arrangement. It is not possible to estimate this impact at present.

No-deal Brexit

- 96 Other than the direct impact on income from the loss of our EU Agricultural Funds audit work, it is difficult to estimate any other funding or workload management implications arising directly from a no-deal Brexit. We have plans in place which would allow us to re-prioritise some audit work if the Auditor General considers it necessary, but we might need to revisit if the actual position differs fundamentally from what our plans allow.

Net cash requirement

- 97 The Budget Ambit allows for a £500,000 movement in year-end accruals at the end of 2020-21. It is extremely difficult to forecast this movement at the time of preparing the Estimate and hence this will need to be reviewed once the Annual Report and Accounts for 2019-20 have been prepared.

The budget ambit

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2021

- 98 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the WCF for certain relevant persons, including the Wales Audit Office.
- 99 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2021, the Budget Motion will authorise:
- the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
 - the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the WCF; and
 - the amount which may be paid out of the WCF to the Wales Audit Office.
- 100 These requirements, which due to the variability of income streams can only be estimates, are summarised in [Exhibit 10](#).

Exhibit 10 – summary of the estimated 2020-21 budget requirements

	£'000
Resources, other than accruing resources, for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office and the Auditor General and on the administration of the Wales Audit Office:	
• Revenue	7,998
• Capital	230
Accruing resources from fees and charges for audit, grant certification and related services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services and recoveries of costs incurred for a third party– all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	14,004
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	8,448

101 **Exhibit 11** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2021.

Exhibit 11 – reconciliation of resource requirement to cash drawing requirement from the WCF

	£'000
Net request for resources – revenue and capital	8,228
Non-cash adjustment – depreciation	(280)
Non-cash adjustment – movements in working capital	500
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	8,448

Appendix 1 – Statement of Principles

Requirement	Response
Budget requests should be set in the context of the long term financial funding situation in Wales and funding pressures in the wider public sector.	Budget requests have been limited to new initiatives and a contribution to pay deal in line with that recommended by Welsh Government.
Requests show how annual and multi-annual objectives will be prioritised, monitored and achieved.	Our Estimate references Annual Plan and Annual Report and Accounts which provide this detail.
Directly Funded Bodies (DFBs) should not assume an increase in funding, regardless of the block grant change as any increase to their funding reduces funding available to other devolved public bodies.	Increases are linked to specific requests.
DFBs should continually seek to improve processes and accrue efficiencies.	Value for Money statement included in Estimate.
Where any increases in funding are requested, these should be backed by evidence both of the need, benefit and attempts that have been made to reduce such costs. Also the consequences of not obtaining the requested resource should be made clear and quantified.	Details have been provided against each request.

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Fee Scheme 2020-21



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

This is a fee scheme prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013.

This fee scheme is laid before the National Assembly under section 24(4)(c) of the Public Audit (Wales) Act 2013.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

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Overview

Introduction

- 1 This Fee Scheme has been prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013 (the Act) ([Appendix 1](#)). The Fee Scheme, following approval by the National Assembly's Finance Committee, provides the basis on which the Wales Audit Office charges fees.
- 2 The Board has listened carefully to stakeholder feedback in relation to our cost-efficiency agenda and the fee rates we set. In our Estimate for 2020-21, we proposed:
 - a 3% increase in fee rates to be offset by reductions in audit days and skills mix resulting in an overall small (0.7%) overall reduction in fee scales.
 - to continue in line with previous National Assembly agreement to fund National Fraud Initiative (NFI) work from our charge on the Welsh Consolidated Fund rather than through fees charged to participating bodies. Feedback told us that audited bodies welcome this approach.
 - to continue to provide public sector secondment opportunities for our accounting trainees, without impacting on fees charged for audit work.
 - to maintain capacity for transformational thinking in our approaches to audit work. Feedback reinforced the need for us to do more developmental work as part of balancing the overall cost of audit on public bodies.
- 3 This Fee Scheme reflects the approved Estimate and sets out:
 - the enactments under which the Wales Audit Office charges audit fees.
 - the arrangements for setting those fees, which comprise either:
 - fee scales that set out fee ranges for particular areas of audit work in local government; or
 - fee rates for work not covered by fee scales.
- 4 Broadly, 64% of our expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government to support improvement assessment work. The remaining 36% is provided directly from the Welsh Consolidated Fund through vote of the National Assembly. Further information about our expenditure and funding is contained in annual estimates of income and expenditure which are laid before the National Assembly.

