

Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date:

Wednesday, 10 December 2014

Meeting time:

09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Committee Clerk

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Agenda

1 Introductions, apologies and substitutions (09:00)

2 Papers to note (09:00–09:05) (Pages 1 – 5)

3 Best Practice Budget Processes Inquiry: Evidence Session 5 (09:05–10:30) (Pages 6 – 17)

FIN(4)–24–14 – Paper 1 – Evidence from the Minister for Finance and Government Business

Research Briefing

Jane Hutt AM, Minister for Finance and Government Business

Andrew Jeffreys, Director Treasury, Finance & Corporate Services

Matt Denham–Jones, Head of Budgetary Control & Reporting

Jeff Andrews, Specialist Policy Advisor

(Break 10:30–10:40)

4 Wales Audit Office: Fleet Report (10:40–11:10) (Pages 18 – 55)

FIN(4)–24–14 – Paper 2 – Baker Tilly Report

FIN(4)–24–14 – Paper 3 – Wales Audit Office Briefing on Baker Tilly Report
Research Briefing

Isobel Garner, Chair, Wales Audit Office Board

Mr Kevin Thomas, Director of Corporate Services, Wales Audit Office

Nicola Evans, Finance Manager, Wales Audit Office

5 Wales Audit Office: Consideration of Fees Scheme (11.10 – 11.25)

(Pages 56 – 83)

FIN(4)–24–14 – Paper 4 – Wales Audit Office Fee Scheme 2015

Isobel Garner, Chair, Wales Audit Office Board

Mr Kevin Thomas, Director of Corporate Services, Wales Audit Office

Nicola Evans, Finance Manager, Wales Audit Office

6 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (11:25)

Items 7, 8 & 9

7 Wales Audit Office: Procurement of Auditors (11:25–11:55) (Pages 84 – 91)

FIN(4)–24–14 – Paper 5 – Briefing Note for External Audit Services

Isobel Garner, Chair, Wales Audit Office Board

Mr Kevin Thomas, Director of Corporate Services, Wales Audit Office

Nicola Evans, Finance Manager, Wales Audit Office

8 Wales Audit Office: Fleet Report – Consideration of evidence (11:55–12:00)

9 Wales Audit Office: Consideration of Fees Scheme – Consideration of evidence received (12:00–12:05)

10 Best Practice Budget Processes Inquiry: Consideration of evidence received (12:05–12:35)

Finance Committee

Meeting Venue: **Committee Room 2 – Senedd**

Meeting date: **Wednesday, 26 November 2014**

Meeting time: **09.00 – 10.30**

This meeting can be viewed on [Senedd TV](http://senedd.tv/en/2515) at:
<http://senedd.tv/en/2515>

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Wales



Concise Minutes:

Assembly Members:

Jocelyn Davies AM (Chair)
Peter Black AM
Christine Chapman AM
Mike Hedges AM
Alun Ffred Jones AM
Ann Jones AM
Julie Morgan AM
Nick Ramsay AM

Witnesses:

Carl Sargeant AM, The Minister for Natural Resources
Neil Hemington, Welsh Government
Dion Thomas, Welsh Government
Gemma Christian, Welsh Government

Committee Staff:

Bethan Davies (Clerk)
Meriel Singleton (Second Clerk)
Leanne Hatcher (Second Clerk)
Joanest Varney-Jackson (Legal Adviser)
Martin Jennings (Researcher)
Helen Jones (Researcher)

1 Introductions, apologies and substitutions

1.1 The Chair welcomed members to the Committee.

1.2 There were no apologies.

2 Papers to note

2.1. The papers were noted.

3 Planning (Wales) Bill: Financial Implications of the Bill

3.1 The Committee scrutinised the Minister for Natural Resources on the financial implications of the Planning (Wales) Bill.

3.2 The Minister agreed to provide the following to the Committee:

- The document on the performance related activity of the 25 planning authorities.
- The performance indicators for planning inspectorate Wales.
- A list of the Local Planning Authorities who have already adopted Local Development Plans and the status of the remaining Local Authorities plans.
- Provide the percentage of applications which are processed within the eight week standard planning application.

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

4.1. The motion was agreed.

5 Planning (Wales) Bill: Consideration of the evidence received

5.1 The Committee considered the evidence received.

6 Best Practice Budget Processes Inquiry Part II

6.1 The Committee considered the papers.

7 Forward Work Programme

7.1 The members considered and noted the work programme for the spring term.

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Mr Alun Ffred Jones AM
Chair, Environment & Sustainability Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Date: 25 November 2014
Our ref: HVT/2238/fgb
Page: 1 of 3

Dear Alun

THE WELL-BEING OF FUTURE GENERATIONS (WALES) BILL: DISCUSSIONS BETWEEN THE MINISTER FOR NATURAL RESOURCES AND THE AUDITOR GENERAL

I am writing to provide the Committee with an update on the discussions between my lawyers and policy officials and those of the Welsh Government, following the Minister's meeting with me on 4 November 2014.

The main issues that have been the subject of discussion have been our disagreement as to the requirements of existing audit duties in relation to the Bill, and our disagreement as to the National Assembly's legislative competence to introduce new duties on the Auditor General in relation to the Bill:

- In terms of the disagreement as to existing audit duties, the Welsh Government had been of the view that the Auditor General's existing duties in the audit of the accounts of local government and NHS bodies meant that the Auditor General was under a duty to consider the effectiveness and efficiency in the "setting of well-being objectives and taking all reasonable steps to achieve the objectives" (paragraph 390 of the Explanatory Memorandum).
- On the National Assembly's legislative competence, the Welsh Government had been of the view that providing a new duty relating to economy, efficiency and effectiveness on the Auditor General was outside competence.

As the Committee is aware, the advice provided to me by Peter Oldham QC indicated that neither of these Welsh Government views of the law were correct.

The Minister and I met to discuss these matters on 4 November. That helpful meeting was followed by a meeting of our respective lawyers on 17 November, and a series of meetings between our officials held between 19 and 25 November. As a result of those discussions, the Minister has agreed a Policy Note with me, a copy of which is appended to this letter.

I welcome the Welsh Government's proposal of a duty as it is implicit recognition that, in the absence of an existing duty to review the effectiveness of compliance with the Bill, there is indeed a need for a new duty on the Auditor General. It also serves to acknowledge that there is no existing duty on the Auditor General to audit the effectiveness of the setting of well-being objectives (and the Welsh Government has agreed to amend paragraph 390 of its Explanatory Memorandum accordingly). I also welcome the Welsh Government's acceptance of my suggestion that, in the interests of timely and proportionate reporting, the provisions for reporting on the exercise of such a duty should not be tied to an annual cycle but should instead provide some alignment with the Future Generations Commissioner's Future Generations report.

In my view, the enclosed Policy Note sets out a role for the Auditor General that will provide a reasonable degree of consistent audit examination of the setting and achieving of well-being objectives across the Welsh public sector. The Minister has indicated to me that the Policy Note will be translated into an appropriate Government amendment to the Bill, and I await sight of the precise wording of the proposed duty.

I should be happy to provide further explanation if the Committee would find that helpful.

Given the interests of the Public Accounts Committee and the Finance Committee, I am copying this response to Darren Millar AM and Jocelyn Davies AM. A copy also goes to Gareth Jones at the Welsh Government.

Yours sincerely



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Enc: Annex: Policy note agreed between the Minister for Natural Resources and the Auditor General for Wales

cc Mr Darren Millar AM
Ms Jocelyn Davies AM
Mr Gareth Jones OBE

ANNEX: POLICY NOTE AGREED BETWEEN THE MINISTER FOR NATURAL RESOURCES AND THE AUDITOR GENERAL FOR WALES

WELL-BEING OF FUTURE GENERATIONS BILL

As suggested by the Auditor General to the Committee, we agree that there should be a new duty on the Auditor General that requires him to examine and report on the application of the governance approaches in both the setting and also the achieving of objectives by public bodies. We are also in agreement that the Auditor General should lay before the Assembly a report on the finding of those examinations in a way that allows the reports to complement the Future Generations Commissioner's FG report and to lay (and therefore publish) the reports.

Proposed Role of the Auditor General

The Welsh Government has proposed that the Auditor General would regularly examine how the bodies have applied the five identified governance approaches of sustainable development. This means looking at the arrangements they have in place to ensure that they take account of the long term, the need for an integrated approach, working with others, involving people, and taking preventative action in both setting and taking steps to meet their well-being objectives.

The Auditor General would therefore be able to consider issues such as whether the body can show that it has organised itself to have robust mechanisms and procedures in place and whether these are actually being used, that is, are the governance approaches being applied when the body is making key decisions about setting well-being objectives and also when taking steps to achieve them.

Such an examination would not be a simple tick box exercise to review whether or not the body actually has well-being objectives but would be an examination of how seriously the public sector is taking sustainable development. How the Auditor General carries out this examination should be at his discretion so that he has flexibility to do so in a proportionate way.

It is not envisaged that under this duty the Auditor General would look at whether the objectives are the „right“ objectives, but whether the public body has gone the right way, i.e. embedded the governance approaches in setting the objectives, and then achieving them.

Agenda Item 3

FINANCE COMMITTEE – INQUIRY INTO BEST PRACTICE BUDGET PROCESSES - PART 2

Evidence from the Minister for Finance and Government Business

Introduction

1. This paper provides evidence to inform the Finance Committee's inquiry into Best Practice Budget Processes – Part 2.
2. This part of the inquiry is considering the planning and implementing of new budget procedures. The Committee has requested views on:
 - * Tax and borrowing issues;
 - * Managing budgetary risk;
 - * Transparent and understandable budget processes;
 - * UK budget planning; and
 - * Implementation

Background

3. The Wales Bill, which is currently being considered by the UK Parliament, includes a range of financial reform measures which would give Wales:
 - powers to introduce Welsh taxes that would replace UK stamp duty land tax and UK landfill tax;
 - powers to create new devolved taxes on a case by case basis;
 - partial devolution of income tax, if supported by the people of Wales in a referendum;
 - borrowing powers for capital investment of up to £500 million in total; and
 - borrowing powers (also of £500 million) to manage short term budgetary fluctuations arising from tax devolution.
4. The Wales Bill will also enable the Assembly to set its own budgetary procedures.
5. The Wales Bill recently completed Report Stage in the House of Lords, and is expected to receive Royal Assent before the end of the current Parliament (i.e. before the end of March 2015).
6. Alongside the Wales Bill, the UK Government published a Command Paper - 'Wales Bill: Financial Empowerment and Accountability' - which indicates that the new Welsh taxes to replace UK stamp duty land tax and UK landfill tax should be introduced in April 2018.

Evidence

Tax and borrowing issues

7. On 19th November, the Welsh Government published the Treasury Paper 'Tax powers, purpose, principles and priorities' including some key facts about taxes¹.
8. Alongside the devolution of new tax powers, the block grant will need to be adjusted to reflect the reduced revenues flowing to the UK Exchequer. These offsets to the block grant should be calculated in a fair and transparent manner which takes into account the properties of the relevant tax base.
9. The Welsh Government's Holtham Commission proposed the so-called 'Holtham offset' as a fair way of combining devolved tax revenues with continued block grant funding. That mechanism has been agreed for Scotland in relation to income tax and would be the expected approach for Wales, were a Welsh rate of income tax to be introduced in the future.
10. The offset mechanism for the smaller taxes in Scotland, which will take effect from 1st April 2015, is still to be agreed between the Scottish Government and HM Treasury.
11. A Joint Exchequer Committee (JEC), including the Chief Secretary to the Treasury, the Secretary of State for Wales, the Financial Secretary to the Treasury and myself, has been established to oversee the transfer to Wales of the new financial powers included in the Wales Bill. In its first meeting (20 October), the principles that should underlie the block grant adjustments were agreed. These will seek to achieve fairness to both the UK and Welsh Governments by minimising the risks from funding transfers to both the UK and Welsh Governments, including policy 'spillover' and tax avoidance, and ensure that mechanisms are consistent with Azores criteria and State Aid principles.
12. The unanimously agreed cross-Party Motion on the 'Future of devolution for Wales' (20 October 2014) has established the immediate priorities for Wales in respect of further fiscal devolution (above and beyond that within the Wales Bill), including: devolution of direct long-haul air passenger duty and, subject to what is agreed for the other Devolved Administrations, possible devolution of corporation tax. These, and the other priorities, should be underpinned by resolution of the 'fair funding' issue through implementation of a funding floor.
13. The Welsh Government's new capital borrowing powers will be introduced alongside the Welsh taxes to replace UK stamp duty land tax and UK landfill tax, in April 2018. In advance of this date, the UK Government has enabled 'early access' to borrowing to contribute to the enhancement of

¹ [Treasury Paper - Tax powers, purpose, principles and priorities](#)

the M4 in south-east Wales if it is required. The Welsh Government is committed to using the full new borrowing powers, alongside the capital budget and innovative funding measures, to benefit all parts of Wales.

