

Foreword

This paper sets out the forecast budgetary requirements necessary for the years from 2022-23 through to 2024-25 for revenue and capital expenditure.

The plans of my Office are ambitious to maximise our impact. We continue to invest in the digitalisation of our audits alongside the learning and development of our people, including enhanced capability and capacity in our value for money auditing and public reporting. Last month, I published my latest public reporting forward work programme which covers 2021 to 2023. It builds on the strategic approach we adopted for the first time in 2018, but reflects a more flexible approach in responding to new and emerging challenges in the public sector in these unprecedented times.

Receiving the necessary funding will ensure we continue to invest in the delivery of a strong independent public audit function that provides effective support and assurance to the Assembly in scrutinising public sector performance across central and local government. Our work will take account of the cross-cutting nature of many of the government's priorities, as well as the performance of individual departments. We will also ensure that our programme of work addresses the issues and challenges from increased expenditure arising from the COVID-19 pandemic.

Our work provides the Assembly with high-quality and objective evidence and analysis over public spending. It has a positive effect on the public sector and we regularly achieve annual financial impacts considerably in excess of the running costs of the Office.

We have a bird's eye view across public sector finances so it is critically important that our own assessment of audit resources needed is reasonable and that we manage those resources to meet the same high standards of performance, efficiency and sustainability as we expect of those we audit.

This paper provides information about the budgetary requirements for the Office over the forward planning process.

I invite the Committee to consider our forecast Budgetary Requirements for these periods.



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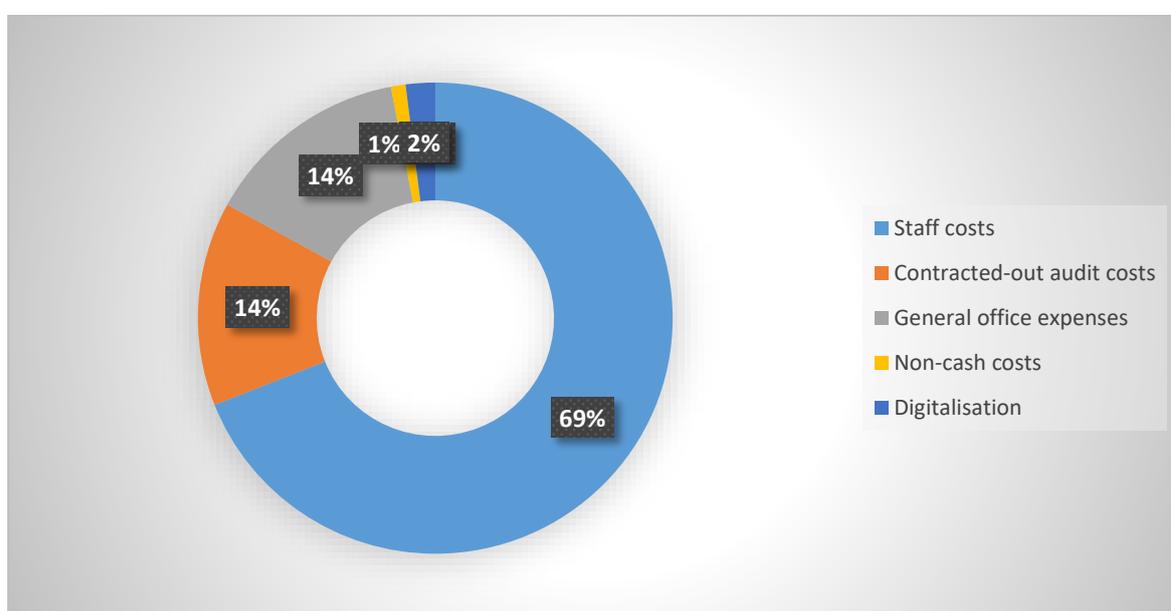
28 October 2021

Resource budget requirement 2022-23 to 2024-25

How do we spend our resources?