Fee rates and fee scales

- 5 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. Our fee rates are set at a level to recover that full cost.
- 6 There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, as a result of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.
- 7 We went beyond the statutory fee consultation requirements and, in August 2019, consulted all audited bodies and other stakeholders on our fee scales for 2020-21. A total of 96 different bodies were consulted. We received just nine responses, suggesting that for most bodies, our fees are not a significant area of concern. Responses received told us that:
 - audited bodies welcome the work done by the Wales Audit Office and the professional approach of our staff;
 - audited bodies continue to welcome free participation in the National Fraud Initiative;
 - the proposed reduction in median fee levels is welcomed;
 - there is a continuing expectation that the Wales Audit Office demonstrates value for money in line with the financial pressure being faced by audited bodies;
 - one audited body would welcome more transparency in how fees are set; we will discuss this with them; and
 - for the National Parks, there is concern about how our fees compare with those paid by equivalent bodies in England; again, we will discuss this with them.
- 8 In 2018-19 we reduced our fee scales through audit efficiencies and maintained these scales at the same level for 2019-20. Our consultation for 2020-21 anticipated these scales reducing further by around 1%, despite increases in our fee rates.

9 In November 2019, the Finance Committee of the National Assembly asked that we reconsider our Estimate for 2020-21 upon which the fee scales we consulted on in August 2019 were based. This re-consideration means that some costs which we had expected to be paid by the Welsh Consolidated Fund will now need to be passed on through our fees. Despite this change, our fee scales will still be, on average, around 0.7% lower than those agreed for 2019-20.

10 **Exhibit 1** sets out the hourly fee rates for audit staff.

Exhibit 1: fee rates for audit staff

Grade	Proposed rate (£ per hour) 2020-21	Rate (£ per hour) 2019-20
Engagement director	162	161
Audit Manager	119	115
Principal Auditor	96	94
Senior Auditor	77	73
Auditor	59	57
Graduate trainee	48	46
Apprentice	37	46

11 We are required to prescribe fee scales for:

- work relating to the audit of local government bodies;
- work under the Local Government (Wales) Measure 2009; and
- data-matching work (NFI).

12 Fee scales for the audit of the 2019-20 financial accounts and 2020-21 improvement audits and assessments are provided in **Appendix 3** in relation to work conducted at unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, town and community councils and local government pension funds. A separate fee scale is provided in relation to the NFI.

- 13 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.
- 14 Audited bodies not covered by the statutory requirement for a fee scale have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit.
- 15 Auditors undertake grant certification work on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are calculated using the fee rates and reflecting the size, complexity or any particular issues in respect of the grant in question.
- 16 The fee rates apply to all audit work that the Wales Audit Office will charge for, except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done by agreements prior to 1 April 2014, rates are in terms as agreed). If it subsequently appears to the Wales Audit Office that the work involved in a particular audit differs substantially from that originally envisaged, the Wales Audit Office may charge a fee which differs from that originally notified.
- 17 In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service. To meet their statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to electors' questions and objections, and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.
- 18 Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of Wales Audit Office staff.

Charging of fees

- 19 Each body's Engagement Director will explain that body's skills mix for the audit and the factors influencing the overall fee. Charging arrangements are agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 20 Audited bodies are expected to pay the Wales Audit Office's invoices within their performance target for creditor payments, usually ten days in the public sector. We may charge for the administrative costs incurred in pursuing late payments.
- 21 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional costs where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.

Appendices

Appendix 1 – Public Audit (Wales) Act 2013 – full text of section 24

- (1) The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- (2) The scheme must include the following:
 - a a list of the enactments under which the Wales Audit Office may charge a fee;
 - b where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
 - c where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount; and
 - d where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.
- (3) The scheme may, amongst other things:
 - a include different provision for different cases or classes of case; and
 - b provide for times at which, and the manner in which, payments are to be made.
- (4) The Wales Audit Office:
 - a must review the scheme at least once in every calendar year;
 - b may revise or remake the scheme at any time; and
 - c must lay the scheme (and any revision to it) before the National Assembly.
- (5) Where the Welsh Ministers prescribe a scale or scales of fees under:
 - a section 64F of the Public Audit (Wales) Act 2004 (fees for data matching); or
 - b section 27A of the Local Government (Wales) Measure 2009 (Welsh Ministers' power to prescribe a scale of fees).

to have effect instead of a scale or scales prescribed by the Wales Audit Office, the Wales Audit Office must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the Wales Audit Office.