Managing budgetary risk

14. The devolution of taxes will bring a new dimension to planning and modelling within the Welsh Government which will require the development of new forecasting and modelling processes. The capacity requirements of these increased fiscal responsibilities are being considered and addressed.
15. The OBR will forecast Welsh receipts for stamp duty land tax, landfill tax, aggregates levy and Welsh income tax receipts, for the first time, as part of the fiscal forecasts accompanying the Autumn Statement on 3 December 2014. The Welsh Government will forecast revenues from the replacement taxes for stamp duty land tax and landfill tax, once the arrangements for these taxes are sufficiently clear.
16. The OBR already publishes forecasts of Scottish receipts for those taxes that will be devolved to the Scottish Government under the terms of the Scotland Act.
17. To manage the volatility in respect of tax devolution, the Wales Bill provides for short-term revenue borrowing powers of up to £500m. Alongside this, the Command Paper describes the cash reserve which will enable the Welsh Government to save tax receipts when they are in excess of forecasts, and to draw on those savings to maintain spending levels in times when tax receipts are below forecast.
18. The mechanism for managing any volatility arising from the devolution of non-domestic rates is currently under discussion with the Treasury.

Transparent and understandable budget processes

19. Steps have been taken in recent years to review the presentation and transparency of the Welsh Government's spending plans to support increased scrutiny. The Budget Protocol, which was endorsed by the Assembly back in 2012, was another important milestone in the continual programme of work to consider the transparency of budget proposals and how the Welsh Government can support the Assembly in its scrutiny. As part of this work, a commitment was made to provide a written report on final outturn to the Finance Committee – a clear demonstration of the commitment to working openly and transparently.
20. There is no single budget format which can meet all information requirements. It is also important to understand that while strategic decisions are taken in the autumn, the operational detail of budget plans will continue to develop up to the beginning of the financial year. A

balance is required between the commitment to providing information with the need for that information to remain meaningful.

21. The Welsh Government has consistently demonstrated commitment to engage with, and listen to, frontline staff who deliver vital public services across Wales. This engagement has been more important than ever in recent years, to work collaboratively with delivery partners to maintain high quality service provision in the face of very significant budget reductions. This is the context in which the Minister for Finance and Government Business engaged with a broad range of people through the Budget Tour 2014, in preparation for the Draft Budget 2015- 16 in September 2014.
22. There is a commitment to continuing this collaborative and consultative approach in the context of future budgets in order to ensure that the Welsh Government's budget documentation is open, transparent and accessible. There is a need to keep this under review as we develop the future budget in the light of the Wales Bill.

UK budget planning

23. The Wales Bill Command Paper confirmed the establishment of a Joint Exchequer Committee for Welsh Ministers and UK Ministers to oversee the transfer of the new financial powers. The first meeting of the JEC was on 20 October 2014.
24. Given that the bulk of the Welsh Government's funding will continue to come from the UK Government via the Welsh block, there will be a need to continue to work within the constraints of their processes and timescales.
25. There are also issues to address in terms of how the requirements of the scrutiny process can be balanced with the need to provide certainty to delivery partners and the need to allow the Government flexibility to respond to changing circumstances.
26. New fiscal powers provided by the Wales Bill presents the opportunity to consider the best budgetary procedure fundamentally and design a process that is both effective and proportionate, whilst acknowledging the constraints under which we operate.

Implementation

27. At this stage, it should be recognised that much of the detail relating to the implementation of the Wales Bill is under discussion with the UK Government. Therefore, there are likely to be changes at the operational level as this work develops.

28. Implementation of new fiscal responsibilities under the Wales Bill will require changes to the budgetary procedures of the National Assembly for Wales. The Wales Bill provides the opportunity to consider any changes within both statutory and non-statutory frameworks. It also provides a flexible timescale within which changes to the statutory provision could take place.
29. As a minimum, the changes to the budgetary procedures need to include the receipt and subsequent expenditure of revenues raised from devolved taxes and the receipt, expenditure and repayment of funds accessed under increased borrowing powers.
30. These changes could be implemented using the existing legal framework within the Government of Wales Act 2006. This would be a flexible approach within which to consider the ongoing implementation of new fiscal powers under the Wales Bill, together with the developments for further fiscal devolution.
31. To implement the necessary changes, there would be a requirement for the revision of the Standing Orders of the National Assembly for Wales and/or the Budget Protocol agreed between the Welsh Government and the Finance Committee to set out clearly the additional information to be provided to ensure transparency and effective scrutiny of the new fiscal powers. The Annual and Supplementary Budget Motions would be retained as a means of legally approving the budget.
32. In Scotland, implementation of the same fiscal powers were undertaken on a non-statutory basis. The Written Agreement between the Scottish Government and the Finance Committee was amended to detail the information that the Scottish Government would provide in relation to devolved taxes and borrowing in its 2015-16 Draft Budget documentation.
33. The Wales Bill also provides the opportunity to consider wider changes to the budgetary procedures. Some of these have been identified already within the Committee's inquiry such as outcome based budgets, medium to long-term planning and alignment of budgets and accounts.

By virtue of paragraph(s) vi, ix of Standing Order 17.42

Document is Restricted

Value for Money Report 2013: Fleet Cars and Travel & Subsistence

Wales Audit Office: Swyddfa Archwilio Cymru

19th September 2014

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1. Executive Summary

Objectives

This Value for Money (VfM) review was commissioned to identify whether the Wales Audit Office (WAO) fleet car scheme and Travel & Subsistence arrangements are fit for purpose and in line with other organisations in the private and public sector. The WAO requested that the VfM review benchmarks the WAO's arrangements to other public and private sector organisations. Five objectives were agreed for this review, as follows:

- Compare the WAO's fleet scheme arrangements with those in place in other public / private audit agencies taking into account the cost, the specific operational environment (e.g. geography and logistics), the WAO's corporate priorities and its Corporate Social Responsibility (CSR);
- Assess whether controls are well established in terms of management of the fleet car scheme;
- Assess whether the introduction of the fleet scheme in 2011 has resulted in the cost savings predicted at the time;
- Assess the quality of the management information provided to the managers responsible for the fleet car scheme; and
- Compare the WAO's travel and subsistence arrangements with the reimbursement offered by other public bodies.

Conclusions

- Our review has concluded that there is evidence of increased social responsibility by the WAO in respect of the Health and Safety, wellbeing and environmental responsibility to their staff. Carbon emission reductions have significantly exceeded the target. There is also a robust governance process implemented by the WAO in order to control and monitor the fleet and staff travel arrangements.
- We found that the WAO is proactively looking to reduce the costs of the fleet and travel and subsistence, and that the task was taken seriously by management with a clear desire to improve value for money.
- Opening up the scheme to more staff (trainees and technicians) and the removal of a minimum qualifying annual mileage has led to an increase in the cost of the scheme. This practice is more generous than observed elsewhere, although it is recognised that there are non-financial benefits of offering the scheme to these individuals.
- Allowing staff to claim a protected transport allowance rate for 24 months in comparison to the minimum 13 week notice for changing terms and conditions led to an additional cost of circa £98,000 in the first two years.
- The targets set for the reduction in costs of the lease car scheme and travel and subsistence were insufficiently defined, therefore the WAO has not been able to demonstrate whether it has achieved the improvements targeted.

1. Executive Summary (continued)

Therefore our overall conclusions are as follows:

- **Fleet scheme arrangements** – overall the VfM of the WAO's scheme compares well with other benchmarks and the arrangements contribute towards the goal to improve Corporate Social Responsibility. However there is the need to consider the eligibility of staff across the organisation and there is a potential to reduce costs by tightening the criteria for trainees and technicians
- **Management Controls** – we found that management controls are well established and are working effectively
- **Savings** – savings targets and plans were not tightly defined and therefore there was no mechanism in place to track the level achieved. Going forward the WAO needs a stronger process to agree and monitor targets for reducing costs
- **Management Information** – we found the current management information to be adequate for directors but there is a need to develop the information provided to those below director level
- **Travel & Subsistence** – these arrangements offer VfM and are less generous than others benchmarked

Key Recommendations

Our key recommendations are;

- There needs to be a much tighter definition of cost saving targets in the future with agreed mechanisms for monitoring achievement;
- Management Information should be developed for managers below Director level;
- Eligibility criteria should be re-evaluated to establish whether savings could be made to the cost of the fleet without impinging on the ability of the WAO to recruit and retain key staff.

More detailed recommendations are included in the body of the report.

2. Introduction

The purpose of this report

We were asked by the Public Accounts Committee (PAC) to benchmark the WAO's new fleet car arrangements against those of other organisations in the public and private sector to determine whether the arrangement was comparable with other organisations and if Value for Money (VfM) was being obtained.

It was agreed that we would consider fleet car and travel and subsistence arrangements for PAC consideration.

Our Approach

We obtained and reviewed evidence in addition to interviewing all relevant members of staff who are involved in the operational management of the fleet car scheme.

We gathered evidence from across the public and private sectors to establish whether the WAO's fleet car and transport allowance arrangements are in line with best practice. In addition, travel and subsistence policies and rates from a range of organisations were reviewed to establish whether these were comparable to those of the WAO.

A more detailed method annex has been provided to management with details of the testing undertaken.

Our Team

Our team principally comprised of:

Paul Brown	Engagement Lead
Helen Cargill	Director
Rhys Davies	Assistant Manager
Catrin Lewis	Auditor

Accordingly, for the avoidance of doubt, we emphasise that the work we have performed does not constitute an audit and that this report does not imply the expression of an audit opinion, or the satisfaction of an audit opinion, statutory or otherwise. The sole purpose of this report is to assist the WAO in the appraisal of internal management information used to manage the business.

Use of the report

This report is intended for the sole use of the Wales Audit Office, the Auditor General for Wales and the Finance Committee of the National Assembly for Wales. We understand that reports to Finance Committee are usually in the public domain.

We cannot accept responsibility to any third party in relation to our report and disclaim all liability to any third party in connection therewith. This report should not be disclosed to any third party without the prior written consent of Baker Tilly.

3. Background

Following the merger of the Welsh regions of both the Audit Commission and the National Audit Office (NAO) in 2005 a newly merged organisation called the Wales Audit Office (WAO) was formed. There were a number of ex Audit Commission staff who retained their entitlement to a fleet car or transport allowance as part of their remuneration package. Ex NAO staff, who had not previously been entitled to a fleet car or transport allowance, become eligible providing they travelled at least 5,000 business miles per year. The value of this transport allowance in 2005 was £4,070, rising to £5,750 by April 2010.

In September 2011, the WAO attempted to harmonise benefits, improve the cost effectiveness of the fleet and contribute towards the Health and Safety and Sustainability Agenda. At this point, c270 WAO staff were travelling over 1 million business miles per year, at an annual cost of £1.1m which produced around 1,000, tonnes of CO₂. The objective of the review was to:

- Reduce the value of the fleet car / transport allowance;
- Remove the perverse incentives created by the 5,000 miles qualifying criteria for transport allowance;
- Provide better management of staff Health and Safety;
- Increase Corporate Social Responsibility through a reduction in carbon footprint;
- Reduce travel by staff; and
- Increase the use of Technology for meetings e.g. video conferencing.

