

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Fiscal Devolution in Wales: devolved taxes and Welsh rates of income tax



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



This report has been prepared for presentation to the National Assembly under the Government of Wales Act 2006.

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**Mae'r ddogfen hon hefyd ar gael yn Gymraeg.**

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# Summary report

## Summary

- 1 Fiscal devolution refers to the transfer of certain taxation and borrowing powers from the UK Government to the National Assembly for Wales (the National Assembly) and Welsh Ministers. On 1 April 2018, for the first time in over 800 years, taxes relating only to Wales began to be collected.
- 2 **Appendix 1** details the key legislative and other developments leading to fiscal devolution in Wales. Under the Wales Act 2014 and subsequent Welsh legislation, two devolved taxes are now being collected in Wales by the Welsh Revenue Authority (WRA) – Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT). Following the passing of the Wales Act 2017, it was confirmed that Welsh Rates of Income Tax (WRIT) would also apply for the first time from 6 April 2019, although this would still be collected by HM Revenue & Customs (HMRC).

## Impacts on Welsh Government funding

- 3 Fiscal devolution means that a greater proportion of Welsh public spending will be raised directly from Welsh taxpayers. In its Draft Budget for 2019-20, the Welsh Government confirms that 20% of its overall spending (or £3.5 billion) that year will come from revenues raised from Welsh taxes, including WRIT, LTT, LDT and National Non-Domestic Rates. This is illustrated in **Exhibit 1** below:

**Exhibit 1: a breakdown of Welsh Government funding**



**Note:**

1. Figures for UK government funding do not include Annually Managed Expenditure (AME) or non-fiscal Department Expenditure Limit (DEL) spend.

Source: Welsh Government

**Previous Wales Audit Office reports on fiscal devolution and the scope of this report**

- 4 The Auditor General for Wales confirmed that he would carry out a series of reviews on the implementation of fiscal devolution. He has published two previous reports. His first report (**Preparations for the implementation of fiscal devolution in Wales**) was issued in December 2016, with a further report (**Fiscal devolution in Wales: an update on preparations for its implementation**) published in December 2017. Both reports are available on the Wales Audit Office website<sup>1</sup>.

1 <http://www.audit.wales/publications>

- 5 In the 2016 report he concluded that the Welsh Government was preparing well to take on its fiscal devolution responsibilities, although significant challenges remained in getting detailed plans in place and delivering key projects. In 2017 he concluded that the fiscal reform agenda in Wales had made progress in these key areas. However, the programme was entering a critical phase with a tight timetable to deliver by 1 April 2018.
- 6 Our 2017 report also noted that the Auditor General for Wales would conduct a further review during 2018 to assess how the WRA is operating, monitor the implementation of LTT and LDT, and review preparations for WRIT from April 2019. This report therefore fulfils these purposes, answering two questions:
  - a **Is the WRA operating effectively to administer devolved taxes in Wales?**
  - b **Does the Welsh Treasury have appropriate arrangements in place to obtain assurance over HMRC's implementation of WRIT?**
- 7 A summary of our findings in this review is provided below, with details of our audit methods provided in [Appendix 2](#). Our report does not review the work carried out by HMRC to implement WRIT, which is the focus of a separate report by the National Audit Office.

### **The Welsh Revenue Authority is operating effectively to administer devolved taxes in Wales**

- 8 The Welsh Government established the WRA Implementation Programme (the Programme) in November 2015, which worked to form and build the WRA and its tax collection systems. As part of its work, the Programme established the WRA Shadow Design Authority, to act as a shadow Board for the WRA. With all members of the WRA Board appointed by September 2017, the Board was able to meet for its first formal meeting on 18 October 2017.
- 9 While still under the control of the Welsh Government, the Programme reported to the WRA Board from October 2017 to provide updates on progress and key developments as it worked towards the collection of LTT and LDT from 1 April 2018. The WRA legally came into existence from 18 October 2017 and has collected LTT and LDT since 1 April 2018, with the Welsh Government closing the Programme shortly afterwards.