- (6) If a revision made in accordance with subsection (5) is the only revision to a scheme, it does not require the approval of the National Assembly.
- (7) The scheme takes effect when approved by the National Assembly or, in the case of a revision made in accordance with subsection (5), once it has been laid before the National Assembly.
- (8) The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

Appendix 2 – List of enactments under which the Wales Audit Office may and must charge fees

Exhibit 2: list of enactments under which the Wales Audit Office may and must charge fees

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities	
<ul style="list-style-type: none"> Audit of accounts by the Auditor General (other than local government accounts). 	<ul style="list-style-type: none"> Section 23(2) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Value for money studies undertaken by agreement. 	<ul style="list-style-type: none"> Section 23(3)(a)-(c) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> An examination, certification or report under section 31 of the Tax Collection and Management (Wales) Act 2016 in respect of the Welsh Revenue Authority's Tax Statement 	<ul style="list-style-type: none"> Section 23(3)(ba) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> An examination under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2) (examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle). 	<ul style="list-style-type: none"> Section 23(3)(ca) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Any functions of a relevant authority exercised by the Wales Audit Office or the Auditor General and undertaken by agreement, and any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013. 	<ul style="list-style-type: none"> Section 23(3)(d) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> An extraordinary audit of the accounts of a local government body. 	<ul style="list-style-type: none"> Section 37(8) of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> Data-matching exercises. 	<ul style="list-style-type: none"> Section 64F(A1) of the Public Audit (Wales) Act 2004 A fee scale must be prescribed for this work
<ul style="list-style-type: none"> Advice and assistance provided by the Auditor General for registered social landlords. 	<ul style="list-style-type: none"> Section 145D(2) of the Government of Wales Act 1998 Terms of payment may only be made in accordance with a scheme for charging fees under s24 of Public Audit Wales Act 2013

Nature of work	Enactments
The Wales Audit Office must charge fees for the following activities	
<ul style="list-style-type: none"> Work under the Local Government (Wales) Measure 2009. 	<ul style="list-style-type: none"> Section 27 of the Local Government (Wales) Measure 2009 A fee scale must be prescribed for this work
<ul style="list-style-type: none"> Grant certification services. 	<ul style="list-style-type: none"> Section 23(4)(a) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998. 	<ul style="list-style-type: none"> Section 23(4)(b) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Auditing the accounts of a local government body and undertaking studies by agreement with a local government body. 	<ul style="list-style-type: none"> Section 20(A1)(a)-(b) of the Public Audit (Wales) Act 2004 A fee scale must be prescribed for the audit of the accounts of local government bodies
<ul style="list-style-type: none"> Benefit administration studies for the Secretary of State. The Auditor General may conduct, or assist the Secretary of State in conducting, a benefit administration study only if the Secretary of State has made arrangements for the payment to the Wales Audit Office of a fee in respect of the study. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office. 	<ul style="list-style-type: none"> Section 45 of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> Assisting Her Majesty's Chief Inspector of Education and Training in Wales with inspections of local authorities. The Auditor General for Wales shall not provide such assistance unless, before he does so, the Chief Inspector has agreed to pay the Wales Audit Office a fee. 	<ul style="list-style-type: none"> Section 41A of the Education Act 1997
<ul style="list-style-type: none"> Programmes of studies relating to registered social landlords undertaken by agreement between the Welsh Ministers and the Auditor General. It shall be a term of every such programme that the Welsh Ministers must pay to the Wales Audit Office a sum in respect of the costs incurred. 	<ul style="list-style-type: none"> Section 145C(3) of the Government of Wales Act 1998

Appendix 3 – Fee scales for work undertaken at local government bodies

Fee scales for work undertaken under the National Fraud Initiative (data matching)

- 22 We are required to consult on and prescribe scales of fees for data matching for mandatory participants in the NFI. The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.
- 23 The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £35.4 million of fraud and overpayments in Wales and £1.69 billion across the UK.
- 24 Since April 2015, the National Assembly has met the costs of running the NFI through payment from the Welsh Consolidated Fund as approved through the Wales Audit Office's Estimate. This is intended to encourage participation of organisations on a voluntary basis and also simplifies arrangements for mandated participants. As required by legislation, the fees for mandatory participants are shown in [Exhibit 3](#).