The WAO followed the Environmental Agency framework contract for lease cars. As part of the fleet review, the lease car contract was re-tendered through the Government's OGC procurement framework. Five leasing companies expressed an interest however only one company, Lex Autolease, submitted a tender. Extensive discussion took place in addition to the costs provided by Lex Autolease being compared and benchmarked against the WAO's existing supplier, Hitachi, and the contract was subsequently awarded to Lex Autolease. Further negotiations were held with Lex Autolease to minimise the risk of excessive end of term charges being applied. Consideration was also given to prior experience of the provider.

Once the tender had been awarded, a whole life cost analysis was undertaken on the entire range of fleet cars available to lease from Lex Autolease to identify the best options in terms of CO₂ emissions; NCAP safety rating; and the range of business appropriate cars.

3. Background (continued)

As a result of the whole life cost exercise, three brands of cars were identified as satisfying the WAO's criteria; Toyota, Peugeot and Honda.

The level of allowance and the criteria for eligibility to participate in the fleet car scheme (or to receive a transport allowance) were also reviewed as part of the exercise. Staff who did not meet the eligibility criteria would claim the HMRC private mileage rate. These changes included the reduction transport allowance for new staff; the removal of minimum travel threshold of 5,000 miles and the transport allowance for trainees and technicians.

Pay Bands	Old monthly car lease allowance	Old monthly travel allowance	New monthly lease allowance	New monthly travel allowance
Pay bands 7-10	£340	£480	£340	£430
Pay bands 3-6	£280	£480	£280	£370
Trainees	£0	£0	N/A	£370

The changes became effective from September 2011. Eligible staff were given the option of a lease car or transport allowance. Where staff selected the option of a lease car the criteria for the vehicle had already been established through the whole life cost exercise. Criteria were also defined for those staff opting to receive the transport allowance. Such criteria include that the car is fit for business purposes; emissions were limited to 140g/km and that the insurance of these vehicles was the responsibility of the staff at the WAO.

It was anticipated that, following recommendations arising from the fleet review, costs would initially increase by £50,000 in year one of the scheme (September 2011 - September 2012). However, it was anticipated that potential annual savings of up to £200,000 could be achieved in years two, three and four. In addition, the report specifically identified that some of the savings and income generation of around £80,000 per year for four years would arise from a number of sources. An HR Advisor from the HR team is responsible for the day to day management of the fleet scheme on behalf of the WAO also liaises between WAO and Lex Autolease.

In this report we have provided a detailed analysis of the changes made to the Fleet Scheme and identified the VfM of the arrangements and we have reviewed the Travel and Subsistence arrangements. These have been benchmarked against other organisations including both the public and private sectors.

4. Objective 1 – Comparison of Fleet Scheme

Comparison of Scheme objectives - Introduction

In this section we summarise our analysis of the WAO fleet car arrangements and benchmark against the research and findings identified from elsewhere, with specific consideration to the WAO's working environment. As identified previously, there were five specific objectives to this review, each will be analysed independently, although some of the findings will be relevant to a number of the objectives. This analysis compares the WAO's fleet scheme arrangements with those in place in other public/ private audit agencies whilst taking into account the cost, the specific operational environment (e.g. geography and logistics), the WAO's corporate priorities and its Corporate Social Responsibility (CSR).

WAO fleet car scheme - current situation

All staff who are eligible for the scheme are employed under the condition that they are a mobile workforce and travelling is a requirement of the role (eligibility will be revoked if staff refuse to travel). There are some ex Audit Commission staff who are on protected Terms and Conditions following the merger in 2005 and who are entitled to a fleet car or transport allowance as part of their remuneration package, this is despite not being required to be mobile and as such are Corporate Enablers. Eligible staff have a choice of three options which include; a lease car, a transport allowance or claiming of mileage through HMRC mileage rates for business miles.

At the time of this review, 188 members of staff were considered eligible for the current fleet car scheme, of which:

- 50 members of staff had lease cars with an average annual lease cost of £4,324 (plus on costs) per person with total monthly contributions from staff of £2,310 ranging between £40-£50 personal monthly contribution, equating to an annual cost of £100,700 for the cost of running the scheme;
- 121 members of staff claimed the Transport Allowance with a Gross annual cost of £530,157 as at September 2013; and
- 17 members of staff claimed the private mileage allowance at the HMRC advisory rate of £0.45 per mile, equating to an annual cost of £65,585.

Fleet Car Scheme key findings (Full findings in Method Annex 1)

In May 2012 the WAO put the contract out to tender to provide the lease car services for organisation as a whole; this process was undertaken in light of the findings in the fleet review in 2010. The WAO decided that the most cost effective exercise was to utilise the Office of Government Commerce (OGC) buying solutions framework, five suppliers expressed an interest, including the incumbent provider, however only Lex Autolease submitted a tender.

4. Objective 1 (Continued)

The contract, which was subsequently awarded to Lex Autolease, will run until May 2015 although there was due to be a review of these arrangements in May 2014 with approximately 50% of the staff with lease cars enlisting on this scheme. This low uptake is due to the fact that some of the contracts from the incumbent provider run until 2016 and consequently staff could renew old leases with this provider. In light of this it should have been considered whether leases could have been extended until the new arrangement was in place. Having Hitachi vehicles in the fleet for another three years makes it difficult for a timely review of the whole fleet arrangement.

We have subsequently been informed that the average cost of a fleet car in 2010 was £5,257 compared to the current £4,750 in 2013/14 and Travel Allowance of £4,440 or £5,160. It is questionable how much of a comparison the WAO was able to perform in assessing whether the arrangements offered VfM but is also acknowledged that prices were compared on OGC to provide assurance that the rates were competitive. The WAO Financial Management Handbook (June 2013) states that where insufficient verbal or written quotations are received, a single tender process may be followed. Although this was not in place at the time of the tender this is recognised best practice and consideration should have been given to obtaining further approval from the Executive Committee. We have been advised that the Executive Committee were fully briefed on the situation and this was evidenced by minutes.

Overall we believe that VfM was achieved despite only one tender being submitted; this is due to the provider being a part of the OGC framework and consequently would have been vetted appropriately.

Whole life cost analysis key findings (full findings in Method Annex 2)

The initial review in 2010 encompassed a whole life cost exercise of the vehicles that could be provided by Lex Autolease. The exercise was carried out by the Fleet Management Group to specifically identify the brands of car which would be efficient (in terms of fuel and maintenance); satisfy the corporate image and satisfy the CSR agenda. In addition to this the WAO determined which vehicle brands to include in the scheme, and which to exclude. Following this exercise, carried out by the Fleet Management Group, three brands of car were selected which met the criteria stated above and we can confirm that similar exercises have been undertaken elsewhere and is an example of good practice. It should be noted that the WAO has set additional caps compared to other organisations in terms of selecting the brand of vehicle in addition to the type (such as 4x4) in light of supporting the business image. It should be noted that the WAO has reviewed the fleet car arrangements in May of 2014 and intends to do this regularly and for future tenders.

We believe that the WAO has also achieved VfM during the whole life cost analysis.

4. Objective 1 (Continued)

Carbon Emissions key findings (full findings in Method Annex 3)

Prior to the fleet car review, the WAO fleet had an average CO₂ emission of 165g/km, however once this work was completed a cap of 140g/km was set with a 5g/km reducing figure being targeted. This cap is reviewed annually the current cap is at 130g/km. The table below shows how the four year average carbon emission of WAO compares to Central Government and the WAO providers:

	Number of Vehicles	CO ₂ g/km
Central Government	-	100
WAO Average	50	122
Lex Autolease	25	115
Hitachi	25	129

Continual improvement and development of new vehicles in the fleet will continue to bring the WAO's average emissions down to Central Government's definition of "low carbon" (which is set at 100 g/km). Based on our research, 120g/km was identified as the CO₂ benchmark set by other organisations. This is broadly in line with the WAO's overall fleet car average of 122g/km, but less than the current target.

Length of lease key findings (full findings in Method Annex 4)

The WAO leases vehicles over a four year period. The length of the lease was not part of the initial fleet review in 2010 as it was recognised within the industry, that longer lease periods reduce the lease cost and are therefore the most cost effective option. Although longer lease periods generally cost less than shorter periods, there is a potential downside as new vehicles become available on the scheme that are increasingly more efficient and a shorter lease period would allow the WAO to access efficient vehicles allowing them to reduce their carbon footprint further.

We identified a range of lease periods from 24 to 48 months. We further identified that flexible lease schemes have become popular, with a number of organisations opting for 3-12 month lease periods. However, it was noted that these would be impractical for the WAO as the lease cars have a lead time of four months.

4. Objective 1 (Continued)

'Non-controlled' vehicles key findings (full findings in Method Annex 5)

The only vehicles that are not managed by the WAO are those which are owned by the staff that claim the HMRC personal mileage, this relates to approximately 9% of the total staff at the WAO. We however did identify through our review that restrictions can be placed on non-controlled vehicles through organisations stipulating that cars must comply with CO₂ emissions criteria and that vehicles must be less than a defined age (generally seven years old). In line with good practice the WAO ensures compliance with health and safety by requiring staff that claim mileage for the use of their own vehicles, must provide their MOT and insurance certificate and evidence of a valid driving licence on an annual basis. Claims will not be paid unless this information is up to date.

Other public sector bodies reviewed tended to offer staff use of hire cars or provide access to pool cars when staff were required to undertake a lengthy journey. However, this option would not be practical for the operational WAO staff who would be predominantly mobile. However, this might provide a solution for staff who travel infrequently. Elsewhere in the public sector, where vehicles were provided, this was generally justified by reference to necessity and mileage. We were advised that management have considered the use of pool cars in further depth and that they believed there is a hidden cost of maintaining pool cars relating to the need to ensure that all are roadworthy at all times whilst the WAO will also need to pay the monthly rental cost, which could be £250 per month for the rental plus insurance premium. We also identified that a shared service organisation in Wales, with similarities in respect of patterns of staff travel, did not provide travel allowances or lease cars and staff were expected to provide their own vehicles and claim the HMRC private mileage rate.

Extension of transport allowance to trainees and technicians key findings (full findings Method Annex 6)

Prior the fleet review in 2010, trainees or technicians were not eligible to participate in the scheme. However, an outcome of the fleet review is that these staff can claim allowances. This was based on the fact that these staff would be expected to be mobile and salary is comparatively lower than other WAO staff and as such might struggle to afford a newer, more environmentally friendly vehicle. The context is that starting salaries at the WAO may vary from other organisations:

Band	Starting salary	Salary following successful 6 month probation	After Year 1	After year 2	After year 3
Technician	£14,750	£15,750	£16,500	£17,250	-
Trainee	£19,190	£20,705	£21,715	£22,725	£23,735
Private Sector (National Trainee starting salaries)					
SME	£17000 - £21,500				
Large organisation	£18,000 - £25,500				

4. Objective 1 (Continued)

Salary benchmark data identified that £19,500 was the average salary in Wales and South West for public sector, foundation qualified trainees and £21,000 for part qualified ACCA trainees. In the private sector the salaries appear within the median for the SME and bottom of the scale for larger organisation. The salaries offered by WAO are comparable before consideration of the additional transport allowance of £4,440 per annum.

There were 11 members of staff claiming transport allowance of £370 per person, per month and based on the business miles travelled in 2012/13 we identified that the additional cost to WAO would be circa £55,000 for transport allowance and mileage. If these trainees and technicians had been paid based on HMRC private mileage allowance of £0.45 per mile then the cost would have been £16,917 to the WAO. Through general research and knowledge from our own organisation and competitors, it is not common practice to provide a transport allowance or lease car option to staff below management level, especially trainees. The WAO scheme has therefore extended further than the other organisations reviewed.