10 Our review finds that:

- a the WRA was set up effectively to allow it to collect LTT and LDT from 1 April 2018, meeting its key challenges:
  - the National Assembly for Wales passed all required legislation in time to enact the WRA and allow it to collect devolved taxes;
  - a joint UK and Welsh Government Readiness Assessment, and Welsh Government Remit Letter and Framework Document were confirmed and in place;
  - the WRA’s governance structures were appropriately established;
  - with the help of its suppliers, the WRA finalised its digital systems in time to collect devolved taxes from 1 April 2018;
  - the WRA prioritised the recruitment of key staff, ensuring all critical roles were filled prior to 1 April 2018;
  - the total cost of setting up the WRA fell within budget;
  - the WRA’s operational guidance was largely in place on 1 April 2018.
- b since 1 April 2018, the WRA has administered the two devolved taxes appropriately:
  - the WRA’s Tax Management System has operated effectively since 1 April 2018;
  - the WRA has responded appropriately to internal and external feedback by making relevant changes to its processes and guidance;
  - recruitment has continued at an appropriate rate to maintain the WRA’s operations;
  - the WRA has delivered training to staff in line with an agreed plan to maintain key operations;
  - appropriate arrangements have been made to share data arising from LTT and LDT transactions with stakeholders.

- c the WRA has taken appropriate steps to allow it to respond to potential future developments, including working with the Welsh Treasury where appropriate:
  - the Welsh Treasury and the WRA have adopted a joint governance structure for Welsh fiscal devolution that allows both bodies to identify and respond to potential developments;
  - the WRA has designed flexible systems and processes which will help it to respond to future changes or developments;
  - the WRA needs to consider some important issues going forward as it develops its three-year Corporate Plan.

11 In **Exhibit 2** below, we highlight the key areas of focus for the WRA as it continues to develop.

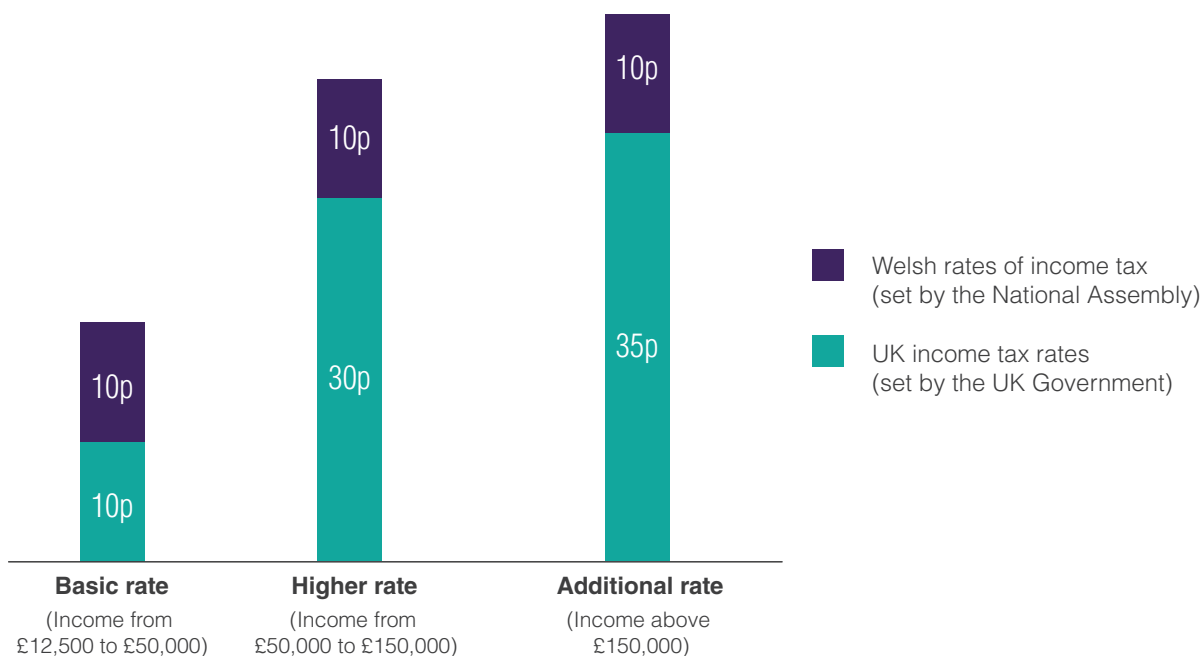
**Exhibit 2: key areas of focus for the WRA**