Exhibit 3: NFI fees

	Fee 2020-21
Unitary authority; police and crime commissioners and chief constables; fire and rescue authorities; NHS trusts; local health boards.	Nil
Voluntary participants	Nil
All participants may also be provided with access to the NFI Application Checker (App Check).	Nil

Unitary authorities

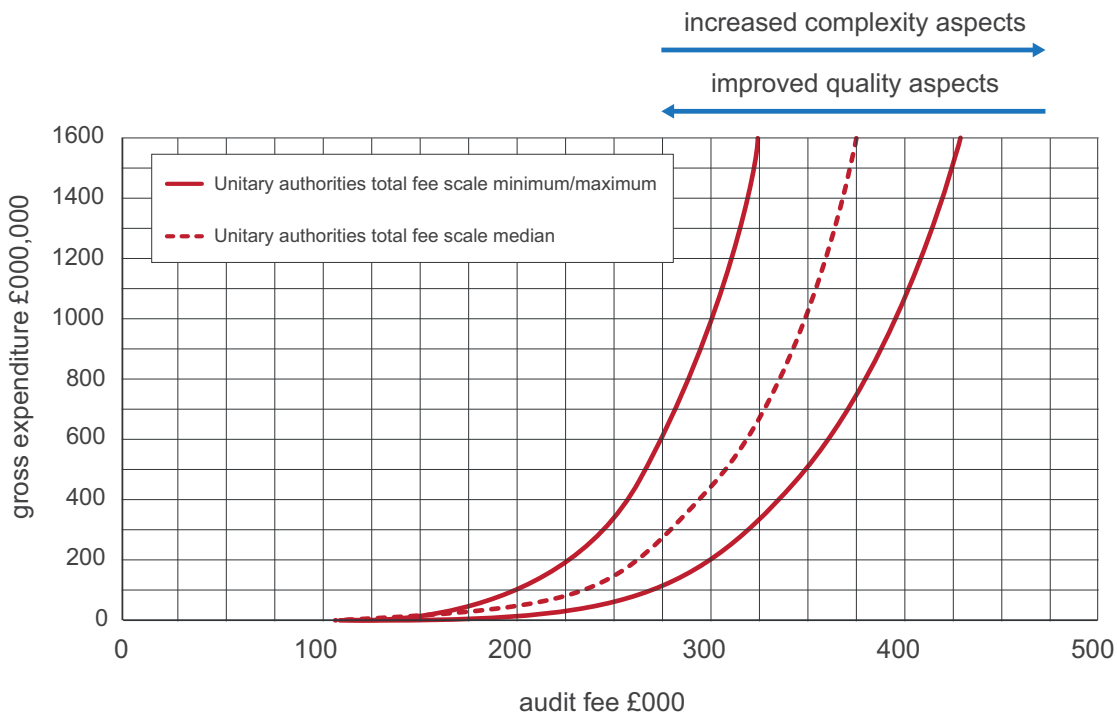
Exhibit 4: fee scale for the audit of 2019-20 accounts

Gross expenditure £m	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
100	114	135	155	138
200	138	162	186	166
300	153	180	207	185
400	166	195	224	199
500	176	207	238	211
600	184	217	249	222
700	192	226	260	231
800	199	234	269	240
900	205	242	278	247
1,000	211	249	286	254
1,100	217	255	293	261
1,200	222	261	300	267

Exhibit 5: fee scale for 2020-21 performance audit work

All unitary authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	94	102	113	99

Exhibit 6: graphic of total fee scale for unitary authorities¹



¹ 'improved quality aspects' refers to the quality of the accounts production process, ie the quality of the draft financial statements and the supporting working papers.

Pension Funds

Exhibit 7: fee scale for audit of 2019-20 accounts

All pension funds	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	31	42	48	40

Fire and rescue authorities

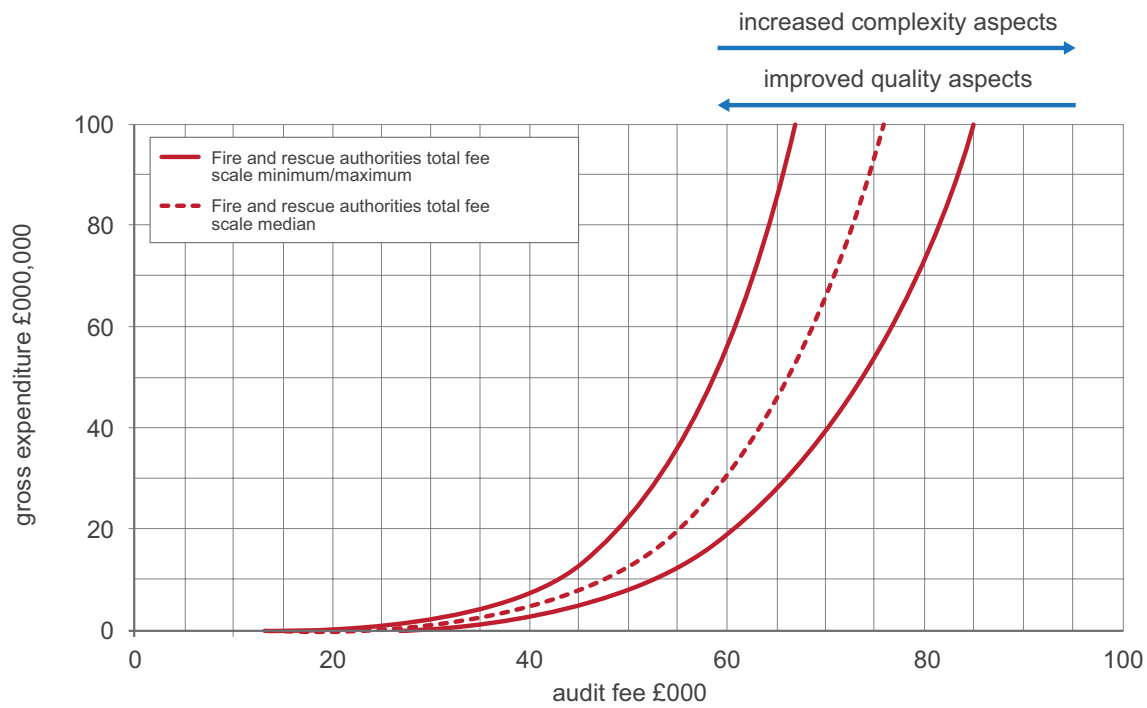
Exhibit 8: fee scale for audit of 2019-20 accounts