There is a clear cost to the WAO of widening the eligibility of the fleet car scheme to include technicians and trainees, but this is offset by the improvements to health and safety in ensuring that trainees/technicians have access to appropriate, roadworthy vehicles and the knowledge that all staff are geographically mobile and supports recruitment and retention. In terms of the VfM we conclude that the decision to extend the eligibility has added to the cost of the scheme but that there are some offsetting non-financial benefits.

Removal of the 5,000 business miles eligibility criteria key findings (full findings in Method Annex 7)

Prior to the 2010 review, staff had to demonstrate that they travelled over 5,000 business miles per annum in order to be eligible to claim transport allowance. This qualifying threshold was removed as it was considered that staff were effectively being incentivised to travel in order to reach the 5,000 mile target. Analysis of the transport allowance payments since 2010/11 identified that 35 staff (23% of the total currently claiming transport allowance) had not claimed an average in excess of 5,000 miles in the last three years. The cost of providing the transport allowance along with the average miles completed at the average rate of £0.17 would be £168,547 for the next 12 months. This compares to a cost of £42,228 if the average mileage was paid at the HMRC rate of £0.45 per mile. The introduction of transport allowance for staff not travelling above 5,000 miles has therefore resulted in an increased cost. Four members of staff had not claimed over 1,000 business miles in total over the same three year period. In these cases, the total transport allowance and mileage payment, paid at an average of £0.17, for the next 12 months would be £17,236, whilst if paid at the HMRC rate of £0.45 the cost to WAO would only be £1,217.

The removal of the 5,000 business mile threshold has resulted in an additional cost to the WAO, as more staff are now eligible to claim although it is noted that this may be offset by staff not now having a target mileage to achieve for eligibility purposes. The cost should be reviewed where staff are non-operational or travel infrequently. The use of thresholds is common place and in the public sector the essential criteria user defined by HMRC sets business miles as over 5,000. Similar practices were identified through our review with one organisation stating that employees must travel at least 10,000 business miles per annum to qualify for an allowance / fleet car. With regards to VfM we believe that efficiency and effectiveness are being met but economically there could be a substantial cost to the WAO due to the movement eligibility thresholds. In light of this we have made recommendation 1 in section 5.

4. Objective 1 (Continued)

Protected Transport Allowance key findings (full findings see Method Annex 8)

The WAO identified that their transport allowance payments were excessive when compared against other public sector organisations. The transport allowance was reduced from £5,750 to £5,160 or £4,440 dependant on staff grade. We found through comparative analysis that £5,000 was the annual average payment for transport allowance; therefore the WAO rates are more reflective of practice elsewhere.

It was noted that the statutory notice for informing staff of a change in terms and conditions was 13 weeks, however the WAO opted to provide a 24 month payment protection period to those staff claiming transport allowance. If the WAO had paid the 64 members of staff who were protected for 13 weeks at the old transport allowance rate and then continued to pay them the new rate until September 2013 £43,015 would have been saved. From the Fleet Management Review there was no justification provided to why the transport allowance was protected for 24 months instead of the 13 week statutory period. We can therefore not identify that any VfM was achieved through extending the protected period from 13 weeks to 24 months.

It was noted that management has to achieve a balance between employee relations and cost savings and that in the longer term, certain cost saving actions would reduce staff morale and potentially impact productivity. There is also a potential impact on staff retention.

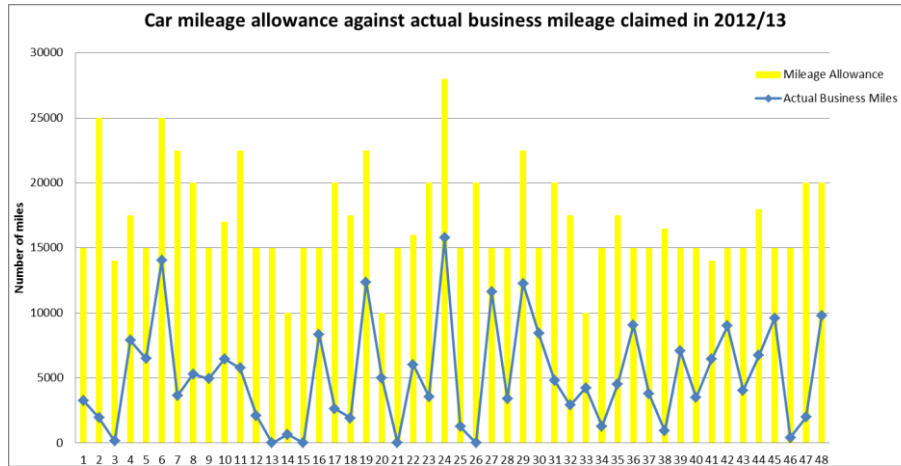
In terms of VfM we conclude that efficiency and effectiveness have been achieved but the additional cost of £40k and the lack of justification for this shows that economic VfM was not achieved.

Analysis of lease car mileage allowance key findings (full findings in Method Annex 9)

Lease cars have an average set mileage of 15,000 miles per annum; above this rate excess mileage charges will be applied. We were informed there is an element of netting off as part of the contract in addition to identifying that, in practice, there is a variety of mileage arrangements in place with the Fleet Management Company. The increased allowance is agreed at the individual's discretion and approved by the HR Advisor who monitors the scheme. This has a cost implication as the higher the mileage allowance, the higher the lease cost.

We analysed the business mileage of staff with lease cars in April 2012 and March 2013. The Table below demonstrates the mileage allowance for each of the vehicles and the amount of business miles claimed by each staff member with a lease car.

4. Objective 1 (Continued)



It is evident from the graph that annual mileage allowance on the lease cars is high in comparison to the actual business miles claimed by WAO staff. However, there is scope to reduce the annual mileage allowance of the lease cars which in turn could mean a reduction in cost of the lease payments to WAO. We identified through testing that if the members of staff who claimed less than 5,000 miles (approximately half) were paid at the HMRC private rate rather than the mileage allowance then a saving of approximately £29k would have been realised in a 12 month period. There is scope to review individual staff business miles to identify if certain staff undertake sufficient business miles to warrant a lease vehicle. As with the transport allowance, consideration should be given to the reintroduction of a minimum number of miles to be eligible for a lease vehicle under the scheme.

Staff pay up to £50 monthly contribution (was £30) towards the private use of the leased vehicles, however, this may not be representative of the proportion of private mileage to business mileage actually travelled given the low levels of business miles identified in the table above.

With regards to VfM we believe that efficiency and effectiveness is being achieved, however the additional costs to the WAO from the mileage allowance is not good economic sense. In light of this we have made a recommendation which can be seen in section 5 (recommendation 2).

4. Objective 1 (Continued)

Insurance

The WAO pays a vehicle insurance charge of £22,500 which is effectively £450 per vehicle. We were informed that the annual insurance cost has not increased in the last few years; however there could be an opportunity to achieve further savings by reducing the number of drivers on policies; having age restrictions and share driver safety arrangements. In addition, there could be further consideration to providing advanced driver training, by third parties, which may result in a further reduction in insurance premiums and also result in more efficient driving styles (as observed elsewhere). At present WAO bears the whole cost of insurance for their employees, although it was noted that WAO drivers are responsible for excess payments. In light of this we have made recommendation 3 in section 5.

Objective 1 - Overall conclusion

The WAO wants to be considered as the benchmark for the public sector and therefore should be seen to be setting best practice within Wales. In terms of CSR, the WAO has taken steps to ensure that the fleet meets the highest NCAP rating and that staff undertake mandatory online driver training. The scheme is designed to be environmentally friendly with a clear target for reducing carbon emissions each year and the selection of vehicles which meet these criteria. These policies contribute to the WAO's Green Dragon level four accreditation.

However, there have been decisions in respect of the extension of the scheme to trainees and technicians and the removal of the 5,000 business mile eligibility criteria that have led to increased costs with limited justification in context of the mileage travelled and practice elsewhere. This is an area that requires further attention from management to determine whether the decision taken can be justified in the context of other organisations, particularly within the public sector, or in terms of the cost and savings achieved.

4. Objective 2 - Controls

Introduction: Fleet Management process and procedure

The WAO has a Fleet Transport Handbook which provides staff with all necessary detail regarding the scheme. A handbook is provided to each new employee who is eligible to take part in the fleet scheme with the HR Advisor being the main point of contact with the lease companies.

The full procedure is stated within Method Annex 11; however the key points to note are that the member of staff completes a number of forms and documentation which confirms the understanding of the applicable schemes and payments, without this signatory the payments with regards to the scheme will be suspended. Records are maintained by HR of all staff who claim transport allowances and also a register of the leased vehicles and those who lease them.

All drivers, must complete an online Health and Safety safe driver plus course, initially on commencement of employment and this is included as part of the induction programme and bi-annually thereafter. Results are reported within the annual Health and Safety report to the Executive Committee.

	Number	Percentage
Safe driving plus	189	95.45%

The introduction of technology to track leased car usage, for business and private mileage and also for style of driving, which can also influence insurance premiums was considered by the WAO. However, it was rejected on the grounds of promoting a 'Big Brother' culture, cost, effectiveness and staff dissatisfaction, and the decision was made not to progress with this option.

Overall conclusion

We are satisfied from our review that the process in place is well defined and managed with clear responsibility for overview of the arrangements.

4. Objective 3 - Savings

Introduction

Objective three focuses on whether the introduction of the fleet scheme in 2011 has resulted in the cost savings predicted at the time.

Scheme identified savings

The Fleet Management Review in 2010 set out that following the changes to the fleet car arrangement, the potential cost savings would be a loss in Year One of £50k with £200k savings in Year 2 – 4. However, it should be noted there was insufficient evidence as to the breakdown of the savings or costs which have been declared in the review. The new scheme has been in operation for two years (at the time of this report) and as such the savings should have been achieved. However, there has been no formal review or analysis of the savings or costs to date by the WAO. We were advised that this could be due a number of changes being made which makes it difficult to calculate the true savings.

The one saving that has been formally identified relates to the cessation of the protected rate of transport allowance as of September 2013. This will provide an annual saving to WAO of £64,409 however this needs to be pro-rated in light of the time of year the allowance was removed.

We identified through the Fleet Management Review that the costs in years 2, 3, 4 were anticipated to be circa £845,000 per annum with an additional opportunity to save £80,000 per year across the four years through savings and income generation activities. With regards to the savings we identified the following:

Additional drivers' income

£6,000 income from additional drivers at the time of the exercise, to continue having access to the vehicle a payment of £100 per annum was required. Staff were not willing to pay the additional charge and only £700 of income in 2013/14 has been generated from this decision compared to the anticipated income of £6,000 per year.

Increased insurance excess payments

In the last 6 months there have not been any insurance claims by staff. Consequently no income has been generated towards the £12,000 anticipated by the WAO. However, the WAO would also not have been required to pay any excess payments in this period. We were advised that insurance costs overall have reduced.

4. Objective 3 (Continued)

Change in mileage allowance

HMRC increased the mileage allowance from £0.40 to £0.45 for private mileage from April 2011. This has meant that the WAO was unable to achieve the potential saving of up to £20,000 after reducing their mileage reimbursement in line with the HMRC rate at the time which was £0.40, as the rate had subsequently increased. The WAO is now paying mileage at HMRC rates, albeit that the planned saving from reducing the rates was short lived as the HMRC rates were increased shortly after this change took place.

As noted above, discussion with Management identified that an analysis of the savings to date was difficult due to key variables; examples of this include the number of staff in post and the policy of rotating staff to different clients (hence movement in mileage claims).

Based on the information reviewed and data received during our review we are unable to provide any data demonstrating if the WAO has been able to achieve the financial cost savings as initially set out in the 2010 fleet review. However, we understand that efficiencies have been obtained in respect of emissions and promotion of health and safety.

Overall Conclusion

Savings targets were agreed in outline but were not sufficiently defined and therefore we have been unable to verify whether they were achieved. A number of income generation ideas have failed to materialise and the analysis of additional costs arising from the change in eligibility all indicate increased costs. In light of this we have made one recommendation in section 5 (recommendation 4).

