



The Scottish Parliament
Pàrlamaid na h-Alba

SCOTTISH COMMISSION FOR PUBLIC AUDIT

AGENDA

1st Meeting, 2021 (Session 5)

Friday 15 January 2021

The Commission will meet at 10.30 am in a virtual meeting and be broadcast on www.scottishparliament.tv.

1. **Decision on taking business in private:** The Commission will decide whether to take items 5 and 6 in private.
2. **Audit Scotland's Spring Budget Revision 2020/21 Budget adjustment:** The Commission will take evidence from—

Stephen Boyle, Auditor General for Scotland;

Alan Alexander, Chair, Diane McGiffen, Chief Operating Officer, and Stuart Dennis, Corporate Finance Manager, Audit Scotland.
3. **Audit Scotland's Spring Budget Revision 2020/21 IAS 19 - Pension Costs:** The Commission will take evidence from—

Stephen Boyle, Auditor General for Scotland;

Alan Alexander, Chair, Diane McGiffen, Chief Operating Officer, and Stuart Dennis, Corporate Finance Manager, Audit Scotland.
4. **Audit Scotland's Budget Proposal for 2021-22:** The Commission will take evidence from—

Stephen Boyle, Auditor General for Scotland;

Alan Alexander, Chair, Diane McGiffen, Chief Operating Officer, and Stuart Dennis, Corporate Finance Manager, Audit Scotland.
5. **Consideration of evidence:** The Commission will consider the evidence heard at agenda items 2,3 and 4.

6. **Work programme:** The Commission will consider its work programme.

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Secretary to the Scottish Commission for Public Audit
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Edinburgh
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The papers for this meeting are as follows—

Agenda Item 2

Note from the Clerk

SCPA/S5/21/1/1

Agenda Item 3

Note from the Clerk

SCPA/S5/21/1/2

Agenda Item 4

Note from the Clerk

SCPA/S5/21/1/3

PRIVATE PAPER

SCPA/S5/21/1/4 (P)

Agenda Item 6

PRIVATE PAPER

SCPA/S5/21/1/5 (P)

Scottish Commission for Public Audit

1st Meeting, 2021 (Session 5), Friday 15 January 2021

Audit Scotland's Spring Budget Revision 2020/21 Budget adjustment

1. Audit Scotland has submitted its proposed Spring Budget Revision for 2020/21 Budget adjustment for the consideration of the Scottish Commission for Public Audit. A copy of the Spring Budget Revision for 2020/21 Budget adjustment can be found in Annexe A for members consideration.
2. The Commission is invited to consider the Spring Budget Revision 2020/21 Budget adjustment and then write to the Finance and Constitution Committee with its views.

**Secretary to the Scottish Commission for Public Audit
21 December 2020**

Scottish Commission for Public Audit

1st Meeting, 2021 (Session 5), Friday 15 January 2021

Audit Scotland's Spring Budget Revision 2020/21 IAS 19 - Pension Costs

1. Scotland has submitted its proposed Spring Budget Revision for 2020/21 IAS 19 - Pension Costs for the consideration of the Scottish Commission for Public Audit. A copy of the Spring Budget Revision for 2020/21 IAS 19 - Pension can be found in Annexe A for members consideration.
2. The Commission is invited to consider the Spring Budget Revision 2020/21 IAS 19 - Pension Costs and then write to the Finance and Constitution Committee with its views.

**Secretary to the Scottish Commission for Public Audit
21 December 2020**

Scottish Commission for Public Audit

1st Meeting, 2021 (Session 5), Friday 15 January 2021

Audit Scotland Budget Proposal 2020/21

1. Audit Scotland has submitted its Budget Proposal for 2021/22 for the consideration of the Scottish Commission for Public Audit. A copy of the Budget Proposal for 2021/22 and a covering letter from the Auditor General for Scotland, as Accountable Officer, can be found in Annexe A.
2. The Commission is invited to consider Audit Scotland's Budget Proposal 2021/22 and report its views to Parliament.

**Secretary to the Scottish Commission for Public Audit
21 December 2020**

Colin Beattie MSP
Chair
Scottish Commission for Public Audit

7 December 2020

By Email

Dear Colin

With the Board, I welcomed the opportunity to discuss our financial position, planned organisational response to the pandemic and the underlying issues and pressures we face when we joined the Commission at your business planning session in October.

I'm pleased to now provide you with our 2021-22 budget proposal along with our 2020-21 Spring Budget Revision proposals that the SCPA will consider in January 2021.

As we discussed, given the disruption caused by Covid-19 and the inability of our funding and fees model to withstand such shocks in-year, we are looking to our Spring Budget Revision to allow us to meet the requirements of the Public Finance and Accountability Act and break even at the end of the financial year.

Our 2021-22 budget proposal continues with the investment required to meet the increase in our audit work because of Scotland's new financial powers, supports the multi-year recovery in audit timescales from 2021 and invests further in digital and strategic capacity to respond flexibly and with pace to the challenges facing the public sector. The budget will help ensure our independent audit role can meet the needs of the Scottish Parliament, its committees, and our wider stakeholders as we provide independent assurance and comment on public finances, to help inform the way ahead.

We look forward to discussing these proposals further with you, but in the meantime, please do not hesitate to get in touch if you wish to discuss.

Yours sincerely



Stephen Boyle
Auditor General for Scotland

Spring Budget Revision

2020/21 Budget adjustment

Introduction

1. This paper details Audit Scotland's 2020/21 Spring Budget Revision (SBR) requirements for additional Direct Expenditure Limit (DEL) funding to ensure the delivery of a balanced budget this financial year due to the impact of Covid-19.
2. The impact of the Covid-19 pandemic continues to have significant financial implications for our organisation, and this will also be reflected in our future budget proposals.

Background

3. Bodies funded by Parliamentary Vote, such as Audit Scotland, only have authority to spend the resources voted to them in one financial year. Any request for additional resources in-year must be requested as part of either the Autumn Budget Revision (ABR) or Spring Budget Revision (SBR) and approved by Parliament. The Public Finance and Accountability (Scotland) Act 2000 Section 11 (8) specifies that any expenditure of Audit Scotland, so far as not met out of sums received and applied in accordance with subsection (6), is payable out of the Scottish Consolidated Fund.
4. Regular communication with the Scottish Government Finance Directorate from the outset of the pandemic has ensured that they have been informed of the potential financial challenges facing Audit Scotland this financial year. Our original budget proposal, approved in January 2020, highlighted our aim to manage within the overall budget, however it was highlighted that it will be necessary to seek in-year adjustments if significant challenges arise.

