

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ

Tel / Ffôn: 029 2032 0500

Fax / Ffacs: 029 2032 0600

Textphone / Ffôn testun: 029 2032 0660

info@audit.wales / post@archwilio.cymru

www.audit.wales / www.archwilio.cymru

Peredur Owen Griffiths MS
Chair of the Finance Committee
Senedd Cymru

Via email

Reference: LF22005/AC/319/caf

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Dear Peredur

Our Future Workplaces

In our meeting with Finance Committee in May 2022, we discussed with members the likelihood that we would be seeking a Supplementary Estimate to fund the costs associated with relocating our Cardiff office to a smaller premises in line with our current and future requirements.

In July 2022, our Board approved a recommendation to relocate the office to Cardiff's Capital Quarter, located in the Enterprise Zone, which as well as delivering significant financial savings, will improve our environmental performance and meet our evolving business needs for modern and smarter working. We plan to make this move in March 2023.

To fulfil this recommendation, we will need to seek a Supplementary Estimate for 2022-23. This letter sets out the background to the Board's decision and quantifies the expected funding requirements along with the resulting cost savings for future years.

The need to seek a Supplementary Estimate, rather than funding through the principal Estimate for 2023-24, arises because it has not proved possible to negotiate a cost-effective extension to the Cathedral Road lease. The Supplementary effectively requests funding flagged for 2023-24 to be brought forward.

All the funding implications outlined in this letter – capital outlay, cash cover for dilapidations on Cathedral Road and the impact of IFRS16 – are those routinely associated with the beginning and end of leasehold agreements. They are faced by any organisation transitioning between rented properties.

Some background

Since 2008, Audit Wales has had its Cardiff base at 24 Cathedral Road. This property was held on a 15-year lease which comes to an end in March 2023. In recent years, it has become apparent that, at over 24,000 ft², the property is too large for our needs – even more so for our evolving hybrid working arrangements. The environmental performance of the property is also poor and would not enable us to meet our ambition of net zero carbon by 2030.

Audit Wales has two further offices – one in Abergele and one in Penllergaer. In comparison to the Cardiff office, these are much smaller, at 2,650 and 3,000 ft² respectively, and hence make up a less significant element of our overall accommodation costs and emissions. Leases on these properties are due to end in the next few years and we will continue to consider whether they represent good value for money, support our environmental aspirations and meet our business needs.

The case for moving

Audit Wales has long acknowledged that the cost of our Cardiff office could not be justified given low rates of occupancy pre-pandemic. In September 2019, the Board agreed an estates strategy which was highlighted with the Committee. The Our Future Workplaces project commenced in early 2020 and set a target of achieving annual savings of 20% (around £180,000) on our future accommodation costs as well as environmental and wellbeing improvements. Our proposed move will deliver annual savings estimated at £220,000 – exceeding the target set by the Board.

This project has been subject to rigorous governance since inception including the establishment of a project steering group, regular reporting to our Change Programme Board and consultation with staff and Trade Unions. The WAO Board has received regular updates on our plans and has provided robust scrutiny to three separate iterative options appraisals, to ensure that the final proposal met both the required financial savings target but also its ambitions for a more sustainable workplace – taking into account the environmental performance of the buildings we considered and also the impact on staff travel with access to public transport being a key criterion.

The alternative options considered are set out below.

Do we need an office?

Although most of our corporate staff are carrying out much of their work remotely, our experience over the last few years has taught us that our audit teams work better in person. This view is shared by each of the other UK audit offices and the wider accountancy and audit profession. Working in person, part of the time, helps to ensure we maintain high standards of audit quality and effectively support our trainees and apprentices. By using our own office accommodation, we can use

our resources more effectively – minimising both the cost and lost time associated with travel to audited bodies, which characterised our operational model pre-pandemic.

Since March this year our financial audit teams have been working in the office for on average 2 days per week. To maximise space utilisation this has been on a rota basis with different teams attending on different days. Survey feedback on this approach has been extremely positive with improvements in audit quality, the trainee experience and staff wellbeing reported.