1. Our resources are authorised each year by the NI Assembly through the estimates process, following approval of our plans by the NI Assembly Audit Committee. Nearly 85% of our budget is committed to staff costs and the expenditure associated with our contractual arrangements with private sector partners in the delivery of audits. The remainder is spent mainly on the running costs of NIAO as outlined in Figure 1 below:

Figure 1: Key Areas of Expenditure



2. As previously reported to the Committee, average full time equivalent (FTE) staff numbers decreased from 140 in 2011-12 to 105 in 2018-19. These reductions in staff resulted in significant upfront payroll savings, as we sought to reduce senior grades before introducing more positions at Apprentice, Graduate Trainee and Auditor grades. Despite a challenging recruitment environment, a number of appointments have been made during 2021-22, with further positions expected to be filled by the end of the year. At 30 September 2021, we have 119 FTE.
3. The full year impact of recent recruitment will not be seen in our accounts until 2022-23. This has resulted in a surrender of £250k in the June monitoring round and a second surrender in the October monitoring round of £300k. There has also been a reduction in costs due to Covid-19, such as travel and training costs.

4. There are a number of key factors impacting our budget requirements in the coming period which are summarised below:
- (i) *Growing our own talent* - Each year we plan to employ Graduate Trainee Accountants (GTA) and Higher Level Apprentices (HLA). Last month, we recruited 7 GTAs and 3 HLAs. This equates to additional annual costs of £265k. When we reach an optimum number of staff of 125 FTE, currently forecast for 2022-23, these additional annual costs will be offset by anticipated staff leavers or retirements. Some of our trainees may also move in to other areas of the public sector after qualifying as accountants and allows an ongoing cycle of graduate training.
 - (ii) *Digitalisation and Modern Audit Practices* – the support secured through recent SBRI funding of £250k is helping us develop our data analytics but we need to invest in growing internal capability and capacity to help drive new ways of delivering our audits and methodology and underpin the learning and development of our people. This will also ensure that our work is carried out efficiently and allow us to respond to developments in current auditing standards and additional quality regulations.
 - (iii) *Pay and non-staff costs inflation* – Approximately 70% of our costs are staff salaries. We have applied anticipated inflationary increases and allowed for pay increments for these costs and also non-staff costs. We also included provision for increased employers’ national insurance rates.
 - (iv) *Contractor payments* – We sub-contract a proportion of audits to private audit firms to help address peak periods of work. These audits are still monitored, reviewed and signed off by the C&AG. Costs associated with these will contractually increase by 2% in 2022-23 to £1.6 million. There is some uncertainty on our future projections due to an ongoing procurement process for 15 audits following withdrawal by one of our contractors.
 - (v) *Reduction in income* – We receive income from the National Audit Office for checks carried out on European Agricultural Funds received by Northern Ireland. This work has been scaling down and approximately £300k of this income is forecast to be lost in the 2024-25 year. This creates opportunity for us in freeing up resources and reallocating staff to other work for the NI Assembly.

Summary of requirements

5. Our resource requirements for the 3 years from 2022-23 to 2024-25 compared with the 2021-22 budget are outlined in Table 1 which shows:
 - A summary of staff costs, non-staff costs and income;
 - anticipated full time equivalent (FTE) staffing numbers to reach our proposed optimum position for the delivery of all our work; and
 - that resource budget increases of 2.1%, 1.9% and 5.4% (before C&AG costs and depreciation) are required for 2022-23, 2023-24 and 2024-25 respectively.

6. Table 2 sets out our capital needs from 2022-23 to 2024-25.

Table 1 – Cost analysis and FTE

	Baseline 2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Staff Costs	7,750	8,150	8,375	8,540
Non staff costs	3,205	3,340	3,165	3,380
Gross Non Ring-Fenced Expenditure Before C&AG Costs	10,955	11,490	11,540	11,920
Income	(2,540)	(2,900)	(2,785)	(2,690)
Gross Non Ring-Fenced Expenditure Before C&AG Costs	8,415	8,590	8,755	9,230
Increase	-	2.1%	1.9%	5.4%
C&AG Salary Costs	160	205	205	205
Net Spend Non Ring-Fenced Expenditure	8,575	8,795	8,960	9,435
Ring fenced – Depreciation	175	275	275	275
Total Budget	8,750	9,070	9,235	9,710
Total increase		3.7%	1.8%	5.1%
Forecast Staff Numbers (FTE)	120	125	125	125