Covid-19 - Organisational implications

Our people

5. From the start of the pandemic we have adopted a safety-first approach, prioritising the health, safety and wellbeing of our colleagues. This continues to be a key priority.
6. Colleagues across the organisation continue to respond incredibly well to the situation and display a huge amount of flexibility and professionalism. Their experience has varied depending on a range of factors including their personal circumstances, domestic situation and caring responsibilities.
7. The situation is monitored very closely with the health, safety and wellbeing message reinforced in all communications. There has been a broad range of guidance and support put in place by us to enable colleagues to cope with the challenges being experienced.

Supporting our colleagues - equipment

8. Since the office closure we have been keen to ensure our colleagues have access to the equipment they need to work safely and productively. All colleagues were formally asked to carry out an on-line workstation assessment to help support their longer-term needs. We are near to 100% completion of the assessment exercise.

9. The outcome of the assessments together with the requests received prior to this exercise identified a requirement to issue:

- 330 items of digital equipment to 200 colleagues at a cost of £18.8k
- 264 items of office equipment to 195 colleagues at a cost of £12.7k.

Office accommodation and on-site work

10. Audit Scotland offices have been closed from 17 March 2020 and they will remain closed for the remainder of 2020. This is consistent with current government guidance and with the Scottish Government's own approach to its offices.

11. We currently have a working group performing detailed risk assessment and planning work with the aim of delivering Covid-19 secure workspaces. The outcome of this may result in providing limited access to office space for a very small number of colleagues for whom this would be conducive to their health, safety and wellbeing or for colleagues who are unable to perform specific tasks which can only be completed with access to the office. All requests will be subject to a risk assessment and will require senior management approval.

12. Site visits and on-site working is not permitted, however, in exceptional circumstances only a site visit may be allowed for specific business critical reasons.

Covid-19 - Audit implications

13. We have worked closely with the Auditor General for Scotland and the Accounts Commission as commissioners of audit to ensure our audit work reflects their priorities and needs.

14. As communicated by the Auditor General for Scotland to the Public Audit and Post Legislative Scrutiny Committee (PAPLS) our approach to audit at this challenging time has been pragmatic, flexible and consistent as we recognise the exceptional pressure that public services are under. We have also been clear that while timescales have changed audit quality remains an absolute priority and is even more important at times of significant disruption.

Covid -19 reporting

15. We have issued two public statements on our approach to audit in the context of Covid-19 and a Covid-19 hub has been established to provide briefings and guidance.

16. Planned future work includes:

- The NHS overview report, which we intend to publish early in 2021, will consider the NHS' response to Covid-19.
- The local government overview report in spring 2021 will report on how Scotland's 32 councils responded to Covid-19 and how services are changing and adapting.
- The digital progress in local government performance audit, due in late 2020, which will consider how digital technology has enabled councils to respond to Covid-19; emerging good practices and potential longer-term implications for councils and how they operate.

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- The education outcomes audit, which is currently paused, will be refocused during 2021 to look at the impact on Scotland's education system.

Financial Audit

17. In respect of financial audit extended audit timetables have been implemented for NHS and local government bodies. A three-month extension applied to NHS audited accounts with a revised publish date of 30 September 2020. The two-month extension to local government accounts altered the publish date to 30 November 2020.
18. The deadline for laying central government bodies' accounts in the Scottish Parliament is unchanged, at the end of December 2020. College accounts must be signed by 31 December 2020 and laid by 30 April 2021. The Scottish Consolidated Accounts and any Section 22 reporting are likely to be concluded and reported later than in previous years.
19. The delays to the audits this year will lead to delays to the start of planning for 2020/21 audits. We are looking to identify options to mitigate the impact of this in the medium term.

Best value audit work

20. An extension to the audit appointments to September 2022 provides additional time and flexibility to complete the current Best Value assurance programme. The plan is to stagger the remaining reports across the two remaining years of the audit appointment cycle. Effectively this will mean three or four BVARs in 2021 with the remainder following in 2022 prior to the end of the audit appointments in September 2022. Recent BVARs are including comment on the impact of Covid-19.

Audit appointments

21. The current position in respect of the next audit appointments exercise is to extend the current appointments to enable the provision of continuity at a time of significant disruption. This decision also recognises the challenges of running a significant procurement exercise under the current circumstances.

Work programme refresh

22. Discussions to reshape the 2020/21 work programme in response to the impact of Covid-19 have taken place with the Auditor General for Scotland and the Accounts Commission.
23. A work programme refresh is currently taking place in a volatile and uncertain context. With this in mind the strategic aims of the programme that we are developing will ensure that the focus is on:
 - public money being used as effectively and transparently as possible to support economic and social response, recovery and renewal following the pandemic
 - the public services that affect the lives of the people in Scotland are delivered as effectively as possible. In particular, this will focus on inequalities, climate change and the use of the financial powers devolved to the Scottish Parliament and to local authorities.

Covid-19 - Financial Implications

24. Taking into account the organisational and audit implications outlined earlier in this report the overall financial implications indicate that to enable Audit Scotland to meet its statutory obligation to deliver a balanced budget we request approval from Parliament for an additional sum, net of savings, totalling £1.5 million.
25. The main reasons for the additional request are:
 - Covid-19 impact on income recognition leading to a shortfall of £1.440 million due to the loss of productive time following the extensions applied to 2019/20 audits which will delay the commencement of 2020/21 audit work.
 - Total people costs overspend projection of £0.558 million is being met from reduced expenditure and savings of £0.498 million in fees and expenses paid to external firms, other operating expenditure and miscellaneous income.
26. People costs represent 68% of our total expenditure and the forecast overspend of £0.558 million includes additional temporary staff, lower staff turnover due to the economic situation arising from the pandemic and the impact of audit deadline extensions on the accounting treatment required for the recognition of untaken leave as at the 31st March.
27. The projected £0.145 million saving for fees and expenses paid to external firms will be offset by a projected shortfall in the recognition of fee income.
28. The recognition of fee income is a key component of our budget proposals with the extension to deadlines of 2019/20 audits leading to a delay in the start to planning of the 2020/21 audits. Effectively these extensions mean we will not have completed as much audit work as in previous years as at 31 March 2021. International reporting standards only allow us to recognise in the accounts the amount of income we have earned for the work we have completed up to that point in time. While there are no issues in receiving the overall fee income due for the audit there is a timing issue that causes a significant problem to the scale of £1.440 million.
29. The shortfall in income recognition is based on estimated audit work plans where the in-house audit teams usually spend approximately 23,000 days a year completing financial audits. Of the 23,000 audit days the budget assumes completion of approximately 8,000 days of audit work as at 31 March 2021 for the start of the 2020/21 audits. The impact of Covid-19 on the bodies we audit will influence the 2020/21 audit requirements with numerous additional complexities in some cases and this will have an impact on the total number of audit days required. Current assessments on the impact of productivity and time lost due to the pandemic indicate that we will be half (4,000 days) of where we were on completed work for the 2019/20 audits as at 31 March 2020.
30. Forecast savings of £0.351 million have been identified in other operating expenditure and they are mainly due to a significant reduction in travel and subsistence with staff unable to travel to undertake on-site audit work. Further savings have been identified in stationery and

