

# Explanatory Memorandum to the Finance Committee Regarding the Variation of the Estimate of the Wales Audit Office for the Year Ending 31 March 2026

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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 2025-26 was included in the Welsh Government's Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 4 March 2025 following scrutiny by the Finance Committee.
- 3 The budget motion authorised the Wales Audit Office to retain £18.610 million of accruing resources, generated through fees charged to audited bodies, and supplied a further £9.791 million of other resources in support of our expenditure plans for the year. Together, this £28.401 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 4 The Wales Audit Office now seeks to amend the approved Estimate for the year ending 31 March 2026.

## Reason for change

### Increased National Insurance costs

- 5 On 30 October 2024, the UK Government delivered its Autumn Budget which included details of increased National Insurance costs for employers from April 2025.
- 6 The timing of this announcement meant that we were unable to reflect these additional costs in our Estimate for 2025-26 which was laid before the Finance Committee on 31 October 2024.
- 7 From April 2025, the following changes are being made to employer National Insurance payments:
  - decreasing the NICs<sup>1</sup> Secondary Threshold, the earnings after which an employer becomes liable to pay secondary Class 1 NICs on a given employment. The Secondary Threshold is currently set at £9,100 a year and will be reduced to £5,000 a year.
  - the Secondary Threshold of £5,000 a year will be in effect from 6 April 2025 until 5 April 2028. Thereafter, the Secondary Threshold will be increased in line with the Consumer Prices Index (CPI). This does not impact other employer NICs thresholds such as the Apprentice Upper Secondary Threshold or the Upper Secondary Threshold for employees under 21.

<sup>1</sup> National Insurance Contributions.

- this measure also increases the secondary Class 1 NICs rate from 13.8% to 15%.
  - increases the maximum Employment Allowance from £5,000 to £10,500.
- 8 For the Wales Audit Office, these changes will increase the cost of employers National Insurance from £1.953 million to £2.342 million an increase of £389,000.
- 9 As set out in the Autumn Budget, the UK Government plans to compensate public sector employers for the cost of this increase for the next five years– although final allocations are yet to be confirmed.
- 10 As set out in our letter to the Finance Committee on 4 February 2025, we have carefully considered whether we could fund the extra cost by identifying savings and efficiencies, but with an already challenging savings target of £200,000 being included in our Estimate for 2025-26, we are unable to do so.

## Adjustments to budgets

- 11 The budget changes associated with these increased costs for 2025-26 are set out in **Exhibit 1**.

### Exhibit 1: budget changes 2025-26

	Estimate 2025-26 £'000	Supplementary Estimate 2025-26 £'000	Revised Estimate 2025-26 £'000
Revenue resource	9,324	389	9,713
Capital resource	467	–	467
Accruing resources	18,610	–	18,610
Total expenditure	28,401	389	28,790
Net cash requirement	9,236	389	9,625

# Appendix 1

## Summary of the 2025-26 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 Senedd to authorise the use of resources, retention of income and drawings of cash from the Welsh Consolidated Fund (WCF) 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 2026, 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 WCF); and
- the amount which may be paid out of the WCF 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 2025-26 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.	10,180
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.	18,610
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	9,625

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

	Estimate 2025-26 £'000	Supplementary Estimate 2025-26 £'000	Net change £'000
Net request for resources	9,791	10,180	389
Non-cash adjustment – depreciation and interest charges	(608)	(608)	–
Non-cash adjustment IFRS16 capitalisation	(187)	(187)	-
Lease rental payments	200	200	–
Movements in working capital	40	40	–
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	9,236	9,625	389



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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.