Based on these pilot projects and through other occupancy review we have concluded that a space equivalent to around half of that available at Cathedral Road is required for the future. We are conscious that this may change as our new work patterns become embedded and are therefore looking at flexible lease arrangements at the new premises.

Could we remain in Cathedral Road?

Again, this option was considered, but for the reasons set out above was discounted. Increased energy costs along with an expected 12% increase in lease costs means that this would be a very expensive option and would not provide the improved environmental performance that we are aiming for. There would also be significant investment required of around £360,000 to ensure safety and compliance with legal requirements, including lift refurbishment, fire and security systems, and replacement of heating/HVAC systems.

An alternative option, to reduce the amount of space we utilise in Cathedral Road, was also considered but this would also require substantial investment, as the landlord would only undertake refurbishment in the space released and they expect capital contribution for the same, as well as failing to generate both the savings target set by the Board, and the environmental improvements we have committed to. It was also still more expensive than all other offices in our shortlist.

Could we relocate outside of Cardiff?

Since early 2020 we have considered various options across South Wales, including Merthyr Tydfil, Bridgend, Newport, and Swansea. These were discounted primarily due to the lack of suitable premises of the right sizes with good environmental performance and the significant impact on staff travel. Our original longlist considered 32 properties, but in working through our scoring criteria alongside associated wellbeing and travel impacts, properties in Cardiff were shortlisted.

Could we share with another public body?

Considerable thought has been given as to whether we could share office space with other public bodies who are also looking to reduce their accommodation requirements. We have reviewed surplus space, undertaken a trawl of the public estate through Ystadau Cymru, and Government Property Agency, and directly

approached several public bodies. Unfortunately, no suitable options are currently available, but we do not rule this out in the longer term and will be exploring options prior to a lease break as part of our plans. We will also need to take into account the Auditor General's independence before considering entering into contractual relationships with any of our audited bodies.

Options considered

Over 30 available properties were considered as part of this process with scoring being applied for:

- Meeting business needs;
- Cost;
- Environmental performance; and
- Access to public transport and parking

The property which achieved the highest overall quality score was our chosen option of Capital Quarter. A ten-year lease for an office of just under 15,000 ft² (a 40% size reduction as compared to Cathedral Road) is planned – the space is over two floors, with a break on each at 5 years to provide flexibility to reduce the size of the office further if necessary.

The financial business case for this option is set out below and demonstrates that over the next ten years, moving to Capital Quarter will save around £2m as compared to remaining in Cathedral Road.

The financial case

To achieve these savings, upfront investment in required fit out of the Capital Quarter office will be required in the current financial year. Remaining in Cathedral Road for the longer term would also require some essential investment in 2023-24 (as set out above).

The costs and savings associated with each option are set out below. With annual savings of £220,000 from a move to Capital Quarter, the initial investment would be recouped in less than 3 years.

	Cathedral Road			Capital Quarter		
	2022-23	2023-24	On-going	2022-23	2023-24	On-going
Capital Investment	-	360	-	575	-	-
Running costs	874	930	930	100	710	710
Net	874	1,290	930	675	710	710

Cathedral Road			Capital Quarter		
2022-23	2023-24	On-going	2022-23	2023-24	On-going
Cost / Saving			675	(580)	(220)

The estimated £575,000 capital costs associated with the move to Capital Quarter include:

- Fit out and environmental upgrades £405,000
- Relocation and set up costs £60,000
- Stamp Duty Land Tax £40,000
- Legal and professional fees £40,000
- Additional staff costs £30,000

We are in negotiations with the landlord as to whether some of the fit-out costs will be funded by them in the first instance and then included in our on-going lease costs. If this option is confirmed any underspend against our capital budget would be returned to WCF at year end.