printing, other (e.g. annual wellness checks) and other accommodation costs (e.g. catering, security waste). The increase in information technology expenditure represents the reliance on having compliant and secure technology to meet the demands of all staff working from home.

31. Table 1 provides a comprehensive forecast analysis compared to the approved budget and highlights the financial challenges on some expenditure headings but particularly for fee recognition.

TABLE 1 - NET EXPENDITURE STATEMENT

	Approved	Projected	Increase/
	2020-21 Budget	2020-21 Outturn	(Decrease)
	£k	£k	£k
People Costs			
Salaries and temporary staff	13,514	14,052	538
Employers on costs	4,162	4,200	38
Pension adjustments	126	126	0
	17,802	18,378	576
Accounts Commission members	169	151	-18
Total people costs	17,971	18,529	558
Fees and expenses paid to external firms	4,350	4,205	-145
Other operating expenditure			
Rent & Rates	535	531	-4
Other accommodation Costs	403	379	-24
Travel & Subsistence	877	549	-328
Legal & Professional Fees	1,134	1,161	27
Stationery & printing	129	60	-69
Training & organisational development	470	478	8
Staff recruitment	130	130	0
Communications (telephone, postage)	65	50	-15
Insurance	79	82	3
Information technology	462	565	103
Internal Audit	30	30	0
External Audit - financial statements	30	30	0
Other	91	39	-52
Depreciation	342	342	0
Total other operating expenditure	4,777	4,426	-351
TOTAL OPERATING EXPENDITURE	27,098	27,160	62
Corporation Tax payable	0	0	0
Income			
Fees and charges payable	18,383	16,943	-1,440
Bank Interest	0	2	2
Miscellaneous income	0	0	0
Other finance income - pensions related	0	0	0
TOTAL	18,383	16,945	-1,438
NET EXPENDITURE AFTER TAX	8,715	10,215	1,500

Conclusion

32. The Spring Budget Revision - budget adjustment presented in this paper requests the provision of:
 - additional DEL funding of £1.5 million to allow Audit Scotland to meet the financial impact of Covid-19 in 2020/21. This increases the overall Audit Scotland requirement from the Scottish Consolidated Fund to £10.365 million in 2020/21 which includes no change to the capital allocation of £0.150 million.
33. Any surplus arising at the end of the financial year 2020/21 will be returned to the Scottish Consolidated Fund.
34. The funding request in this proposal is in addition to the separate Spring Budget Revision proposal that has been prepared requesting the annual adjustment to AME funding to meet non-cash IAS 19 pension charges totalling £3 million.

Spring Budget Revision

2020/21

IAS 19 - Pension Costs

Introduction

1. In accordance with Scottish Government advice to meet additional unbudgeted pension charges this paper details Audit Scotland's 2020/21 Spring Budget Revision (SBR) proposal to meet these non-cash accounting costs.

Background

2. Bodies funded by Parliamentary Vote, such as Audit Scotland, only have authority to spend the resources voted to them in one financial year. Any request for additional resources in-year must be requested as part of either the Autumn Budget Revision (ABR) or Spring Budget Revision (SBR) and approved by Parliament.
3. Certain types of expenditure requiring budget revisions, including pension charge adjustments, are treated for budget purposes as Annually Managed Expenditure (AME) rather than falling within the Departmental Expenditure Limit (DEL). The overall AME cover for Scotland is re-determined once a year in late autumn, with the changes agreed with HM Treasury then being available for inclusion in the SBR.

Spring Budget Revision - IAS19 Pension Costs proposal

4. Our SBR proposal requests £3 million to meet increased non-cash pension accounting charges that will arise in 2020/21.
5. Audit Scotland operates two pension schemes. Our main pension scheme is the Local Government Pension Scheme in Scotland administered by the Lothian Pension Fund. All new employees are enrolled in this scheme as part of the auto enrolment pension legislation.
6. The second scheme is the Principal Civil Service Pension Scheme (PCSPS). Audit Scotland operate this scheme as a closed scheme – the members of the scheme are employees who have legacy terms and conditions following their transfer to Audit Scotland from the National Audit Office on the establishment of Audit Scotland in 2000. The numbers of staff in this scheme have been reducing as staff retire or leave Audit Scotland – currently there are five members of staff who are part of this scheme. In addition to those staff who have legacy rights, the Auditor General for Scotland is separately enrolled in the PCSPS as part of the terms and conditions of appointment.
7. The PCSPS is an unfunded multi-employer defined benefit pension scheme. The liability for payments under this scheme rests with the Government and Audit Scotland is not required to disclose or record information in respect of this scheme. These arrangements are consistent with those applying to the Scottish Government and many Government Agencies and NDPB's.
8. The Local Government Pension scheme is a funded, defined benefit pension scheme and the assets and liabilities of our section of the scheme are separately recorded. As a result Audit Scotland has to meet the accounting and disclosure requirements of International Accounting Standard 19 (IAS 19). This requires the preparation of actuarial reports at each year-end that

value assets and liabilities of the scheme as well as identifying the in-year costs of providing the pension service earned during the year.