Gross expenditure £m	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
20	34	39	45	40
40	40	47	55	49
60	45	53	61	54
80	49	57	66	58
100	51	61	70	62

Exhibit 9: fee scale for 2020-21 performance audit work

All fire and rescue authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	16	16	16	16

Exhibit 10: graphic of audit total fee scale for fire and rescue authorities



National park authorities

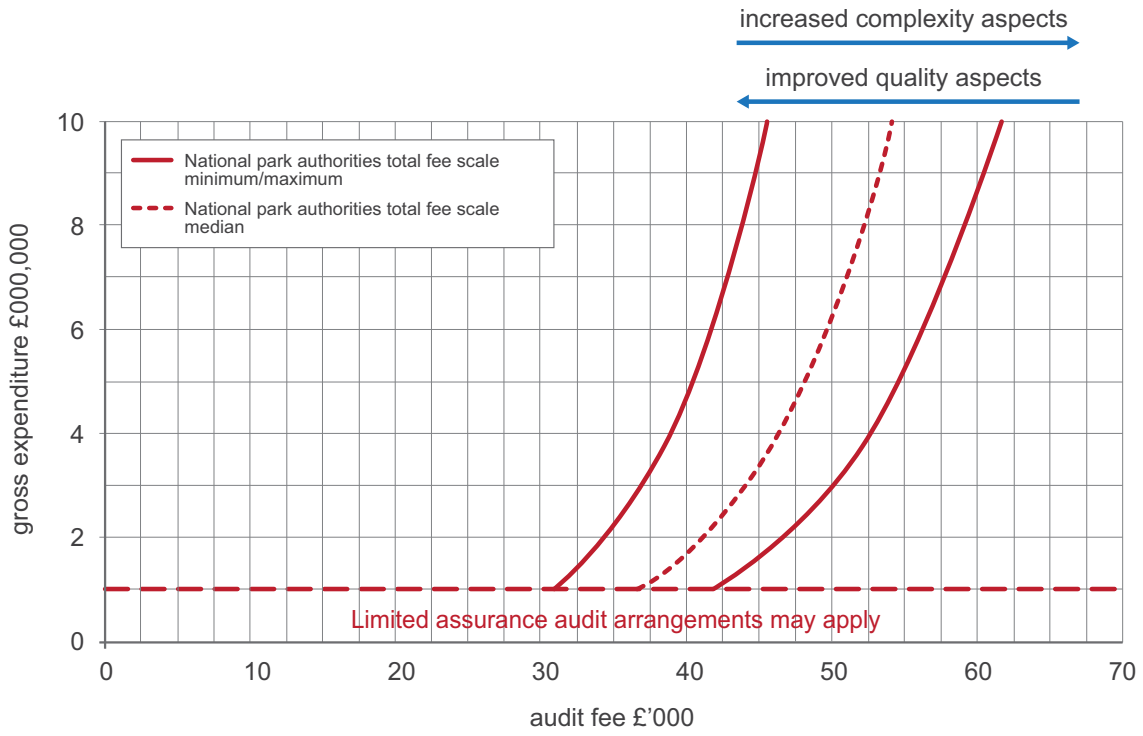
Exhibit 11: fee scale for audit of 2019-20 accounts