Income

7. We conduct National Fraud Initiative work every 2 years, estimated to be in the region of £150k every other year. This results in higher income and non-staff cost figures in 2022-23 and 2024-25. A reduction of approximately £300k of European Agricultural Fund income is forecasted in the 2024-25 year. We have also included anticipated rental income from the leasing of part of our new premises from 2022-23 onwards.

Ring fenced - Depreciation

8. This category comprises depreciation and impairments. An additional £100k of depreciation cover has been added from 2022-23 for the annual charge that will be required for the newly refurbished building at 106 University Street and associated fixtures and fittings. We are still awaiting estimates for the expected valuation of the building upon completion. As outlined to the Committee in October 2020, additional budget cover could be required to cover a potential impairment on the value of the building on completion of the refurbishment (anticipated to be July 2022). An impairment can arise if the value of the land and buildings when the project is complete, is less than the current cost of the land and buildings plus the cost of the project.

Changes from the previous three year budget

9. The 2022-23 and 2023-24 resource budgets are consistent with our presentation to the Audit Committee in October 2020, except for the following key changes:
 - (i) An additional £100k and £165k of budget cover is included for 2022-23 and 2023-24 respectively for the new employer's national insurance rate increase and updated staff cost projections;
 - (ii) £100k of additional depreciation cover has been included for the annual charge that will be required for the newly refurbished building and associated fixtures and fittings;
 - (iii) A £45k increase in the C&AG salary costs. The C&AG is due to retire at the end of this financial year. The current C&AG opts out of the public service pension scheme meaning that no employer pension costs are incurred. It is assumed that the new C&AG will be part of a public sector pension scheme; and
 - (iv) A £110k increase in forecast audit income based on more up to date estimates.

2024-25 Year

10. The third year of the resource budget, 2024-25, includes inflationary increase in gross non ring-fenced expenditure (excluding biannual National Fraud Initiative costs).
11. Overall, a net £475k increase (5.1%) in resource funding is estimated to be required in 2024-25 from the previous year, mainly relating to an anticipated end to £300k of income received from the National Audit Office for European Agricultural Fund work. We can redirect those staff resources to further supplement and increase our review and scrutiny of increased public sector expenditure to provide assurances to the NI Assembly.

Office refurbishment project and capital budget requirement 2022-23 to 2024-25

**Capital DEL - Proposed 3 Year Budget
Table 2**

	Baseline Year 2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Accommodation project	4,410	2,250	5	0
IT/Fixtures & fittings	40	40	40	40
Total Capital	4,450	2,290	45	40

12. Our capital resource requirements are usually £40k each year to cover fixtures and fittings and capital IT costs. This recurring amount is shown in table 2 above.

13. Since 2018-19 we have incurred additional capital costs associated with the refurbishment of our premises at 106 University Street and to lease an area of the building which is not fully utilised at present, generating additional annual income (forecast to be £145k from 2023-24). More open plan areas will be created, with more flexible working approaches adopted. A design team was appointed in October 2019, with the developed design approved in October 2020. The detailed design was approved in May 2021 and the contract was awarded on 30th June 2021. Construction work began on 19th July 2021 and is expected to be completed by 18th July 2022.

14. Costs incurred on the project up to 31 March 2021 were £447k. The overall cost of the project is forecast to be £5.6m including optimism bias; £5.1m for the professional fees and building works and £0.5m for furniture and equipment.

15. There is a possibility that work on the project may progress quicker than planned and as a result, £920k anticipated spend in April/May 2022 may be incurred before 31 March 2021. This anticipated £920k is required to be included in both budgets for 2021-22 and 2022-23 and monitored accordingly.

16. It is important to emphasise the project is on track for completion on time and within the capital budget previously agreed by the Audit Committee.