9. A key factor in determining the values and costs is the discount rate used in the calculations. The rate used is driven by interest rates and bond returns and low interest rates push up the costs of providing pension service. The calculated values are very sensitive to small movements in the rates – 0.5% of a movement in the real discount rate is estimated to add 12% to the liabilities of the scheme.
10. Information provided from our actuaries to meet year-end accounting and disclosure requirements includes a projection of pension cost items for the following year. The report on the projection for 2020/21 was available in April 2020 well after the submission of our budget proposals for 2020/21. This means it is very difficult to predict the impact of pension accounting adjustments as part of the annual budgeting process.
11. Pension accounting adjustments required in respect of IAS 19 can generate favourable and unfavourable variances. The accounting adjustments are notional and do not generate cash movements.
12. In previous submissions we have advised the possibility of adverse adjustments in future and the consequent need to request additional budget cover through the AME process to balance our accounts. In 2019/20 the scheme actuary's initial estimate was £4.1 million more than the pension charge assumed in the budget for the year. With the agreement of the SCPA and the Scottish Government's Finance Directorate additional cover of £10 million was provided in the SBR 2019/20 through the AME arrangement to ensure sufficient budget was available to cover the in-year pension cost and also the additional past service impact on pension liabilities resulting from the McCloud case.
13. For 2020/21 we anticipate that the IAS 19 pension adjustment will be adverse and will require an additional charge over and above the budget provision held for the contributions we will make for the year. Based on the Actuary's report presented in April 2020 the estimated pension service cost for 2020/21 is £3 million higher than the available budget.
14. The increased charge is driven by the continuing impact of low net discount rates used to value pension liabilities which increase future pension liability forecasts and in turn the estimates for in year pension service costs – this rate increased to 0.4% at March 2020 compared to a rate of -0.1% at March 2019.
15. It is essential that Audit Scotland has sufficient budget cover to meet the unpredictable non-cash expenditure arising from the IAS 19 pension adjustments required under the FReM. Audit Scotland is unable to carry forward reserves and any significant shortfall has the potential to leave us in the unacceptable position of a final outturn deficit.
16. The expectation of continuing low interest rates in the next few years will lead to large accounting adjustments in 2021/22 and beyond. In such circumstances further requests for budget revisions to meet additional pension charge adjustments will be required in the future.

Conclusion

17. The Spring Budget Revision - IAS 19 Pension Costs proposals presented in this paper will:
 - provide non-cash AME funding of £3 million to allow Audit Scotland to meet increased non-cash pension charges that will occur in 2020/21.
18. The funding request in this proposal is in addition to the separate Spring Budget Revision proposal that requests £1.5 million to meet the financial impact of Covid-19.

Budget Proposal

2021/22



Prepared for the Scottish Commission for Public Audit

December 2020

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Introduction

1. Audit Scotland provides services to the Auditor General for Scotland and the Accounts Commission. We carry out annual external audits of public bodies and programmes of performance and Best Value audits across the Scottish public sector. We audit around 220 public bodies.
2. Audit Scotland's vision is to be a world class audit organisation that improves the use of public money. To achieve this vision, meet relevant professional standards and retain the independence of audit it is important that appropriate resources are available for our work and that we deliver value for money.
3. We continue with the ongoing commitment of planned investment in auditing further financial devolution in 2021/22.
4. The budget proposal includes information on the budgeted costs for each audit sector for 2021/22. We have provided updated projections of resource requirements for two further years to 2023/24.
5. This paper is presented in two parts.
 - Context
 - Budget projections 2021/22 to 2023/24.

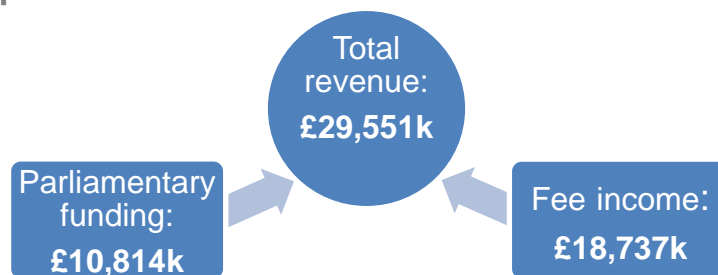
Appendix 1 - Net Expenditure Statement expenditure trends

Appendix 2 - Sector cost analysis

Appendix 3 - Funding and Fees

Key messages

2021/22 Budget Proposal



6. Scotland's public sector currently faces greater challenges than at any point since devolution, and public spending is growing significantly. Audit Scotland must also change and grow in order to continue to support the Auditor General for Scotland and the Accounts Commission to deliver independent, reliable and high-quality public audit. Independent assurance to the people of Scotland that public money is spent properly and robust audit that helps public services improve are crucial as the country tackles these unprecedented circumstances.
 - Covid-19 has added significant pressure on Scotland's public bodies and public services at a time when they already face major stresses and strategic challenges. These include the UK's withdrawal from the EU, the need to reshape health and social care, changing demographics, climate change and the devolution of significant financial responsibilities. It has also exacerbated existing risks in financial sustainability and service provision.
 - The pandemic has brought significant increases in public spending, with corresponding public and Parliamentary interest in how this money is being spent.
 - Women, young people and Black, Asian and minority ethnic Scots have been disproportionately affected by Covid-19, reinforcing existing inequalities and the negative impacts seen in previous economic downturns and recessions.
 - The pandemic has accelerated the pace of public service reform, in many areas including digital transformation, collaborative leadership and community engagement.
7. Our 2021/22 budget proposal reflects the increasingly uncertain and volatile world that we and the bodies we audit are now operating in and that we anticipate will continue for several years to come. It will enable us to expand audit coverage and invest in flexibility, skills and capacity so that we can maintain and improve our high-quality audit and deliver a programme of work that will support effective parliamentary scrutiny.
8. Our proposal will deliver:
 - Assurance over the significant new sums of public money being spent in Scotland.
 - Audit of more than 220 public bodies.
 - Continued recovery from the disruption to audit work in 2020.
 - A stable and consistent fee environment for public bodies.
 - Independent evidence-based public reporting on how well public money is being used to rebuild the economy, repair the damage to communities, address inequalities and create a

fairer, more just society, and how well public bodies demonstrate good governance, transparency, financial management, fraud prevention and long-term planning.