Gross expenditure £m	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
2	21	24	28	25
4	25	29	34	30
6	28	33	38	34
8	30	35	41	36
10	32	38	43	38

Exhibit 12: fee scale for 2020-21 performance audit work

All national park authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	14	17	19	17

Exhibit 13: graphic of total fee scale for national park authorities



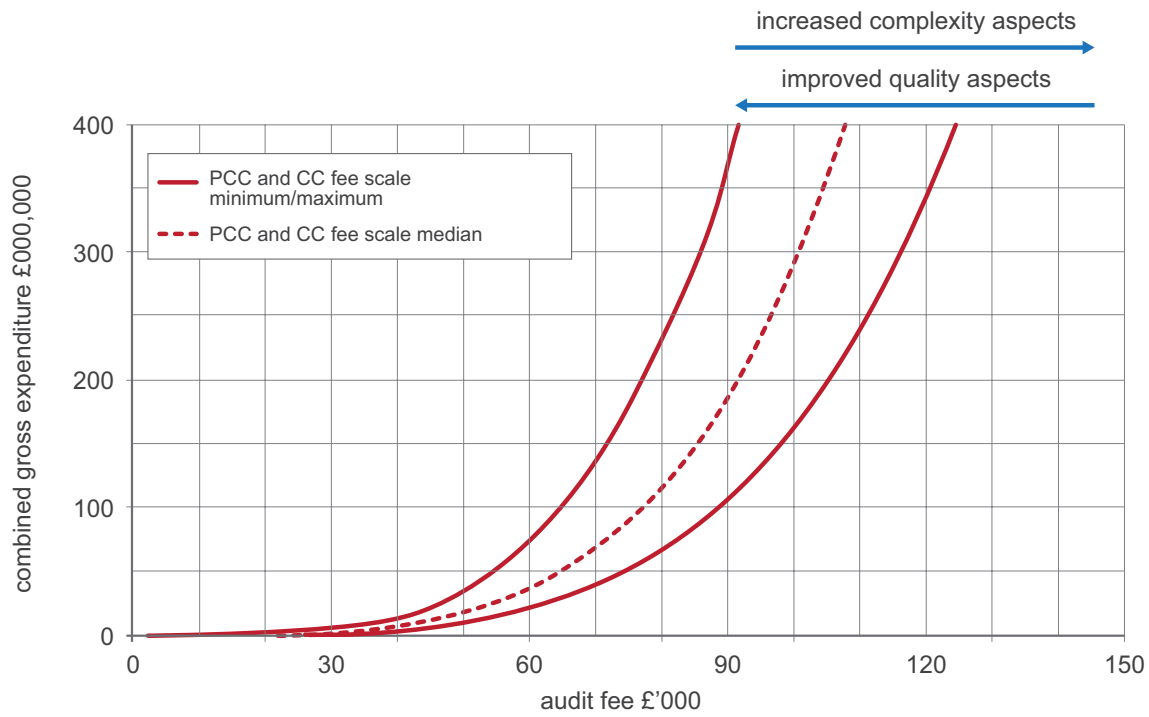
Police and crime commissioners and chief constables

Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioners (PCCs) and the Chief Constables (CCs). The split of the total fee between the two bodies in a particular police area will be a matter for auditors to determine, based on accounting requirements and the operational arrangements put in place by each of the bodies.

Exhibit 14: fee scale for audit of 2019-20 accounts

Combined gross expenditure of PCC and CC £m	Combined fee range for PCC and CC £'000			Previous year median £'000
	Minimum	Median	Maximum	
50	55	65	75	66
100	65	77	89	79
150	72	85	98	87
200	78	92	106	94
250	82	97	112	99
300	86	101	117	104
350	89	106	122	108

Exhibit 15: graphic of total fee scale for police and crime commissioners and chief constables



Town and community councils with annual income or expenditure under £2.5 million

Town and community councils in Wales are subject to a limited assurance audit regime. Since 2016-17, we have charged for this work on a time basis rather than the historical basis of a fixed fee according to expenditure/income bands.

The fee rate charges are as set out in [Exhibit 1](#).

In circumstances where the auditor requires further evidence to properly discharge their responsibilities, including following publication of a related public interest report, additional testing will be undertaken to address the auditor's concerns.

It is emphasised that the actual charge made to any particular body will be dependent on the time actually worked on that particular audit. The ranges provided in [Exhibit 16](#) are for indicative purposes only.