4. Objective 4 – Management Information

Introduction

This objective was to assess the quality of the management information provided to those responsible for the fleet car scheme. The study assesses the extent to which the information provided allows managers to evaluate whether; staff are making the best use of resources, cost management is effective and whether it supports agreeing the operational changes that would lead to cost reduction.

Management Information key findings (full findings in Method Annex 12)

We identified that historically management information has been limited to financial aspects of the fleet car scheme. The Executive Committee receives headline figures of actual income and expenditure against budget on a monthly basis and Group Directors receive more detailed information. Finance is able to produce more detailed information if requested to do so. There is no further formal financial reporting to management below Director level.

The 2013/14 budget was being revised in September 2013 to reflect the changes arising from the removal of the protected transport allowance and to ensure that the savings are reflected in individual Group budgets. However, it was known at the time of setting the budget that the protected rate ceased in September 2013 and this should have been built onto the budget setting exercise rather than requiring mid-year revision. The fact that it was not considered and the budget must now be reviewed could have been avoided. HR is also producing a new Health and Safety report for Directors. This report monitored staff to ensure they are not driving excessive miles and to ensure WAO's duty of care and the table below shows the timeliness of submitting expense claims.

	WAO	Highest	Lowest	Mode
Timeliness of claim	6 months	6 months	35 days	2 months

However, we noted that expense claims can be submitted up to six months after the date of occurrence; as such the information may not be up to date. At other organisations we found that, on average, this timeframe was two months. The HR Advisor who is responsible for the day to day operation of the fleet car scheme receives an operational dashboard of statistics from Lex Autolease on a monthly basis. In light of these findings we have made two recommendations in section 5 (recommendation 5 and 6).

Overall Conclusion

Management information is adequate, but needs development to meet the needs of managers below director level.

4. Objective 5 – Travel and Subsistence

Introduction – Travel and Subsistence key findings (full findings in Method Annex 13)

A comparison of WAO's travel and subsistence arrangements with the reimbursement offered by other public bodies was made to ascertain appropriateness.

Travel payments

The WAO travel and subsistence policy is currently under review. The comparisons provided within this review should allow WAO to identify if their current arrangements are in line with others and if potential savings or changes can be identified. As it stands HMRC's travel rates are £0.45 per mile up to 10,000 miles and £0.25 above this, these rates are also in place at the WAO.

The rates for company car miles is reviewed by HMRC four times per year, the new rates were published on the 1st September 2013 and WAO's revised travel and subsistence policy will be amended to reflect this as part of a quarterly review.

These advisory rates were applicable from 1st September 2013 to 30th November 2013. New advisory rates are in place from 1 December 2013. Our review of rates paid by other organisations for "company cars" indicated that in some cases only a flat rate per mile was paid no matter what the engine size, usually in the range of 15p – 17p. Setting an average flat rate, could support the WAO in reducing large engine vehicles and reduce administrative time when checking claims against each claimant's engine size.

In order to encourage car sharing and subsequently reduce the cost of miles claimed and the CO₂ emissions, the WAO along with a large proportion of the public sector organisations reviewed, pay a supplement of £0.05 per mile for passengers. We noted that private sector firms generally make no additional payment for passengers with an expectation that staff travel together, unless there is a valid reason not to. However, the payment is an incentive to encourage car sharing.

WAO line managers should review work plans and agree travel arrangements at that time, encouraging car share, in order to proactively manage travel costs.. This would contribute towards a reduction in mileage payment and in carbon emissions.

4. Objective 5 (Continued)

Subsistence payments

The WAO is broadly in line with HMRC rates with the variable being the journey allowance rather than an afternoon allowance.

HMRC subsistence rates:

Morning (Earlier than a 7.30am start): £5

Afternoon (5 hour absence over the period of 12-2): £5

Evening (10 hour absence period): £10

WAO comparison:

Morning (Earlier than 7am start): £5

Evening (Later than 20:00, must be eaten out): £10

Journey (Which are greater than 2 hours): £5

There was a wide variety of rates identified in other organisations with some private sector organisations paying higher allowances than the HMRC rates. The £5 paid by the WAO for journeys over 2 hours was unique to the WAO, but represents a decision made to promote the health and safety of staff when driving long distances. Payments for absence over the lunch period were common in the public sector organisations reviewed, however are not paid by the WAO.

The WAO has set a maximum hotel cost of £90 per night from September 2012 to August 2013, with the average hotel cost being £76.48 per night during this period, so it is encouraging that actual costs are significantly below the cap. In comparing the WAO maximum rate of £90 to other organisations in Wales that were included in the comparison, there was a range of between £75 - £150 per night (see table below). The WAOs maximum cost is much higher than the average and should be reduced. It is acknowledged that the average cost of £76.48 per night indicates that this is well controlled. The below table shows the hotel costs comparisons.

	WAO	Highest	Lowest	Average
Hotel Allowance	£90	£150	£70	£83

A number of organisations have set a specific tariff for London hotels, which in most cases is around £20-£40 higher than the usual hotel allowance per night. The location of the hotel is based on where the member of staff is going in London, with the closest, cheapest hotel booked in order to reduce the need for taxi fares. On discussion it was ascertained that there is a policy on use of London hotels in practice, but it has not been documented in the T&S Policy.

4.Objective 5 (Continued)

Hotels are booked through an agent Expotel, which we recognised was used by other public sector bodies. However, WAO Business Services has negotiated a preferential rate with up to 10% off the room price per night for four frequently used hotels. We would question the need to use a third party provider such as Expotel to book WAO accommodation, as there is a cost to using a third party provider for booking. With the accessibility of price information through the website it is possible that this would provide a better solution, so a cost benefit analysis should be considered. Incidental payments (see Table below) are common in the public sector when staying away with the payment of £5 not requiring a receipt in line with HMRC guidance. The table below shows the analysis of payments in 2012/13 of incidental expenses and Family and Friends

	WAO	Highest	Lowest	Mode
Friends and Family Overnight Payment	£25	£25	£10	£25
Incidental	£5	£5.17	£3.63	£5

The only difference identified to practices undertaken by WAO was that in one organisation a receipt had to be provided, evidencing that a gift had been purchased as a “Thank you”.

Based on the average cost of a hotel stay over the same period, the total cost for the 35 stays with family and friends would have totalled £2,677. Therefore, the family and friends scheme has effectively saved the WAO £1,802 over the last 12 months.

Overall conclusion

Our review indicates that the WAO’s rates for payment of travel and subsistence are in line with the HMRC guidance and less generous in comparison to other public sector bodies, which we found were often above these rates. We have made one recommendation that may lead to a further improvement in the value for money achieved (recommendation 7).

5. Recommendations

Recommendation	Accept/reject	Management response
<p>Recommendation 1</p> <p>Management should judge the eligibility of non-operational staff to the scheme on the basis of all relevant factors. Consideration should be given to 'buying out' any legacy contractual arrangements.</p>	Accept	<p>Management will complete a fundamental review of the Fleet and Travel Scheme by March 2015. Eligibility criteria will be reviewed in some level of detail and considering all relevant factors e.g. potentially significant changes to our client base, options to enable a more agile workforce, etc.</p>
<p>Recommendation 2</p> <p>The annual mileage allowance for staff should be reviewed and applied for all staff unless there is evidence that the member of staff is likely to exceed the 15,000 mile (or a new lower level) annual allowance because of the high business mileage claimed. Consideration should be given to increasing the private usage contribution from staff who are not currently achieving a reasonable level of business mileage (say 5,000 miles).</p>	Partially accept	<p>We accept that we should review and compare private versus business mileage, and consider introducing a threshold for acceptable private use. We will consider whether staff exceeding this threshold for private use should pay a higher car contribution. We will also consider whether there are savings to be made by introducing a lower total annual mileage limit for lease cars.</p> <p>With regard to business mileage, one of the specific priorities of the new scheme was to avoid the perverse incentives created by the operation of a minimum mileage requirement under the previous scheme, together with the associated operational, cost, sustainability and health and wellbeing problems. As such we would not wish to reintroduce a threshold for minimum business use.</p> <p>This will be considered as part of the fundamental review for completion by March 2015.</p>
<p>Recommendation 3</p> <p>The insurance cost paid by the WAO should be reviewed to identify if any potential savings could be made through restricting the scheme from the current open policy and also to reflect the changes made to the fleet itself. Emphasis should be placed on the training provided and the low level of claims.</p>	Accept	<p>Although the current policy is 'open', restrictions are placed on users in line with those proposed in the report. Our current insurers have, however, indicated that the cost of the policy would not differ if additional restrictions were placed on the policy itself. We are currently re-tendering for insurance and we will test the market by asking for quotes with both an open and restricted policy to test whether or not any savings can be made.</p>

5. Recommendations

Recommendation	Accept/reject	Management response
<p>Recommendation 4</p> <p>The WAO should develop a mechanism to test the on-going value for money of the scheme.</p>	Accept	<p>We agree that we need to further develop existing mechanisms to test the on-going VFM of the scheme now that the protection period for allowances has lapsed, and which could be applied to any future schemes. The mechanisms will need to strike a balance between cost, efficiency and effectiveness, while also considering our strategic aims involving reducing environmental impact, health and safety, and social aspects e.g. equality. This will be done as part of the fundamental review for completion by March 2015.</p>
<p>Recommendation 5</p> <p>There is limited reporting of information to Managers below Director level. This restricts the opportunity for managers to effectively monitor staff mileage or to identify opportunities to make savings. Consideration should be given to providing monthly reports to Line Managers.</p>	Accept	<p>From 1 April 2014, we will provide quarterly mileage reports for Line Managers. This change is being timetabled so as to coincide with changes to our travel and subsistence arrangements which will require staff to submit travel claims at least quarterly. Quarterly claims will ensure that Line Managers have accurate and up to date mileage data for review.</p>
<p>Recommendation 6</p> <p>Staff should be required to submit claims within two months of incurring the expense to provide more timely management information and to allow management to have a better opportunity to challenge claims on authorisation.</p>	Accept	<p>We have halved the deadline for submission of claims from 6 months to 3 months.</p>
<p>Recommendation 7</p> <p>When next tendering for third party providers for the administration of hotel bookings, management should also consider the costs of providing this service internally.</p>	Accept	<p>When we review our options for re-tendering, we will consider whether there are benefits or efficiency savings to be made by completing all bookings in-house. Following an internal recommendation in the same vein, we will also consider whether there are savings to be made from staff sourcing their own hotel bookings.</p>



Reference: Finance Committee

Date issued: 4 December 2014

Value for Money Report – Wales Audit Office Fleet Cars and Travel & Subsistence Scheme

Background

1. In autumn 2012, the Assembly's Public Accounts Committee (PAC) commissioned the external auditors of the Wales Audit Office (Baker Tilly), to review whether our fleet car scheme and travel & subsistence arrangements are fit for purpose and in line with other organisations in the private and public sector.
2. The audit was commissioned prior to the new governance arrangements established under the Public Audit (Wales) Act 2013 and the creation of the Wales Audit Office Board. Scrutiny responsibility has since passed to the Assembly's Finance Committee and the Committee agreed that the audit report should be first considered by the new Board.
3. The field work for the audit was undertaken during 2013 and the auditor's report was agreed in September 2014. The Board and its Audit and Risk Assurance Committee has since considered the report's recommendations. The Committee has a copy of the report, but for ease, the recommendations are set out in Appendix 1.