- Comprehensive tracking of Covid-19 support spending across the public sector to provide a coordinated 'follow the pandemic pound' approach and form a view on the effectiveness of the overall system of Covid-19 financial support.
 - Investment in more flexible and agile ways of working and enhancement to our digital and professional support capacity to ensure our audit reporting is keeping pace with the changes in public finances and services and in technological developments.
 - Additional recruitment to ensure we are able to attract and retain the highest quality of candidates and build the skills and expertise we need to develop public audit.
 - Greater strategic capacity to enable us to respond to the rapidly changing environment, and for public audit to be a clear voice for good governance and improvement as we move towards recovery and renewal.
9. Our 2021/22 expenditure budget proposal totals £29,551k; this is 0.05% of the £57 billion expenditure we will audit (£49 billion in the March budget bill and the allocation of a further £8 billion to tackle Covid-19).
10. We will initially hold the increase in our management contingency, allocating it transparently as we invest in skills and capacity throughout the year. This increase from £300k to £2,400k will enable us effectively to develop and implement a sustainable future operating model for public sector audit in Scotland to address new challenges, meet stakeholder expectations within existing financial rules while considering the longer term implications for the funding and fees model. This increase in contingency equates to 0.03% of the additional £8 billion provided in 2020/21.
11. Total Parliamentary funding requested is £11,064k, an increase of £2,199k from 2020/21. This includes revenue funding of £10,814k and capital funding of £250k.
12. The £2,199k is a net increase arising from:
- management contingency to implement a strategic improvement programme focusing on - digital capacity, professional support, the wellbeing of colleagues, a multiyear recovery plan from the disruption of 2020, £2,100k
 - additional audit responsibilities arising from further financial devolution to Scotland, £269k
 - an increase in capital investment to support our digital strategy and office re-configuration requirements, £100k
 - and other adjustments delivering a budget reduction of £270k.
13. If we identify any potential underspend against this budget allocation, we will indicate this at the earliest opportunity for a return to the Scottish Consolidated Fund.

Context

2021/22 uncertainties

14. The budget for 2021/22 has been prepared in the context of significant uncertainties, which include:
- the organisational, audit work and financial impact of Covid-19 on Audit Scotland and the organisations we audit
 - timing of budget statements from the UK and Scottish Governments
 - public sector pay policy
 - timing of the implementation of the remaining financial aspects of the Scotland Act 2016
 - the end of the transition period for the UK leaving the European Union
 - financial assumptions used to estimate International Accounting Standard 19 (IAS 19) defined benefit pension costs and the impact of the McCloud judgement on future employer pension contributions.

Covid-19 implications

15. On 19 March 2020 the Auditor General for Scotland advised the Public Audit and Post Legislative Scrutiny Committee (PAPLS) that Scotland's public services were under exceptional pressure due to Covid-19 and advised that our approach to audit would be pragmatic, flexible and consistent.
16. Statutory audit obligations have been prioritised and areas of work where there is more discretion were paused/re-scheduled in consultation with the Auditor General for Scotland and the Accounts Commission. While timescales may change, audit quality remains an absolute priority and is even more important at times of significant disruption.
17. The disruption has impacted on our productivity and the financial situation remains challenging.
18. From an audit planning perspective, the pandemic will require an increase in audit resource to meet the additional complexity and financial risk exposure experienced by the public bodies that we audit. An important element of this increase will enable us to support parliament in scrutinising the delivery of value for money of the additional £8 billion made available by the Scottish Government in 2020/21 to respond to Covid-19. It will also enable us to deliver to revised audit deadlines and accommodate remote working as necessary. More detail is provided in the next section, Our work 2021/22.
19. We continue to adopt a safety-first approach, prioritising the health, safety and wellbeing of our colleagues. The Audit Scotland offices have been closed since 17 March 2020 and all audit work is being carried out remotely.

Our work 2021/22

20. This budget proposal focuses on the delivery of audits for over 220 public sector organisations including the Scottish Government and its public bodies, NHS boards, police and fire services, councils, integrated joint boards and colleges. These organisations spend more than £49 billion of public money annually with an additional £8 billion being distributed so far in 2020/21 due to the Covid-19 pandemic.
21. The late start of 2020/21 audit planning due to the extensions applied to 2019/20 audits will impact on resource availability in 2021/22 to meet audit sign-off deadlines. Other key factors in planning that will need to be managed include:
 - loss of productive time due to Covid-19 restrictions. This includes sickness absence, caring responsibilities and backlog of annual leave/administrative tasks
 - ongoing effect of Covid-19 restrictions on the time it takes to complete audits
 - the increased risk of fraud and error as control environment and internal controls change
 - changes to audit demands with the creation of new bodies requiring audit.
22. The budget proposal will enable us to provide continued support to the Scottish Parliament to scrutinise the use of public money. This will include the response to Covid-19, the ongoing additional audit requirements arising from further devolution of new powers such as social security and income tax, the increased complexity of the Scottish budget, and the creation of new public bodies.
23. As a consequence of Covid-19 our performance audit work programme faces unprecedented change and uncertainty. The Auditor General for Scotland and the interim Chair of the Accounts Commission have met regularly to discuss the ongoing impact of Covid-19 on their respective work programmes (including joint performance audit work). The strategic aims for the development of future programmes will focus on:
 - public money is being used as effectively and transparently as possible to support economic and social response, recovery and renewal following the pandemic
 - the public services that affect the lives of the people in Scotland are delivered as effectively as possible. In particular, this will focus on inequalities, climate change and the use of the financial powers devolved to the Scottish Parliament and to local authorities.
24. NHS and local government overview reporting has been amended and all overview reports will now include a Covid-19 focus.
25. A revised schedule for Best Value Assurance Reporting to the Accounts Commission in 2020 reflects the impact of Covid-19 on both auditors and councils with the extension to audit appointments to September 2022 giving additional time and flexibility to complete the Best Value assurance programme.
26. The programme also provides for statutory reports on significant issues arising from the annual audits to be brought to the Parliament by the Auditor General for Scotland or to the Accounts Commission for Scotland from the Controller of Audit.

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27. High quality audit work is a priority for us and continues to be the focus of our Audit Quality Framework. Our ongoing investment in Audit Quality and Appointments (AQA) allows us to assure the Auditor General for Scotland, the Accounts Commission and the Scottish Parliament of the quality of work provided by auditors and to promote continuous improvement. AQA carries out a broad programme of work under our Audit Quality Framework, including commissioning independent reviews by the Institute of Chartered Accountants Scotland (ICAS) and surveys of audited bodies.

Financial devolution and constitutional change

28. Our budgets in 2017/18 to 2020/21 included scheduled increases to respond to the Parliament's new financial powers. The 2021/22 budget includes an increase of £269k to fund people costs (estimated at 4.5 w.t.e. staff), which is within the range previously presented to the Commission. As financial powers transfer on a phased basis the full projected requirement (subject to implementation uncertainty) will be £1,655k by 2024/25, equivalent to 24.5 w.t.e. staff.
29. The additional resources will allow us to continue to respond effectively to the growing demands of financial devolution and to respond to the emerging impacts of EU withdrawal on the Scottish public sector and the resulting growth in our work.