Exhibit 16: estimated time charges for the audit of 2019-20 accounts of town and community councils

	Indicative baseline charge	Indicative upper range fee
£0 – £5,000	£140	£280
£5,001 – £100,000	£160	£320
£100,001 – £500,000	£200	£380
£500,001 – £2,500,000	£240	£460

Fee rates for other work in local government

Other than those types of bodies for which fee scales have been prescribed as shown above, there are a small number of other types of local government body where our prescription of the fee scale is a matter of converting the resource requirements into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 1](#). It remains the case that for audits of these bodies we apply a zero-based approach to audit planning.

For all types of local government body, to meet his statutory responsibilities, it is sometimes necessary for the Auditor General to carry out work which goes beyond general duties (those set out in section 17 of the Public Audit (Wales) Act 2004). Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

Auditors may also undertake grant certification work at local government bodies on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are made on a per-hour basis and reflect the size, complexity or any issues in respect of the grant in question as set out in [Exhibit 17](#).

Exhibit 17: estimates of the relative proportions of audit staff grades to be used for different types of grants work.

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement Director	1 to 2	0 to 1
Audit Manager	4 to 6	1 to 2
Principal/Senior Auditor	18 to 21	12 to 16
Auditor/ graduate trainee/ apprentice	71 to 77	81 to 87

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- LA01 National non-domestic rates return
- PEN05 Teachers' pensions return

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Shan Morgan
Ysgrifennydd Parhaol
Permanent Secretary

Llywodraeth Cymru
Welsh Government

20 December 2019

Dear Committee Chairs

I am writing to inform you that as Permanent Secretary and Principal Accounting Officer for the Welsh Government I have written to the First Minister requesting a Ministerial Direction to proceed with proposed changes to NHS Pension arrangements for 2019/20.


The proposal brings NHS Wales in line with NHS England's solution for 2019/20 to address the operational challenges arising as a consequence of current pension tax arrangements. NHS Pension scheme and pension tax legislation is not devolved to us in Wales.

The need for a Ministerial Direction has arisen as the proposed scheme constitutes tax planning and therefore raises an issue of regularity due its incompatibility with paragraph 5.6.1 of Managing Welsh Public Money. The same issue of regularity was encountered in England.

Whilst Directions are rare, this is the exceptionally unusual position in that, as England have issued a Direction on this matter, Wales has little alternative but to follow suit. Failure to implement the proposed change would result in NHS clinicians in Wales being worse off relative to NHS clinicians in England.

The First Minister formally issued the direction on 18/12/2019.

Both I and the First Minister are agreed on the need to address the operational issues being addressed by the NHS and ensure fair and equitable treatment of our NHS staff with those working in England.

Yours,


Shan Morgan
Ysgrifennydd Parhaol/ Permanent Secretary
Llywodraeth Cymru/ Welsh Government



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Shan Morgan
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Mark Drakeford
First Minister
PS.FirstMinister@gov.wales

18 December 2019

Dear First Minister

I am writing to you to formally request a Ministerial Direction.

On 26 November 2019, officials in Health and Social Services Group provided advice to the Minister for Health and Social Services in respect of NHS Pension Tax Proposal 2019/20. The proposal sought to bring NHS Wales in line with NHS England's solution to the tax implications of the pension scheme for clinicians who incur tax charges for undertaking work in 2019/20. This recommendation was subsequently agreed by the Minister for Health and Social Services.

A subsequent review of the mechanism for introducing this solution in England, has enabled us to identify that recommendations in the earlier advice should have drawn attention to the fact that this recommendation raises an issue of regularity due to its contravention of Managing Welsh Public Money (MWPM). MWPM specifically states (para 5.6.1) that "*Public Sector organisations should not engage in or conspire at, tax evasion, tax avoidance or tax planning.*"

The same issue of regularity has already been encountered in England (Managing Public Money and Managing Welsh Public Money are aligned on this issue). Therefore, on 22 November the Secretary of State for Health and Social Care issued a Direction to the Accounting Officer for NHS England to proceed with the NHS Pension Tax Proposal 2019/20.

It is my duty as Principal Accounting Officer to ensure the regularity of expenditure within the Welsh Government but the need has arisen for a Direction because tax planning is considered an issue of irregularity. Whilst Directions are rare, this is the exceptionally unusual position that, as a UK Government Minister has issued a



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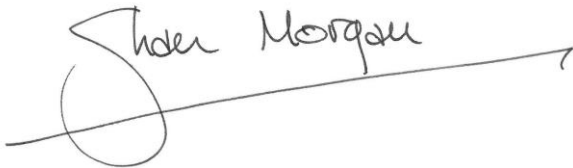
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Direction on this matter in England, I have little alternative but to follow suit and seek one from you for Wales.