Board response

4. The Board was pleased that the report gave assurances in the following areas:
 - overall the Value for Money (VfM) of the transport scheme compares well with other benchmarks and the arrangements contribute towards the goal to improve Corporate Social Responsibility;
 - management controls are well established and are working effectively;
 - travel and subsistence arrangements offer VfM and are less generous than other schemes benchmarked;
 - a robust governance process has been implemented in order to control and monitor the fleet and staff travel arrangements;

-
- Evidence showed increased social responsibility in respect of the Health and Safety, wellbeing and environmental responsibility to staff. Carbon emission reductions have significantly exceeded the target;
 - The Wales Audit Office is proactively looking to reduce the costs of the fleet and travel and subsistence, and that the task was taken seriously by management with a clear desire to improve VfM.
5. In relation to the recommendations made, this briefing explains the actions agreed by the Board.
 6. The Wales Audit Office has a workforce that must be mobile across Wales in order to deliver the Auditor General's work programme; some 800,000 miles were travelled in the last financial year by around 250 staff. Within this, the Board has to find the right balance between cost, environmental impact and staff wellbeing. Travel risks form an important element of the Board's health, safety and wellbeing responsibilities as employer, particularly in relation to our duty of care and the Corporate Manslaughter Act.
 7. Fleet/Travel arrangements were reviewed in 2010, so the Baker Tilly report now provides a timely update on the benefits delivered by that review.
 8. Whilst the report found that specific targets set for cost reduction could not be measured, the Board is satisfied that savings have been secured. On a like-for-like basis, an average saving of £1,300 per head has been achieved as a result of the 2010 review (leading to annual savings of over £200,000 on a like for like basis).
 9. In response to the report, the Board has put in place the following:

Scheme eligibility, mileage thresholds and value for money (Recommendations 1, 2, 4)

10. The Board recognises the need to ensure the on-going VfM of our travel provisions for staff. A Task and Finish group is being established, led by the Director of Finance to consider the Baker Tilly findings and make recommendations to the Board by February 2015, with a view to achieving further savings. The recommendations will cover future eligibility to the scheme, mileage thresholds, transitional protections and the measurement of on-going VfM, as recommended in the report.

Lease Car Scheme (Recommendations 2, 3)

11. 49 staff have opted for a lease car instead of transport allowance (approximately one third of eligible staff). Lease cars are provided under a

public sector framework contract that will come to an end in April 2015, though current lease cars will remain on contract until the end of their specific lease period.

12. The Board has decided to consult with the Trade Unions with a view to withdrawing the lease car scheme as current leases expire. This means that, at the end of current leases, a lease car would no longer be available through the Wales Audit Office and affected staff would instead secure their own transport.
13. Withdrawing from the lease car scheme would release support staff time to core priorities, achieve savings in the order of £20,000 over four years and negate the need for costly and resource-intensive procurement exercises for the lease car and car insurance contracts. It would also specifically address recommendation 3 and partly addresses recommendation 2 of the report in relation to private usage contributions.

Travel Allowances (Recommendation 4)

14. The report found that the VfM of our scheme compares well with other benchmarks and that rates paid are reflective of practice elsewhere. However, the Board concluded, that a further VfM review should be programmed for 2016-17.
15. The Board was pleased to note that recommendations 5, 6 and 7 had already been implemented by the time it considered the report.
16. The Board would welcome any comments the Committee might have.

Recommendations in the Baker Tilly Report

1. Management should judge the eligibility of non-operational staff to the scheme on the basis of all relevant factors. Consideration should be given to 'buying out' any legacy contractual arrangements.

Background: The 2010 review provided protections for field staff who transferred to corporate services roles and brought transport allowances into the reward strategy for senior corporate staff.

2. The annual mileage allowance for staff should be reviewed and applied for all staff unless there is evidence that the member of staff is likely to exceed the 15,000 mile (or a new lower level) annual allowance because of the high business mileage claimed. Consideration should be given to increasing the private usage contribution from staff who are not currently achieving a reasonable level of business mileage (say 5,000 miles).

Background: prior to the 2010 review, staff had to demonstrate that they travelled over 5,000 business miles per annum in order to be eligible to claim transport allowance. The 2010 review brought transport allowances into the reward strategy for all field staff and senior corporate staff and removed the minimum mileage threshold. The private usage contribution relates to lease car users, and is set at £40/£50 per month according to category of user.

3. The insurance cost paid by the WAO should be reviewed to identify if any potential savings could be made through restricting the scheme from the current open policy and also to reflect the changes made to the fleet itself. Emphasis should be placed on the training provided and low level of claims.

Background: the policy is reviewed annually in relation to factors relevant to lease cars for the pursuing year.

4. The Wales Audit Office should develop a mechanism to test the on-going value for money of the scheme.

Background: there was insufficient evidence to demonstrate the savings by the 2010 review had been achieved.

5. There is limited reporting of information to managers below Director level. This restricts the opportunity for managers to effectively monitor staff mileage or to identify opportunities to make savings. Consideration should be given to providing monthly reports to managers.

[Complete - we have since put this in place].

6. Staff should be required to submit claims within two months of incurring the expense to provide more timely management information and to allow management to have a better opportunity to challenge claims on authorisation.

[Complete - we have since halved the submission deadline from 6 months to 3 months in discussion with the Trade Unions].

7. When next tendering for third party providers for the administration of hotel bookings, management should also consider the costs of providing this service internally.

[Complete - we have since concluded that it is not cost-effective to do so].

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted

Agenda Item 5

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Briefing note



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Reference: Finance Committee

Date issued: 4 December 2014

Wales Audit Office Fee Scheme 2015

1. Section 24 of the Public Audit (Wales) Act 2013 (the Act) requires that the Wales Audit Office prepares a fee scheme, reviews it at least annually and lays it before the National Assembly. The scheme provides the basis on which the Wales Audit Office charges fees. The Scheme must be approved by the Assembly's Finance Committee. We laid our Fee Scheme for 2015 on 4 December 2014.
2. For the first time, we included the proposed fee rates and fee scales in our Estimate for 2015-16, considered by the Finance Committee on 6 November. This new approach reflected the Board's determination to further enhance transparency and to demonstrate the direct relationship between our cost base and its resultant fee rate impact. The Board welcomes that the Committee was content with our Estimate, as laid.
3. We are required to consult on local government fee scales and fee scales for the National Fraud Initiative. The consultations ran during September 2014 and provided the following summarised responses:
 - Welcomed freezing of fee rates and fee scales
 - Acknowledged the work done by Wales Audit Office in managing costs and efficiencies
 - Urged greater transparency with fee breakdowns
 - Urged audit proportionality to risk and size of organisation
 - Supported switching National Fraud Initiative participation costs to the Welsh Consolidated Fund
 - Urged continued efficiency and innovation in service delivery in order to bring the cost of audit down in future years.
4. The Board welcomed the responses, which were found to be reflective of the pattern of feedback we receive from stakeholders. The Board is responding to the feedback through the following mechanisms:
 - a. Fee transparency and simplification

Our Engagement Directors will discuss with audited bodies the make-up of their fee in terms of the teams deployed on audits.

From 2015-16, our costs for work on the National Fraud Initiative (NFI) will be recovered through payment from the Welsh Consolidated Fund rather than through fees charged to participating bodies. This both simplifies the charging regime and is intended to encourage wider voluntary participation in the initiative.

b. Fee rates, cost efficiency and effectiveness

The Board's Estimate set out clear commitments to continue the drive on cost-efficiency and service effectiveness, encompassing:

- A real-terms reduction in fee rates of 1.5 per cent in 2015-16;
- To meet some £800,000 of cost pressures in relation to staff pay and pensions, VAT and inflation, through internal savings and efficiencies so as not to affect fees;
- To establish an Efficiency and Effectiveness Programme to continue to deliver longer-term savings in addition to the cumulative 20 per cent real-terms reduction in our costs since 2009-10.

c. Audit proportionality

As the Auditor General said to the Finance Committee on 6 November¹, "...I will continue to say that I do find that the Local Government (Wales) Measure 2009 is too much of a one-size-fits-all requirement. If that were lifted we could get to a much more tailored situation regarding each particular local authority."

Our evidence to the Committee also gave examples of where the Wales Audit Office works with other bodies, such as the Commissioners, health inspectors and regulators to reduce the overall audit and inspection burden on public bodies.

5. The Board will continue to engage with stakeholders to convey the strategic direction of the Wales Audit Office and our progress in achieving it.

Recommendation

6. **That the Committee approves the Fee Scheme 2015, noting that it reflects the draft fee scales included in the Estimate 2015-16.**

¹ Finance Committee Transcript, 6 November 2014, line [69]



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Fee Scheme 2015

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.

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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 For the first time, the Wales Audit Office Estimate (for 2015-16), approved by the Finance Committee in November 2014, included the proposed fee scales that are now set out in this scheme. This new approach reflects the Wales Audit Office Board's determination to further enhance transparency and to demonstrate the direct relationship between our cost base and its resultant fee rate impact.
- 3 The Board has listened carefully to stakeholder feedback in relation to our cost-efficiency agenda and the fee rates we set. In seeking the National Assembly's support for our Estimate for 2015-16, we proposed in the Estimate:
 - A real-terms reduction in fee rates of 1.5 per cent – reflecting a freeze in cash terms.
 - To meet some £800,000 of cost pressures in relation to staff pay and pensions, VAT and inflation, through internal savings and efficiencies so as not to affect fees.
 - To establish an Efficiency and Effectiveness Programme to continue to deliver longer-term savings in addition to the cumulative 20 per cent real-terms reduction in our costs since 2009-10.
 - From 2015-16, to fund National Fraud Initiative (NFI) work from our charge on the Welsh Consolidated Fund rather than through fees charged to participating bodies. Through this, we seek to encourage wider voluntary participation coupled with simplification for mandatory participants.
- 4 We will further enhance transparency of our fee charges by discussing with audited bodies the make-up of the fee in terms of the teams deployed on audits.
- 5 This Fee Scheme reflects the approved Estimate and in broad terms 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; or
 - fee rates for work not covered by fee scales.
- 6 Broadly, 73 per cent 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 27 per cent 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.

List of enactments

- 7 **Appendix 2** sets out the enactments under which the Wales Audit Office may and must charge fees.

Fee rates and fee scales

- 8 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.
- 9 We have calculated fee scales by applying the fee rates to estimated audit input for a typical audited body in the sectors shown ([Appendix 3](#)). This is on the basis of recovering no more than the full cost of the audit work undertaken. Fees for an individual audited body will depend on local circumstances but would ordinarily be expected to fall within the fee scales (where applicable). Our engagement directors will discuss individual fees and their make-up with each audited body.
- 10 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.
- 11 Evidently, our fee-charging arrangements are complex, cumbersome and expensive to administer and are regarded by some as no more than circulating funds within the public sector. Our stakeholders tell us that they would like us to find a simpler model for the recovery of public audit costs, and we will further explore alternative mechanisms in discussion with the National Assembly's Finance Committee. The Board welcomes the committee's recommendation¹ that the Public Audit (Wales) Act be amended to clarify the audit fee charging requirements and in the meantime the Wales Audit Office comes to a mutual understanding with organisations about what is required in terms of charging, subject to any relevant legal advice.
- 12 In September 2014, we undertook the statutory consultation on our fee scales for 2015-16, on the basis of the Board's commitment not to increase fee rates. Consultation responses told us that:
 - the freezing of fee rates is very much welcomed in the context of public sector funding pressures;
 - the work done by the Wales Audit Office in managing costs and efficiencies is acknowledged;
 - there is a demand for greater transparency with fee charges;
 - greater proportionality to risk and size of the audited body is wanted; and
 - continued efficiency and innovation in service delivery in order to bring the cost of audit down in future years is expected.

¹ Finance Committee Report, November 2014 on the Wales Audit Office Estimate 2015-16.

- 13 The Board welcomes this feedback and responds to it through this Fee Scheme and our business planning framework.
- 14 **Exhibit 1** sets out the hourly fee rates for audit staff which reflect direct costs and a due proportion of overhead costs. The costing model has been audited by the external auditors of the Wales Audit Office.

Exhibit 1: Fee rates for audit staff

Grade	Fee rate (£ per hour)
Engagement director/lead	162
Audit manager	111
Performance audit lead	93
Financial audit team leader	75
Performance auditor	65
Financial auditor	56
Audit trainees	45

- 15 Fee scales for the audit of 2014-15 financial accounts and 2015-16 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.
- 16 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.
- 17 The Wales Audit Office is 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).