Value for money

30. Our 2021/22 expenditure budget proposal totals £29,551k; this is 0.05% of the £57 billion total expenditure (£49 billion in the March budget bill and the allocation of a further £8 billion to date to tackle Covid-19) that will require audit.
31. Most of our expenditure is on staff costs (71%), with the balance split between payments to external firms for undertaking audit work (15%) and administration costs (14%).
32. This proposal results in 63% funding from audit fees for audited bodies, with the 37% balance funded through the Scottish Consolidated Fund.
33. Since 2014/15 we have delivered significant cumulative savings and efficiencies of £7.2 million. These include savings in audit firm contract costs, property rationalisation, travel and subsistence, energy efficiency and developments in new ways of working.
34. Legislation requires us to broadly break even each year and does not allow us to hold reserves. The savings generated have reduced our funding requirement from the Scottish Consolidated Fund and have also enabled us to deliver real terms reductions in the fees for audited bodies over this period.
35. The 2021/22 budget proposal includes identified savings in travel and subsistence, communications and depreciation (£257k). We will continue to benefit from savings generated from audit procurement, property rationalisation and business re-structuring. The budget aims to absorb as much of the cost increases arising from pay settlements, general inflation and other unplanned financial pressures as possible. We achieve this through medium term financial planning, reviewing audit approaches, continuous review of staffing levels/skills mix and the use of technology.

Budget Projections 2021/22 to 2023/24

36. Table 1 summarises Audit Scotland's budget projections for the period 2021/22 to 2023/24 based on the budget assumptions detailed on pages 13 to 15.

Table 1 – Budget Projections for 2021/22 to 2023/24

	Approved Budget	Proposed Budget	Projection	
	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Expenditure				
People costs	17,971	20,852	21,455	22,080
Other administrative costs	9,127	8,699	8,957	8,745
Gross administrative costs	27,098	29,551	30,412	30,825
Total Income	(18,383)	(18,737)	(19,112)	(19,494)
Net Expenditure Requirement	8,715	10,814	11,300	11,331
Capital	150	250	150	150
Total Resource Requirement	8,865	11,064	11,450	11,481
Annual GDP deflators		-2.44%	-2.12%	-2.12%
Net cost at 2020/21 prices		10,794	10,922	10,697
Staff Projections (w.t.e.)	292.7	297.2	298.7	299.2

Note – assumes continuation of same level of discount received in respect of the external firm's contracts.

New contracts will commence from 2022/23 audit year.

37. The Total Resource Requirement proposal for 2021/22 seeking approval by the SCPA is £11,064k. This represents an overall cash increase of £2,199k on the approved budget for 2020/21.

38. Subject to approval of our 2020/21 Spring Budget Revision of £1,500k the actual increase to our revised budget would be £699k, a real term (2020/21 prices) increase of 4.1%.

39. Full details of the budget movements are provided on pages 13 to 18 of this proposal.

Principal budget assumptions - 2021/22 to 2023/24

40. The principal assumptions underlying the budget proposal for 2021/22 and our cost projections for the two following years are set out below.

2020/21 Budget

41. Our Spring Budget Revision requests additional Direct Expenditure Limit (DEL) funding of £1,500k to meet the financial implications of Covid-19 and £3,000k of Annually Managed Expenditure (AME) funding to cover non-cash pension cost adjustments.
42. If approved these adjustments would increase the revised Total Expenditure Limit from £8,865k to £13,365k.
43. The 2021/22 budget proposals have been prepared on the assumption that non-cash pension costs adjustments will continue to be funded through the Spring Budget revision process.

Covid-19 financial implications and management contingency

44. The management contingency budget in 2020/21 of £300k was 1.1% of the total expenditure budget. As we are unable to hold reserves this level of contingency left very little scope to meet the unplanned financial pressures arising from the challenges of the Covid-19 pandemic. There remains a high level of uncertainty and the implications this will have on the business operating model for public audit in Scotland. In view of this position the budget proposal requests an increase in the contingency to £2,400k to implement a long-term sustainable resource programme to meet the ever-increasing demands on public audit in Scotland.
45. Due to the main projected spend being staff related the management contingency budget has been transferred from other operating expenditure to people costs.
46. The £2,400k contingency should ensure that we will not seek any in year budget adjustments in 2021/22 other than the annual non-cash pension adjustment. If we identify any potential underspend against this budget allocation, we will indicate this at the earliest opportunity for a return to the Scottish Consolidated Fund.
47. Our intention would be to earmark £1,500k to assist with developing strategic improvement work and to meet the resourcing and financial pressures arising from Covid-19 in respect of the financial and performance audit work we will be required to deliver on behalf of the Auditor General for Scotland, Accounts Commission and Parliament. This budget flexibility will enable us to provide additional capacity to cover:
 - Covid-19 specific audit work
 - existing audit commitments where Covid-19 disruption has had an impact on productivity and the range of audit issues arising in public bodies
 - maintaining audit quality
 - innovation and improvement work to keep pace with professional auditing developments in digital audit, update audit methodologies and organisational efficiency.
48. The balance of £900k will be set aside to enable us to meet pay award pressures, employer pension contribution uncertainty and other unexpected financial events.

Pay and pensions

49. Our current pay agreement ends on 31 March 2021. Audit Scotland negotiates pay awards annually and actual awards will be determined as part of this process. The current position on

public sector pay policy in Scotland is uncertain with the Scottish Budget to be announced on 28th January 2021. Currently our 2021/22 budget proposal assumes incremental pay progression at current pay scale levels only and a sum has been earmarked in management contingency to meet the potential for an increase to pay scales.

- 50. For planning purposes only, we have assumed that in 2022/23 and 2023/24 incremental pay progression will continue based on current pay scales.
- 51. The majority of Audit Scotland's staff are members of the Local Government Pension Scheme with the 2021/22 budget assuming a 0.5% increase in employer contributions and a past service contribution of £77k. We are currently awaiting the outcome of the triennial valuation exercise by the actuary where the employer contribution rates are determined for the next three-year period, 2021/22 to 2023/24. As we are members of the employer contribution stability mechanism the budget assumption has been based on the outcome of prior valuation exercises.