Annex A contains the extracts from Managing Welsh Public Money and Managing Public Money regarding tax which give rises to this regularity issue.

Yours,

A handwritten signature in black ink that reads "Shan Morgan". The signature is written in a cursive style and is positioned above a long horizontal line that extends to the right and ends in an arrowhead.

Shan Morgan
Ysgrifennydd Parhaol/ Permanent Secretary
Llywodraeth Cymru/ Welsh Government



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Managing Welsh Public Money - Extract

5.6 Tax

5.6.1 Public sector organisations should not engage in, or conspire at, tax evasion, tax avoidance or tax planning. If a public sector organisation was to obtain financial advantage by moderating the tax paid by a contractor, supplier or other counterparty, it would usually mean that the public sector as a whole would be worse off – thus conflicting with the Accounting Officer's duties (see section 3.3). Thus artificial tax avoidance schemes should normally be rejected. It should be standard practice to consult HM Revenue and Customs (HMRC) about transactions involving non-standard approaches to tax before going ahead.

5.6.2 There is of course no problem with using tax advisers to help meet normal legitimate requirements of carrying on public business. These include administration of VAT, PAYE and NICs, where expert help can be useful and efficient.

Managing Public Money - Extract

5.6 Tax

5.6.1 Public sector organisations should not engage in, or connive at, tax evasion, tax avoidance or tax planning. If a public sector organisation were to obtain financial advantage by moderating the tax paid by a contractor, supplier or other counterparty, it would usually mean that the Exchequer as a whole would be worse off – thus conflicting with the accounting officer's duties (section 3.3). Thus artificial tax avoidance schemes should normally be rejected. It should be standard practice to consult HMRC³ about transactions involving non-standard approaches to tax before going ahead.

5.6.2 There is of course no problem with using tax advisers to help meet normal legitimate requirements of carrying on public business. These include administration of VAT, PAYE and NICs, where expert help can be useful and efficient.

5.6.3 Proposals to create new taxes in order to assign their proceeds to new spending proposals are rarely acceptable. Decisions on tax are for Treasury ministers, who are reluctant to compromise their future fiscal freedom to make decision.



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Our Ref/ Ein Cyf: MA/FM5845/19

Shan Morgan
Permanent Secretary

ps.permanentsecretary@gov.wales

18 December 2019

Dew Shan,

Thank you for your letter of 18 December 2019 setting out your advice as Principal Accounting Officer on the proposed 'Scheme Pays' arrangements to counter staffing issues in the NHS for this winter period.

I am grateful for the scrutiny which you and other officials have given to this matter.

I note the advice that the scheme proposals involve tax planning and, depending upon the approach to implementation, could be deemed by HMRC to constitute tax avoidance. The proposed measure is therefore incompatible with paragraph 5.6.1. of Managing Welsh Public Money, and is a matter of regularity. In these circumstances I am able to bring to bear a wider consideration of the public interest, and you have requested I consider whether to grant a Direction to proceed with the proposals.

NHS Wales report that senior clinical staff are unwilling to take on additional work and sessions due to the potential tax liability which could in some circumstances lead to tax charges in excess of any additional income earned. This has led to some appointments and operations being delayed. In a recent Written Statement, the Minister for Health and Social Services noted that, between April and August 2019, over 2,000 outpatient, diagnostic, inpatient or daycase sessions have been lost affecting over 15,000 patients.

Let me be clear that I have fundamental disagreements with the solution which has been implemented in England. The tax problems should be resolved by the Treasury, not left to the health budget to absorb. Done properly, the HMRC uncertainties which now arise would have been resolved before, not after a solution was implemented. However, given the pressures experienced by the Welsh NHS following a decade of austerity, we cannot allow a position to develop in which our staff are denied access to arrangements available to their counterparts across our border. I very reluctantly see no option therefore but to put in place

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temporary solutions while the UK Government is consulting on NHS pension legislation changes from April 2020.

I have considered your advice carefully in the context of the need to protect patient care over the winter, and the wider reforms to NHS pension arrangements expected from April 2020. I will therefore follow the course of action taken in the Department for Health in England and formally to direct you to proceed with the NHS Pension Tax Proposals for 2019/20 so that the same arrangements in England can apply in Wales.

I am copying this letter to Adrian Crompton, Auditor General for Wales and Nick Ramsey AM, Chair of the Public Accounts Committee, Llyr Gruffydd AM, Chair of the Finance Committee and Dai Lloyd AM, Chair of the Health, Social Care and Sports Committee. I also note that your letter and this reply will be published on gov.wales

Best wishes,

Mark.

MARK DRAKEFORD