



Explanatory Memorandum to the Finance Committee Regarding the Variation of the Estimate of the Wales Audit Office for the Year Ending 31 March 2023

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Submitted to the Finance Committee of the Senedd for consideration under Standing Order 20.35.

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Explanatory memorandum

Introduction

- 1 For each financial year, the Wales Audit Office must submit an annual estimate of its income and expenditure to the Finance Committee of the Senedd. The responsible committee must examine that Estimate and lay it before the Senedd after making any amendments that it considers appropriate.
- 2 The Estimate for the Wales Audit Office for 2022-23 was included in the Welsh Government's Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 8 March 2022 following scrutiny by the Finance Committee.
- 3 The budget motion authorised the Wales Audit Office to retain £15.082 million of accruing resources, generated through fees charged to audited bodies, and supplied a further £8.608 million of other resources in support of our expenditure plans for the year. Together, this £23.69 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 4 In June 2022, an Explanatory Memorandum to the Finance Committee reduced the call on other resources by £354,000 associated with changes to our travel and subsistence arrangements in 2021-22 and the implementation of International Financial Reporting Standard 16 – Leases (IFRS 16).
- 5 The Wales Audit Office now seeks to further amend the approved Estimate for the year ending 31 March 2023.

Reason for change

Changes to our office accommodation

- 6 Audit Wales has long acknowledged that the cost of our Cardiff office could not be justified given low rates of occupancy pre pandemic. In July 2022, following a detailed options appraisal, the Wales Audit Office Board agreed a recommendation to relocate the Cathedral Road office to significantly smaller premises in Cardiff's Capital Quarter.
- 7 Options considered included whether any office space was required in the future and whether there was a case to locate the office outside of Cardiff. Taking into account experience from our own pilot projects and that of other UK audit bodies, we agreed that office space was required to allow our audit teams to work more effectively, but that a smaller space would be more cost effective. The lack of suitable accommodation outside of Cardiff along with the cost and environmental impact of staff travel meant that a new office in Cardiff was the preferred option.
- 8 This move will deliver significant financial savings, will improve our environmental performance and meet our evolving business needs for modern and smarter working. We plan to make this move in March 2023.

- 9 Annual savings of around £220,000 are expected from this move. To achieve these savings, upfront investment in required fit-out of the Capital Quarter office will be required in the current financial year.
- 10 Estimated savings, as compared to remaining in the Cathedral Road office, are set out below. Based on these estimates, the initial investment will be recouped in less than three years.
- 11 Remaining in Cathedral Road would also require investment in essential safety enhancements but would not deliver future savings.

Exhibit 1: estimated savings

| | Cathedral Road | | | Capital Quarter | | |
|--------------------|----------------|---------|---------|-----------------|---------|---------|
| | 2022-23 | 2023-24 | Ongoing | 2022-23 | 2023-24 | Ongoing |
| Capital Investment | – | 360 | – | 575 | – | – |
| Running costs | 874 | 930 | 930 | 100 | 710 | 710 |
| Net | 874 | 1,290 | 930 | 675 | 710 | 710 |
| Cost/Saving | | | | 675 | (580) | (220) |

- 12 In addition, the Capital Quarter premises are rated very good by BREAAAM (Building Research Establishment Environmental Assessment Method) and have an Energy Performance Certificate (EPC) rated B for their environmental performance. We have reviewed expected benefits and estimated energy emissions savings to be in the region of £100,000 (excluding fixed charges) net present social value and 265 tonnes of CO₂e (greenhouse gas emissions). The location will also improve use of public transport being close to Cardiff Central and Queen Street Stations and help encourage greener travel, as we work towards our collective aim for net zero. Its proximity to a traffic-free cycle and walking route, and cycles for hire and shower facilities will also encourage and promote active travel.

Adjustments to resource budgets

- 13 As explained above, the Wales Audit Office is seeking to increase its capital and revenue resources for 2022-23 by £575,000 and £100,000 respectively and its net cash requirement by £675,000.
- 14 A non-cash adjustment in respect of IFRS16 of £2,585,000 is also required – this is for accounting purposes only.
- 15 The associated budget changes for 2022-23 are set out in **Exhibit 2**.

Exhibit 2: budget changes 2022-23

| | First Supplementary Estimate 2022-23 £'000 | Second Supplementary Estimate 2022-23 £'000 | Revised Estimate 2022-23 £'000 |
|------------------------------|---|--|--------------------------------------|
| Revenue resource | 7,944 | 100 | 8,044 |
| Capital resource | 310 | 575 | 885 |
| Capital resource (IFRS16) | – | 2,850 | 2,850 |
| Accruing resources | 15,082 | – | 15,082 |
| Total expenditure | 23,336 | 3,525 | 26,861 |
| Net cash requirement | 8,684 | 675 | 9,359 |

Appendix 1

Summary of the 2022-23 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006

Under section 126 of the Government of Wales Act 2006 (the 2006 Act), Ministers may move a Supplementary Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office in the year ending 31 March 2023, the Budget Motion will authorise:

- the amount of resources to be used by the Wales Audit Office;
- the amount of resources accruing to the Wales Audit Office which may be retained (rather than paid into the Consolidated Fund); and
- the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

These requirements, which due to the variability of income streams can only be estimates, are summarised in **Tables 1 and 2** below.

Table 1: summary of the estimated 2022-23 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, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office: | |
| • Revenue | 8,044 |
| • Capital | 3,735 |
| Accruing resources from fees and charges for audit and related services; other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences and provision of administrative and professional and technical services for use by the Wales Audit Office on related services and the administration of the Wales Audit Office. | 15,082 |
| Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office. | 9,359 |

Table 2: reconciliation of resource requirement to cash drawing requirement from the WCF

| | First Supplementary Estimate 2022-23 £'000 | Second Supplementary Estimate 2022-23 £'000 | Net change £'000 |
|---|---|--|---------------------|
| Net request for resources – revenue and capital | 8,254 | 11,779 | 3,525 |
| Non-cash adjustment – depreciation and interest charges | (704) | (704) | – |
| Lease rental payments | 424 | 424 | – |
| Non-cash adjustment – movements in working capital | 710 | 710 | – |
| Non-cash adjustment IFRS16 | – | (2,850) | (2,850) |
| Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office | 8,684 | 9,359 | 675 |



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.