Appointed auditors (firms)

- 52. Payments to appointed auditors (firms) for 2020/21 audits increase in line with the remuneration increases applied to our own staff at April 2020. For 2021/22 and 2022/23 audits we have assumed that auditor remuneration increases will be similar to prior year levels.
- 53. Due to the Covid-19 pandemic the option to extend the audit appointments contract by one year was exercised. This means that the last audit year for the current contract is now 2021/22 with these audits being completed in the 2022/23 financial year. This provided some certainty and continuity for public bodies and auditors.
- 54. For the purposes of this proposal the assumption is that the future cost of audit undertaken by firms will continue at current levels with the discounts applied. As part of the procurement exercise we are developing different planning scenarios should this change significantly.

Quality

- 55. The Audit Quality Framework 2019, [Audit quality framework](#), provides assurance that work is of high standard, meeting international audit standards and the requirements of the Auditor General for Scotland and the Accounts Commission as set out in the Code of Audit Practice. Our 2021/22 budget proposal and projections for 2022/23 and 2023/24 maintain investment of £250k to support audit quality inspection and reporting. The 2019/20 audit quality report can be found at [Quality of public audit in Scotland 2019/20](#).

Property

- 56. Our budget proposals for 2021/22 and our projections for 2022/23 and 2023/24 assume continued occupation of our three offices in Edinburgh, Glasgow and Inverness on existing long-term leases. Inflationary increases have been applied to service charges, business rates and utilities. As part of our strategic improvement programme we will be developing a long-term property strategy that aligns with our future operating model.

Training and organisational development

57. As expected, this year has been challenging for the delivery of training due to the disruption to our normal model for delivery. We have repurposed our financial resources and rapidly switched to innovative Microsoft Office365 solutions such as Microsoft Teams video-link training, Microsoft Stream pre-recorded events, Microsoft Whiteboard and Sway applications. This has resulted in engaging technical and non-technical professional learning and development which, due to its online delivery, has proved accessible for our staff based throughout Scotland.
58. We remain committed to our professional trainee scheme for both graduates and school-leavers. Our intake for 2020 has been uninterrupted with the induction of new starts having moved entirely on-line and new recruits being equipped to work safely and effectively from home due to the public health measures necessary because of Covid-19.
59. For 2021/22, we anticipate the need to support our people in new ways of working through a wide array of learning and development - new IT skills to ensure effective and efficient working with new technology and applications within dispersed teams and remote auditing from audit locations together with a broader suite of knowledge development as we seek to understand the implications of Covid-19 upon public sector organisations, service delivery and public finances.
60. In 2021/22 we will set aside funding of £40k in support of our commitment to diversity and inclusion - race, gender, sexual orientation, disability and social mobility for young people. Our work in this area will influence every aspect of the employee experience with Audit Scotland from our recruitment attraction strategy, the employee experiences (including those from minority backgrounds), culture and wellbeing.
61. The budget allocation is based on our rolling Learning and Development plan, which is updated each year in collaboration with colleagues and PCS trade union partners to align with our corporate plan and changing external audit landscape.
62. While training delivery methods are changing, our future programme will ensure that our people have the support and development needed to meet the challenges in the short, medium and long-term so that we continue to deliver relevant, timely and high quality public audit for Scotland. Our investment in learning and development is an important element of our total reward offer to new and existing professionals working with Audit Scotland.

GDP deflators

63. We have assumed a GDP deflator of 2.44% for 2020/21. For 2021/22 and 2022/23 the deflators are 2.12%. This is consistent with the September 2020 rates published by HM Treasury. These are used to remove the effect of price changes (inflation) when comparing expenditure over time.

Proposed 2021/22 Net Revenue Expenditure

64. An analysis of 2021/22 net expenditure by category is attached in Appendix 1, it also provides information on actual net expenditure levels in 2018/19 and 2019/20 and the approved budget for 2020/21.

65. Net revenue expenditure increases in cash terms by £2,099k from the 2020/21 approved budget and £599k from the 2020/21 Spring Budget Revision, a real term increase of 3.3%.
66. Excluding the specific budget adjustments for management contingency, financial devolution and the national fraud initiative, the cash increase is £350k, a real term increase of 1.5%.
67. Table 2 provides an analysis of the movement from the net expenditure in the 2020/21 approved budget to the proposed 2021/22 net expenditure resource requirement.

Table 2 - Movement of net approved expenditure to proposed resource requirement

	£k	£k	1
2020/21 Net Approved Expenditure		8,715	
Analysis of budget change			
New Financial Powers	+269		
Management Contingency/Covid-19 implications	+2,400		
April 2021 incremental pay progression	+151		
Pension contributions increase	+61		
Increase in People Costs		+2,881	
National Fraud Initiative	-220		
Management Contingency transfer	-300		
Accommodation	+46		
Travel and Subsistence	-170		
Other administration ¹	+12		
Approved Auditors	+204		
Other administrative costs decrease		-428	
Fee income increase		-354	
		10,814	

Includes increase/decreases to information technology, corporate costs and depreciation.

People Costs

68. People costs represent 71% of our expenditure budget proposals and our 2021/22 budget requirement is £2,881k higher in cash terms than the approved 2020/21 budget. Removal of the management contingency (£2,400k) highlights an increase in people costs of £481k, a real terms increase of £469k (2.5%).

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69. The main drivers of the increase are management contingency, staffing for further financial devolution, incremental pay progression and employer pension contributions.
70. The proposed budget increases the established staffing requirement by 4.5 w.t.e. from the 2020/21 budget, providing a total staffing of 297.2 w.t.e. in 2021/22. The reason for the increase is the next staged increase in resourcing requirements to meet the demands of further financial devolution. Further increases are likely as we invest in capacity during the year.

Other administrative costs

71. Other administrative costs are £428k lower in the proposed 2021/22 budget compared to the approved 2020/21 budget.
72. The main changes relate to the transfer of £300k management contingency to people costs and the reduction of £220k in respect of the biennial National Fraud Initiative (NFI), which next takes place in 2022/23. The £204k increase in fees and expenses payments to external firms will be met by additional fee income.
73. The balancing movement is a budget reduction of £112k, which relates to a number of increases and decreases across several budget headings.
74. The main areas of movement include:
- uplifts in service charges, rates and cleaning contract (£46k)
 - depreciation reduction (£63k)
 - initial travel and subsistence savings through remote audit (£170k)
 - information technology increase to ensure secure remote working (£34k)
 - communications, corporate subscriptions and uptake of employee health checks (£39k).