The environmental case

The Capital Quarter premises is rated very good by BREAAAM (Building Research Establishment Environmental Assessment Method) and has an Energy Performance Certificate (EPC) rated B for its environmental performance. We have reviewed expected benefits and estimated energy emissions savings to be in the region of £100,000 (excluding fixed charges) net present social value and 265 tonnes of Co2e (greenhouse gas emissions). The location will also improve use of public transport being close to Cardiff Central and Queen Street Stations and help encourage greener travel as we work towards our collective aim for net zero. Its proximity to a traffic free cycle and walking route, and cycles for hire and shower facilities will also encourage and promote active travel.

Capital budget 2022-23 to 2025-26

The Committee will recall that our Estimate for 2022-23 included an indication of additional costs for an office move in 2023-24 of £500,000. This was predicated on a move from Cathedral Road in March 2024 subject to agreeing a one-year extension to the lease on that premises.

Our 2022-23 Estimate included £200,000 for our Change Programme which included £50,000 for preparatory work associated with an office move, including changes to existing premises to pilot new office settings – this work has been on-going through 2022-23 and will inform the design of the new premises.

We have been unable to secure a one-year extension to the Cathedral Road lease at reasonable cost, and hence the Board have made the decision to move before

the current lease ends in March 2023. At the same time, as we highlighted with the Committee at our meeting in May 2022, construction costs have increased significantly so our estimated capital cost is now £575,000.

The following table reflects the changes in terms of both timing and overall quantum required to the capital budget set out in our 2022-23 Estimate. This excludes the impact of a new accounting standard (IFRS16) which is detailed later in this letter.

	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	Total £'000
Capital per 2022-23 Estimate	310	760	510	510	2,090
Proposed Supplementary Estimate 2022-23	885	310	510	510	2,215
Change	575	(450)	-	-	125

Revenue budget 2022-23

In addition to the capital costs set out above, we will also require a small amount of additional revenue funding in 2022-23 to meet costs associated with the move, including £60,000 for rental costs of the new office from December 2022. We have estimated an additional revenue requirement of £100,000 in this year only.

Provision for dilapidations

In line with standard accounting practice, we have been making provision over the lifetime of the lease for the cost of returning our office estate to its original state of repair (provision for dilapidations). Our balance sheet therefore now includes a £650,000 provision for dilapidations. Some of this will be utilised in 2023-24 to meet our obligations under the Cathedral Road lease and the Committee will see that reflected in the cash requirement identified in our 2023-24 Estimate. This will not require any additional resource funding.

IFRS16 considerations

Our First Supplementary Estimate for 2022-23 included non-cash adjustments required to reflect the impact of a new accounting standard, IFRS 16, which requires that future lease costs are included on our balance sheet as a 'Right of Use' Asset. Given the short amount of time remaining on our Cathedral Road lease the adjustments for Audit Wales were negligible.

For a new lease (either for Cathedral Road or Capital Quarter) we will need to include provision for the value of that lease and associated depreciation in our budgets for the year. The estimated IFRS16 impact of the move to Capital Quarter

is £2.85m in 2022-23 which includes the establishment of a provision for future structural dilapidations. Signing a new lease for our Cathedral Road office would require an IFRS16 adjustment estimated at £3.5m in 2022-23.

The IFRS16 implications for Capital Quarter are set out below. Note that these are accounting adjustments only and no additional cash will be required.

	Cash requirement £'000	IFRS16 Adjustments £'000	Total Resource £'000
2022-23			
Capital investment	575	2,850	3,425
2023-24 onwards			
Lease rental payments	261	(261)	-
Depreciation	-	258	258
Interest charges	-	3	3
Total	261	261	261

Summary of funding required

In summary, our proposed Supplementary Estimate for 2022-23 will be seeking to increase our call on WCF as follows:

Increased capital resource and associated cash: £575,000
 Increased revenue resource and associated cash: £100,000
 Increased resource only re IFRS16: £2,850,000 (estimated)

Our Estimate for 2023-24 will seek cash cover associated with utilisation of the existing dilapidations provision (maximum of £650,000).

Please do not hesitate to contact us if there is any further clarification we can helpfully provide.

Yours sincerely



LINDSAY FOYSTER
 Chair, Wales Audit Office



ADRIAN CROMPTON
 Auditor General for Wales