- 18 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.
- 19 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.
- 20 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.
- 21 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.
- 22 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.
- 23 Where funding is provided through the Estimate, the Wales Audit Office may subsidise the fees charged to audited bodies on a transitional basis under the approval given.

Charging of fees

- 24 Charging arrangements will be agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 25 Audited bodies are expected to pay Wales Audit Office's invoices within their performance target for creditor payments, usually 10 days in the public sector. We may charge for the administrative costs incurred in pursuing late payments.
- 26 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 cost 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.

Public Audit (Wales) Act 2013

– full text of section 24

- 1 The WAO must prepare a scheme relating to the charging of fees by the WAO.
- 2 The scheme must include the following:
 - a a list of the enactments under which the WAO may charge a fee;
 - b where those enactments make provision for the WAO to prescribe a scale or scales of fees, that scale or those scales;
 - c where those enactments make provision for the WAO 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 WAO 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 WAO:
 - 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 WAO, the WAO must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the WAO.
- 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 WAO must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

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

Nature of work	Statutory enactments
The Wales Audit Office may charge fees for the following activities	
Audit of accounts by the Auditor General (other than local government accounts)	Section 23(2) Public Audit (Wales) Act 2013
Value for money studies undertaken by agreement	Section 23(3)(a)-(c) Public Audit (Wales) Act 2013
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	Section 23(3)(d) Public Audit (Wales) Act 2013
An extraordinary audit of a local government body	Section 37(8) of the Public Audit (Wales) Act 2004
Data matching exercises	Section 64F(A1) of the Public Audit (Wales) Act 2004 A fee scale must be prescribed for this work
The Wales Audit Office must charge fees for the following activities	
Work under the Local Government (Wales) Measure 2009	Section 27 of the Local Government (Wales) Measure 2009 A fee scale must be prescribed for this work
Grant certification services	Section 23(4)(a) Public Audit (Wales) Act 2013
Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998	Section 23(4)(b) Public Audit (Wales) Act 2013
Auditing the accounts of a local government body and undertaking studies by agreement with a local government body	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
Other fee charging provisions	
Benefit administration studies for the Secretary of State. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office.	Section 45 of the Public Audit (Wales) Act 2004
Assisting Her Majesty's Chief Inspector of Education and Training in Wales	Section 41A of the Education Act 1997

Wales Audit Office fee scales from 1 April 2015

Unitary authorities

Fee scale for audit of accounts for unitary authorities

Gross expenditure £000,000	Range £000			Previous year median £000
	Minimum	Median	Maximum	
100	119	140	160	140
200	143	168	193	168
300	159	187	215	187
400	172	202	232	202
500	183	215	246	215
600	192	225	259	225
700	200	235	269	235
800	207	243	279	243
900	213	251	288	251
1,000	220	258	296	258
1,100	225	265	304	265
1,200	230	271	311	271

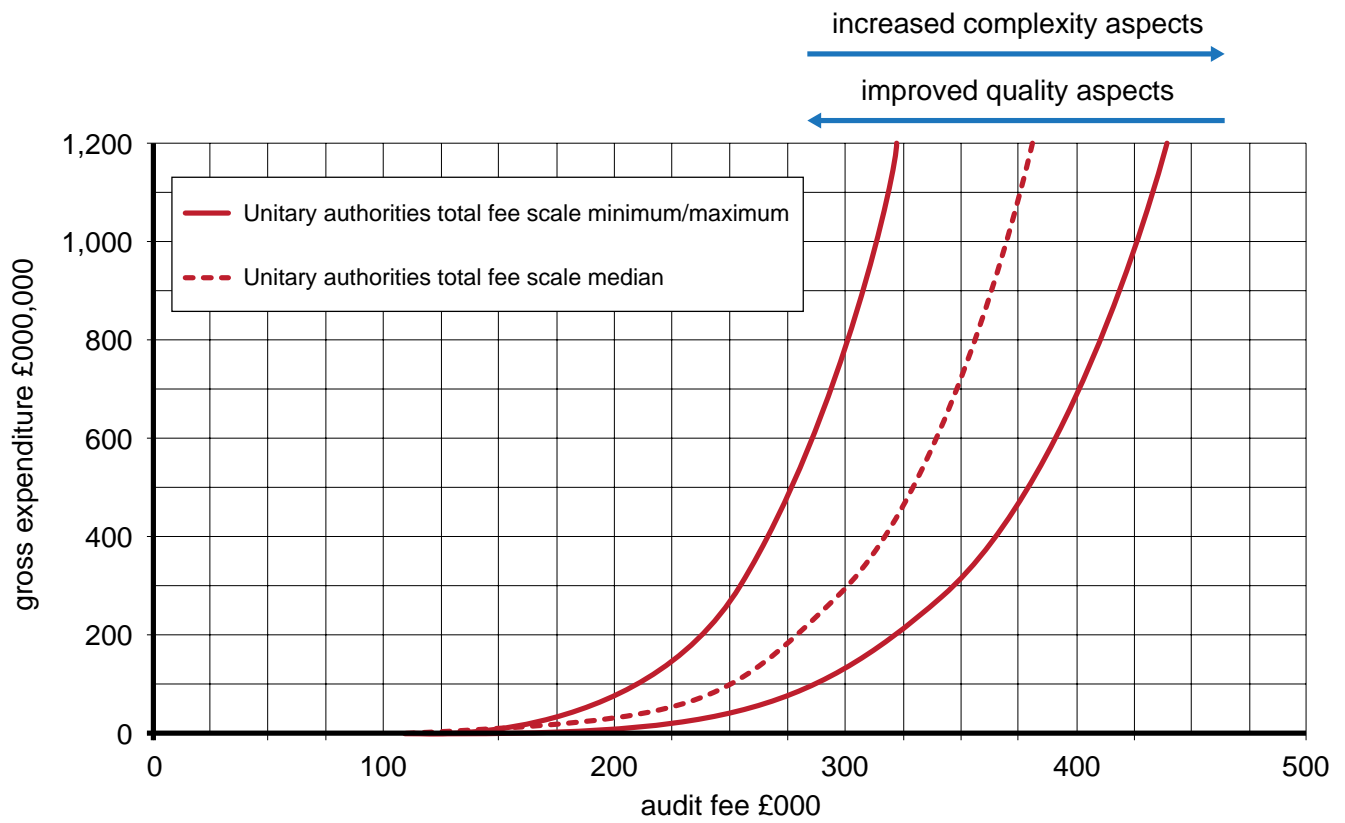
Fee scale for improvement audits and assessments for unitary authorities

All unitary authorities	Range £000			Previous year median £000
	Minimum	Median	Maximum	
	94	112	130	117

Total fee scale for unitary authorities

Gross expenditure £000,000	Range £000			Previous year median £000
	Minimum	Median	Maximum	
100	213	252	291	257
200	237	280	323	285
300	253	299	345	304
400	266	314	362	319
500	276	327	377	331
600	285	337	389	342
700	293	347	400	352
800	301	355	410	360
900	307	363	419	368
1,000	313	370	427	375
1,100	319	377	434	382
1,200	324	383	442	388

Graphic of total fee scale for unitary authorities



Fire and rescue authorities

Fee scale for audit of accounts for fire and rescue authorities

Gross expenditure £000,000	Range £000			Previous year median £000
	Minimum	Median	Maximum	
20	35	41	47	41
40	42	49	57	49
60	47	55	63	55
80	50	59	68	59
100	53	63	72	63

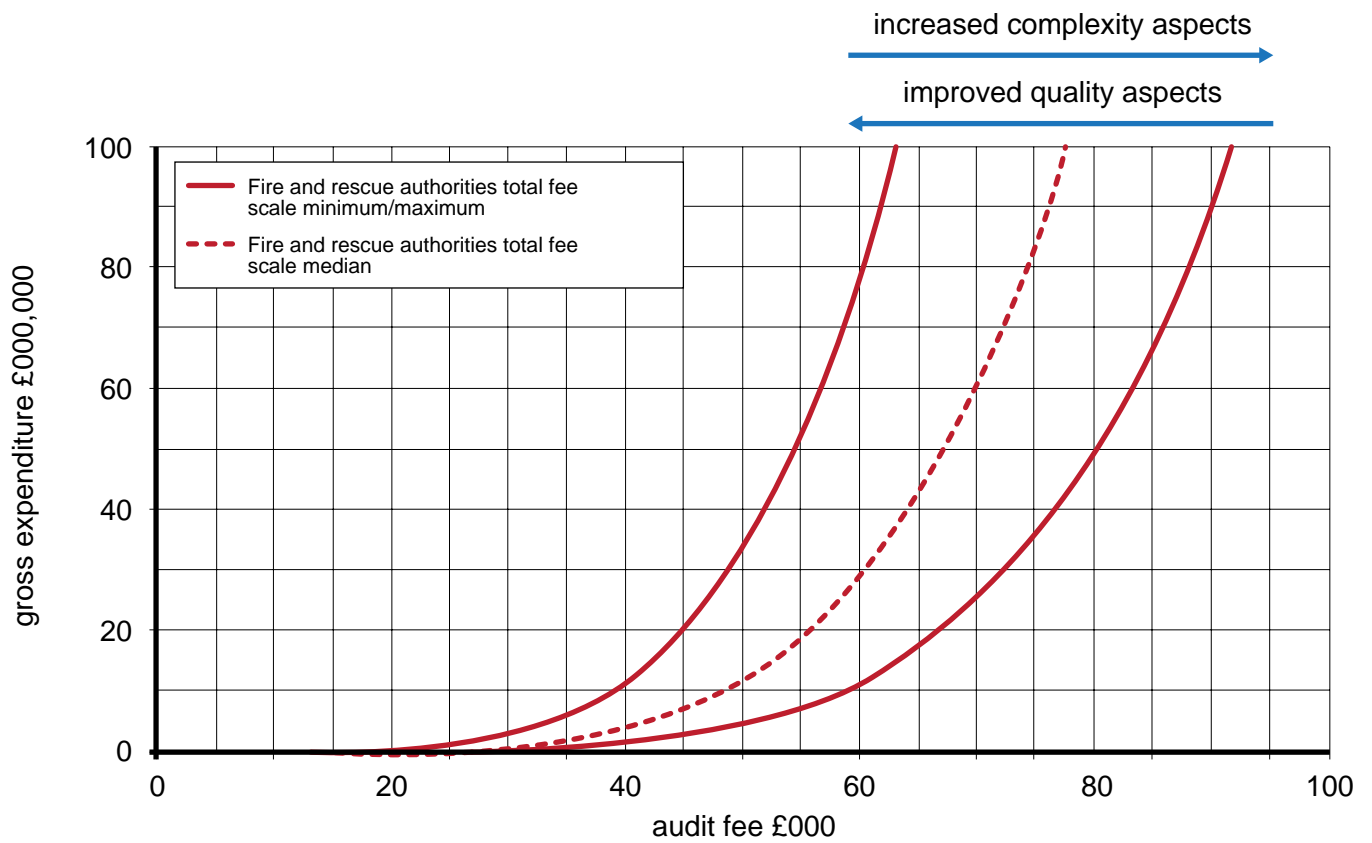
Fee scale for improvement audits and assessments for fire and rescue authorities

All fire and rescue authorities	Range £000			Previous year median £000
	Minimum	Median	Maximum	
	10	15	20	16

Total fee scale for fire and rescue authorities

Gross expenditure £000,000	Range £000			Previous year median £000
	Minimum	Median	Maximum	
20	45	56	67	57
40	52	64	77	65
60	57	70	83	71
80	60	74	88	75
100	63	78	92	79

Graphic of total fee scale for fire and rescue authorities



National park authorities

Fee scale for audit of accounts for national park authorities

Gross expenditure £000,000	Range £000			Previous year median £000
	Minimum	Median	Maximum	
2	22	25	29	25
4	26	31	35	31
6	29	34	39	34
8	31	37	42	37
10	33	39	45	39