Income

75. Audit Scotland is funded by fees and the Scottish Consolidated Fund (SCF), approved by Parliament. Money voted by Parliament funds the annual audits that under legislation we cannot charge for, together with performance audit work within the Auditor General's remit.
76. The increase to the proposed fees budget for 2021/22 is 1.9%, a real terms reduction of 0.54%. The loss of an element of the EAFA audit has been partially compensated by commencement of new bodies requiring audit.
77. The increase in SCF funding is due to the proposed uplift in management contingency, further financial devolution resource, inflationary increases to non-chargeable fees and other direct allocations.

78. Income from fees to audited bodies by financial year is provided in Table 3:

Table 3 – Income from fees to audited bodies

	Actual 2018/19 £000	Actual 2019/20 £000	Budget 2020/21 £000	Proposed Budget 2021/22 £000
Local authorities	11,576	12,078	11,912	12,217
NHS bodies	2,980	2,850	2,948	3,005
Further education colleges	532	633	527	577
Scottish Government depts. and sponsored bodies	2,944	3,036	2,996	2,938
Total income from charges to audited bodies	18,032	18,597	18,383	18,737
% cash increase in fees from approved 2020/21 budget				1.9%

79. For 2020/21 audits the proposed average fee increase is 2.5%, a real term increase of 0.06% on 2019/20 fees.

80. Appendix 2 provides an analysis of the 2021/22 budget by sector and funding source.

Capital

81. The proposed capital budget for 2021/22 of £250k will support our long-term digital strategy and enable us to make property enhancements to meet current health and safety guidelines. Details of the 2021/22 capital requirements are provided below:

	£000
IT Hardware	125
Software	25
Digital strategy and office configuration	100
TOTAL	250

SCPA approved funding

82. Revenue support from the Scottish Consolidated Fund provides funding for:

- non-chargeable Central Government audits
- performance audits
- the Auditor General for Scotland
- the Accounts Commission
- a proportion of Audit Scotland senior management
- Covid-19 financial implications and management contingency
- Auditing related to the new financial powers, fiscal framework and social security
- Assuring the quality of public audit in Scotland.

Appendix 1 - Net Expenditure Statement expenditure trends

NET EXPENDITURE STATEMENT

	Actual		Approved	Proposed
	2018-19	2019-20	2020-21 Budget	2021-22 Budget
	£k	£k	£k	£k
People Costs				
Salaries and temporary staff	12,179	13,178	13,514	16,146
Employers on costs	3,611	3,852	4,162	4,415
Pension adjustments	2,349	4,871	126	126
	18,139	21,901	17,802	20,687
Accounts Commission members	163	171	169	165
Total people costs	18,302	22,072	17,971	20,852
Fees and expenses paid to external firms	4,475	4,549	4,350	4,554
Other operating expenditure				
Rent & Rates	479	507	535	535
Other accommodation Costs	437	436	403	449
Travel & Subsistence	871	823	877	707
Legal & Professional Fees	740	623	1,134	590
Stationery & printing	117	127	129	129
Training & organisational development	464	457	470	483
Staff recruitment	135	114	130	138
Communications (telephone, postage)	82	49	65	41
Insurance	72	75	79	84
Information technology	470	501	462	496
Internal Audit	27	31	30	30
External Audit - financial statements	29	29	30	30
Other	45	137	91	154
Depreciation	369	356	342	279
Total other operating expenditure	4,337	4,265	4,777	4,145
TOTAL OPERATING EXPENDITURE	27,114	30,886	27,098	29,551
Corporation Tax payable	1	1	0	0
Income				
Fees and charges payable	18,032	18,597	18,383	18,737
Bank Interest	4	5	0	0
Miscellaneous income	53	30	0	0
Other finance income - pensions related	-798	-924	0	0
TOTAL	17,291	17,708	18,383	18,737
NET EXPENDITURE AFTER TAX	9,824	13,179	8,715	10,814

Appendix 2 - 2021/22 Budget sector cost analysis

Expenditure budget	Fees					SCPA Parliament £k	TOTAL £k
	Local Authorities £k	NHS Bodies £k	Further Education £k	Central Government £k	Total Fees £k		
Auditor General for Scotland	0	0	0	0	0	237	237
Accounts Commission	0	0	0	0	0	179	179
Governance	112	23	1	30	166	490	656
Audit Quality incl. NFI	307	98	19	93	517	75	592
External Audit firms	2,278	934	480	578	4,270	283	4,553
Audit Services	4,850	1,494	57	1,646	8,047	3,230	11,277
Performance and Best Value audit	2,122	0	0	0	2,122	2,039	4,161
Corporate Services and overheads	2,548	456	20	591	3,615	4,281	7,896
Total budgeted expenditure	12,217	3,005	577	2,938	18,737	10,814	29,551
Fee income	12,217	3,005	577	2,938	18,737	0	18,737
Support from Parliament	0	0	0	0	0	10,814	10,814
Total Income	12,217	3,005	577	2,938	18,737	10,814	29,551

Appendix 3 – Funding and Fees

The principles of the funding and fee setting arrangements to support Audit Scotland to provide high quality independent public audit in Scotland are available in the report [Our approach to setting audit fees](#).

Audit fees for 2020/21 audits

Fee levels

Each sector will see a fee increase of 2.5% for 2020/21 audits which in real terms represents a movement of 0.06% on 2019/20 charges.

The 2.5% movement is based on achieving a break-even position for the 2021/22 financial year in all sectors.

Future years

For 2021/22 and 2022/23 audits we aim to keep increases across all sectors at the minimum levels possible, however, we are currently operating in a very complex and volatile situation and any increases will reflect the resources required to deliver a high-quality audit.

Hourly rates

Hourly rates are calculated for each grade of staff. The rates are based on the average direct costs of the role (such as salaries, national insurance and pension contributions) and indirect costs (such as property costs, and corporate support costs including IT, finance and human resources).

For the 2020/21 financial year the hourly rates used to cost audit work are:

	2019/20	2020/21
Trainees	£43	£45
Business support specialist	£20	£20
Audit/support officer	£40	£41
Auditor	£44	£45
Senior auditor	£63	£66
Manager	£76	£76
Senior manager	£97	£96
Directors and Assistant Directors	£158	£159

The rates for the 2021/22 financial year will be calculated once the budget has been finalised.