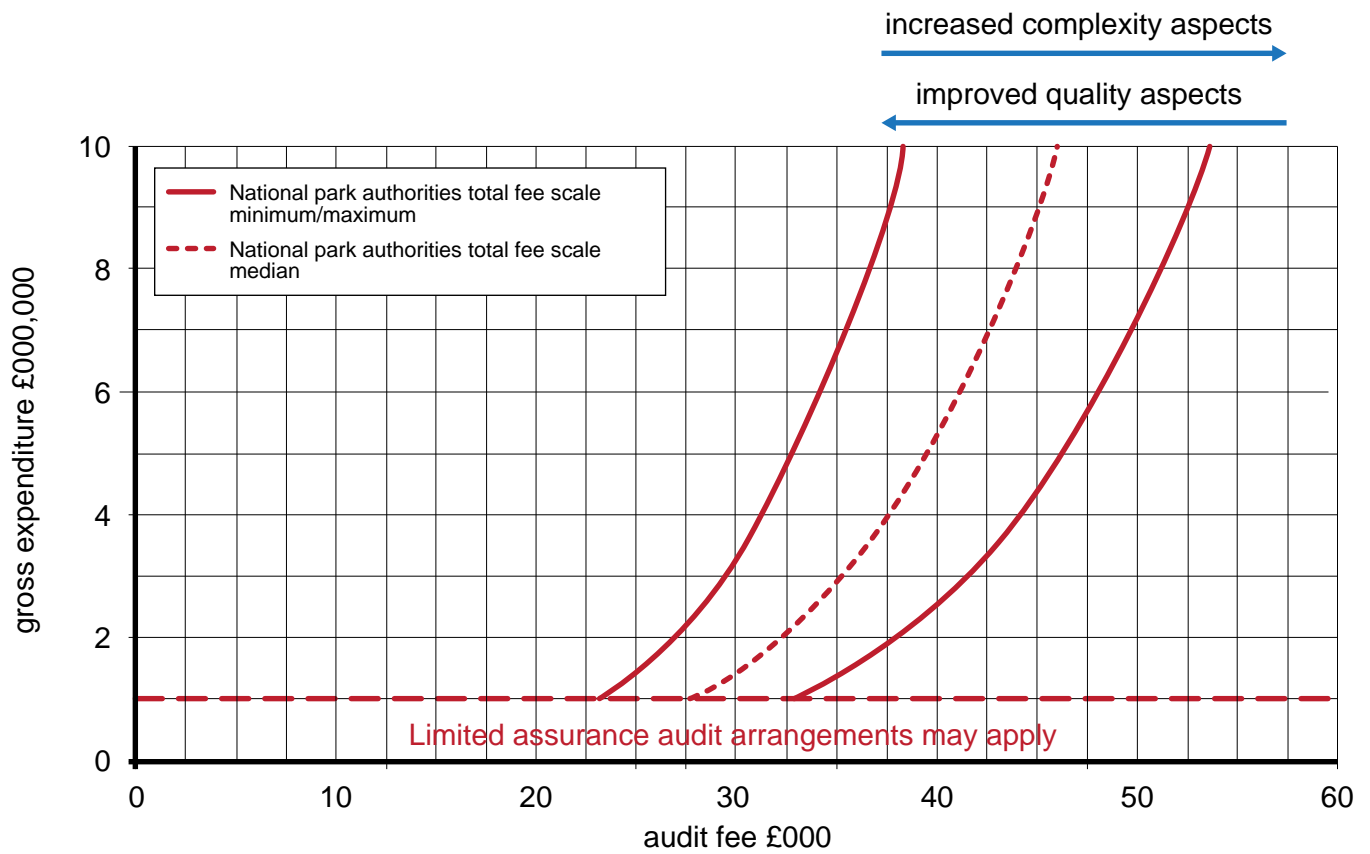
Fee scale for improvement audits and assessments for national park authorities

All national park authorities	Range £000			Previous year median £000
	Minimum	Median	Maximum	
	5	7	9	7

Total fee scale for national park authorities

Gross expenditure £000,000	Range £000			Previous year median £000
	Minimum	Median	Maximum	
2	27	32	38	33
4	31	38	44	38
6	34	41	48	41
8	36	44	51	44
10	39	46	54	46

Graphic of total fee scale for national park authorities



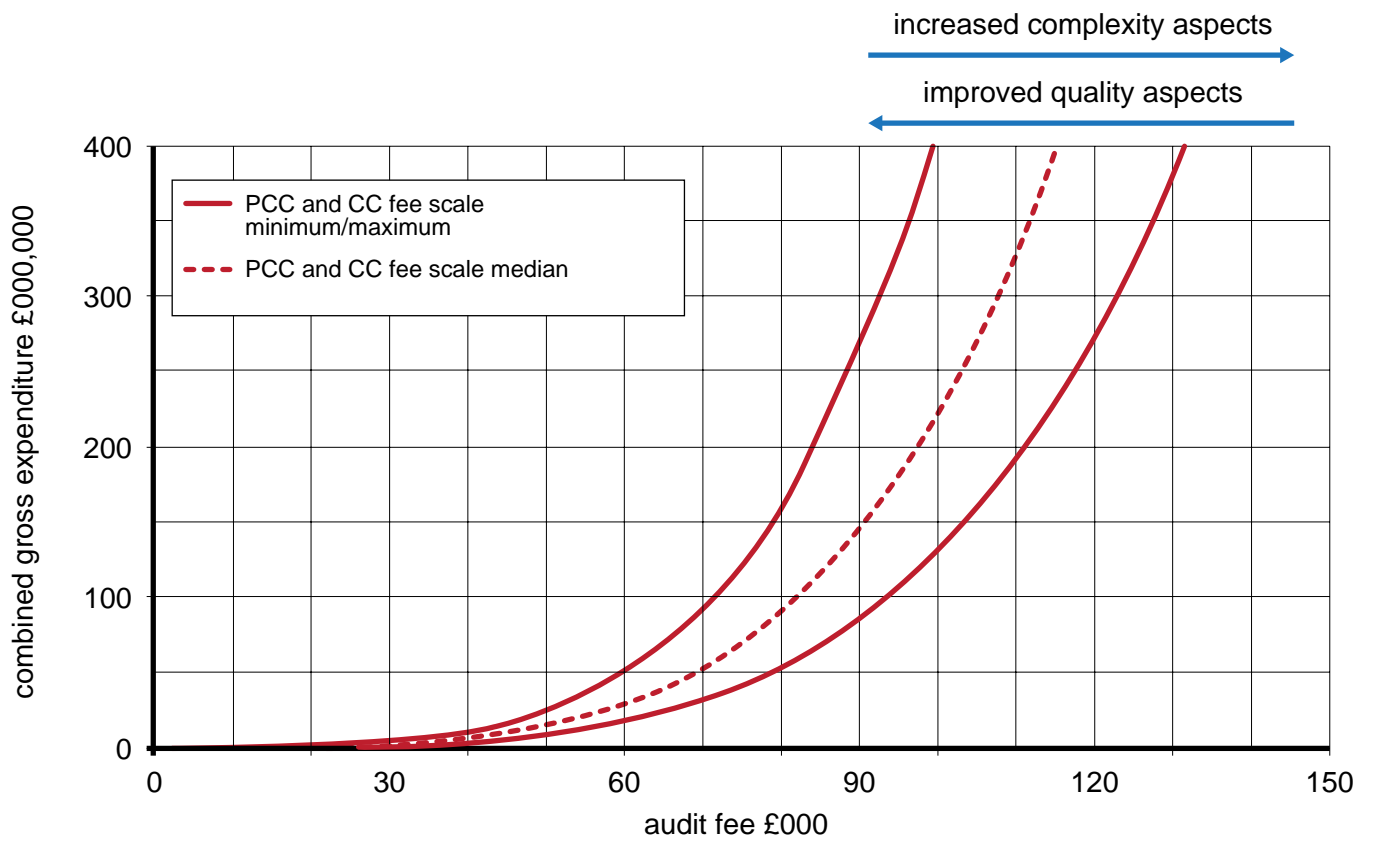
Police and crime commissioners and chief constables

Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioner (PCC) and the Chief Constable (CC). 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.

Fee scale for audit of accounts for police and crime commissioners and chief constables

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			
	Minimum	Median	Maximum	Previous year median £000
50	61	70	79	76
100	71	83	94	89
150	79	91	104	97
200	84	98	111	104
250	89	103	118	109
300	93	108	123	114
350	96	112	128	118

Graphic of fee scale for police and crime commissioners and chief constables



Town and community councils

Town and community councils with income or expenditure up to £1 million are subject to a limited assurance audit regime. Fees for these audits vary according to annual turnover.

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, and additional fees will be charged commensurate with the additional work involved.

Fee scale for audit of accounts of town and community councils with income or expenditure up to £1,000,000

Annual income or expenditure (fees are payable on whichever is the higher each year)	Type of audit	Proposed fee	Fee charged in previous year
£Nil – £99	Basic	£Nil	£30
£100 – £1,000	Basic	£30	£30
£1,001 – £5,000	Basic	£80	£80
£5,001 – £10,000	Basic	£175	£175
£10,001 – £30,000	Basic	£205	£205
£30,001 – £60,000	Basic	£295	£295
£60,001 – £100,000	Basic	£350	£350
£100,001 – £200,000	Basic	£415	£415
£200,001 – £300,000	Intermediate	£650	£650
£300,001 – £400,000	Intermediate	£650	£650
£400,001 – £500,000	Intermediate	£650	£650
£500,001 – £750,000	Intermediate	£920	£920
£750,001 – £1,000,000	Intermediate	£920	£920

Local government pension funds

Fee scale for audit of accounts for local government pension funds

All pension funds	Range £000			Previous year median £000
	Minimum	Median	Maximum	
	30	40	50	40

The audit of other types of local government body

Other than those types of bodies for which fee scales have been prescribed, there are a small number of other types of local government body. For audits of these bodies, a zero-based approach to audit planning will still be applied, with resource requirements converted into fees directly based on the costs of delivering the work.

Estimated staff mixes for grant certification work

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement lead	1 to 2	0 to 1
Audit manager	4 to 6	1 to 2
Team leader	18 to 21	12 to 16
Auditor/trainee	77 to 71	87 to 81

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- EUR01 Structural funds
- HOU03 HRA subsidy (non-stock transfer authorities)
- LA01 National non-domestic rates return
- PEN05 Teachers' pensions return

National Fraud Initiative

In order to support Welsh public bodies in combating fraud, the Auditor General conducts the NFI in Wales on a biennial basis. The NFI is also run in England, Scotland and Northern Ireland. 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 £26 million of fraud and overpayments in Wales and £1.17 billion across the UK.

The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.

The statutory fees for mandatory participants, are shown below. The fee for the NFI exercise is set based on the number and range of core datasets applicable.

Type of body	Fee 2015-16 £	Fee 2014-15 £	Previous fee (2012-13) £
Unitary authority	Nil	3,650	3,650
PCC and CC	Nil	1,000	1,000
Fire and rescue authority	Nil	1,000	1,000
NHS trust	Nil	1,000	1,000
Local health board	Nil	1,000	3,650
Other – voluntary	Nil	Subject to agreement with each body	Subject to agreement with each body

From 2015-16, a £nil fee scale will be set for all participating bodies and the Wales Audit Office will instead recover costs through payment from the Welsh Consolidated Fund as approved through the Estimate. The reasoning for this is to encourage greater voluntary participation of non-mandated organisations, in line with the aspirations of the Public Accounts Committee. In tandem and in line with the Board's aspirations for a simplified funding regime, a £nil fee scale will be set for mandatory participants too. This will help avoid any confusion and provide a clear message in terms of the costs of participation in the NFI. In totality, NFI work will no longer be funded through fee charges.

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Agenda Item 7

By virtue of paragraph(s) vi, ix of Standing Order 17.42

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