Area of focus	Details
Digital systems ( <a href="#">paragraph 1.32</a> )	To enable the WRA to increase its digital capability, it will be important to focus on creating strategic partnerships with suppliers to ensure the best value for money for its digital systems.
Recruitment and retention of staff ( <a href="#">paragraph 1.41</a> )	Effective development of people and teams needs to continue to ensure that the WRA can continue to recruit and retain a high-calibre workforce. As part of this, the WRA needs to evaluate the results of learning and development programmes that it develops or commissions.
Governance arrangements ( <a href="#">paragraph 1.51</a> )	The WRA needs to continue working in partnership with the Welsh Treasury to ensure the effectiveness of the joint governance arrangements in place.
2019-2022 Corporate Plan ( <a href="#">paragraph 1.59</a> )	The WRA needs to work to confirm its three-year Corporate Plan, which will need to consider the following areas: <ul style="list-style-type: none"> <li>• Definition of its purpose</li> <li>• Identification of performance measures</li> <li>• Approach to ‘tax risk’</li> <li>• Costing of WRA activity</li> <li>• Strategy for digital development and support</li> <li>• Development of internal operating policies</li> </ul>

## The Welsh Treasury has appropriate arrangements in place to obtain assurance over HMRC’s implementation of Welsh Rates of Income Tax

- 12 With WRIT being introduced from 6 April 2019, arrangements for income tax rate-setting in Wales will change. In January 2019, the National Assembly will consider a resolution on whether to vary the rates of income tax paid by Welsh taxpayers from April 2019 (in simple terms, income taxpayers who live in Wales) or whether to keep them the same as the rates paid by English and Northern Irish taxpayers (the Scottish Parliament confirms the income tax rates for Scottish taxpayers). These rates will only apply to Welsh taxpayers’ non-savings, non-dividend income.
- 13 On 6 April 2019, the UK Government will reduce each of the three rates of income tax (basic, higher and additional rate) paid by Welsh taxpayers by ten pence. The three Welsh rates confirmed by the National Assembly will then be added to the reduced UK rates. The combination of reduced UK rates plus the Welsh rates will determine the overall rate of income tax to be paid by Welsh taxpayers, as illustrated in **Exhibit 3**:

**Exhibit 3: how Welsh Rates of Income Tax will be applied**



Source: Welsh Government

- 14 Wales will only have partially-devolved income-tax powers. The Welsh Government will have no powers other than to set WRIT each year once the UK Government deducts ten pence from each rate. It will not have the power to create, amend or remove income tax bands (ie the basic rate, higher rate and additional rate bands). It also will not be able to amend any income tax reliefs or allowances set by the Chancellor of the Exchequer, such as the Personal Allowance.
- 15 Furthermore, HMRC will continue to collect all income tax due in Wales. HM Treasury will then remit the proportion collected under WRIT to the Welsh Consolidated Fund each year. This differs from the two fully-devolved taxes, LTT and LDT, which the WRA has collected independently since 1 April 2018.
- 16 Welsh taxpayers should therefore notice little change in how HMRC collects their income tax, other than to their tax code which will begin with a 'C', and will not need to take any direct action.
- 17 Our review finds that:
  - a plans are in place to pass the Welsh resolution required to enact WRIT, with the majority of UK legislation already passed:
    - most of the UK legislation required to establish and enact WRIT has been passed;
    - the National Assembly for Wales will consider a motion in January 2019 to approve WRIT.
  - b The Welsh Treasury is actively participating in governance arrangements to transfer responsibilities for WRIT to Wales:
    - HMRC has established a project to set up WRIT and the Welsh Treasury attends the Project Board;
    - the Welsh Treasury uses the project's governance structure to influence discussion and raise matters of concern.
  - c The Welsh Treasury is obtaining appropriate assurance over HMRC processes to identify Welsh taxpayers:
    - HMRC has established methods to identify Welsh taxpayers and has shared them with the Welsh Treasury;
    - the Welsh Treasury has sought and obtained advice and assurance over the methods used to identify Welsh taxpayers.

- d The methods used to forecast revenue due to Wales from WRIT are appropriate, and the Welsh Treasury is exploring ways to improve underlying data:
    - the Welsh Treasury forecasted the revenue due from WRIT for the 2019-20 financial year in time for inclusion in the Welsh Government’s Budget;
    - Bangor University has provided assurance over the forecast of revenue due from WRIT during 2019-20;
    - the Welsh Treasury uses the most recent data available in its WRIT forecasts and is exploring ways to further improve that data.
  - e The total cost of implementing WRIT is yet to be finalised:
    - the total cost of implementing WRIT is estimated at between £7.7 million and £9.7 million, with most of that cost relating to HMRC activity;
    - the Welsh Treasury has sought appropriate advice and assurance over HMRC’s cost estimates.
  - f Plans to engage with the public are clear, proportionate and identify measures of success clearly:
    - the Welsh Treasury and HMRC are working together effectively to deliver communications regarding WRIT;
    - survey results will allow the Welsh Treasury to measure public awareness of WRIT over time and plan future communications activity;
    - measures to engage with the Welsh public are reasonable and strike an appropriate balance between activity and cost.
- 18 We highlight the following areas of focus in [Exhibit 4](#) that the Welsh Treasury will need to consider as the WRIT project progresses:

Exhibit 4: areas of focus for the Welsh Treasury as the WRIT project progresses

Area of focus	Details
Ongoing governance of WRIT (paragraph 2.11)	The Welsh Treasury, in partnership with HMRC, will need to develop an appropriate governance structure for WRIT before taxes start to be collected in April 2019.
Data for use in forecasting and budgeting (paragraph 2.31)	The Welsh Treasury will need to work with HMRC to maintain access to the most timely and accurate data for WRIT forecasting. It will also need to consider the usefulness of potential new sources of data in its forecasting models, such as 'real-time information' from HMRC once Welsh 'C' tax codes are launched.
Costs of implementing WRIT (paragraph 2.37)	The Welsh Treasury will need to work with HMRC to confirm the final total project cost and negotiate a cost-sharing arrangement with them and the Scottish Government for any costs that relate to both the Welsh and Scottish income tax systems.
Engagement with the public (paragraph 2.53)	The Welsh Treasury will need to continue to monitor the impact of its public engagement activity, to measure the success of its work to date and to target future communications on WRIT.

## Part 1

The Welsh Revenue Authority has operated effectively to date to administer devolved taxes in Wales



- 1.1 This section of the report is in three parts, looking at how the WRA was set up, how it has administered the two devolved taxes since 1 April 2018, and how it is able to respond to potential future developments.

## The Welsh Revenue Authority was set up effectively to collect devolved taxes from 1 April 2018

### The National Assembly for Wales passed all required legislation in time to enact the Welsh Revenue Authority and allow it to collect devolved taxes

- 1.2 As reflected in our previous reports, the Wales Act 2014, the Tax Collection and Management (Wales) Act 2016, the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017, and the Landfill Disposals Tax (Wales) Act 2017 established the foundations for Wales' devolved tax regime, setting up the WRA to collect LTT and LDT.
- 1.3 Key elements of these Acts have subsequently been brought into force by secondary legislation. Between October 2017 and March 2018, the National Assembly passed 19 items of secondary legislation covering a range of matters, from the establishment of tax rates and bands to the confirmation of the WRA's powers to investigate criminal offences. Following the passing of this legislation, the WRA had the legal powers to collect LTT and LDT from 1 April 2018.

### A joint UK and Welsh Government Readiness Assessment, and Welsh Government Remit Letter and Framework Document were confirmed and in place

- 1.4 Before the WRA could collect LTT and LDT, the UK and Welsh Governments needed to agree a joint Readiness Assessment to formally disapply the two previous UK taxes in Wales, Stamp Duty Land Tax and Landfill Tax. This Readiness Assessment considered the preparedness of HM Treasury, HMRC, the Welsh Government and WRA in areas such as legislation, systems and processes, staffing and resources, communications and engagement, and governance and assurance.
- 1.5 The Welsh Government met counterparts from HM Treasury and HMRC in January 2018 to confirm that all required criteria under this assessment had been fulfilled. The Welsh Government's Cabinet Secretary for Finance and the Chief Secretary to HM Treasury then confirmed with an exchange of letters that Stamp Duty Land Tax and Landfill Tax could be disapplied in Wales from 1 April 2018.

- 1.6 In December 2017, the Cabinet Secretary for Finance issued a Remit Letter to the WRA. This document sets out the Welsh Ministers’ three key priorities for the first year of devolved tax collection (as set out in [Exhibit 5](#)), proposals for the development of performance measures for the WRA and the organisation’s operational revenue budgets for 2017-18 (£1.5 million) and 2018-19 (£6.0 million).

**Exhibit 5: Welsh Ministers’ priorities for the WRA in 2018-19**

<b>Key priorities for the WRA in 2018-19</b>
Devolved tax collection – enabling people to pay the right amount of tax at the right time.
Managing the devolved tax system to help deter and tackle tax evasion and tax avoidance.
Public service delivery – leading improvements to the administration of devolved taxation across Wales

Source: Welsh Revenue Authority/Welsh Government

- 1.7 The WRA then worked with the Welsh Government to confirm and publish a Framework Document in March 2018. This document underpins the relationship between the Welsh Government and the WRA. It confirms the roles and responsibilities of both bodies, processes for financial management and reporting, and arrangements for data sharing.
- 1.8 In our 2017 report, we noted that, as the first Non-Ministerial Department of the Welsh Government, there could be confusion over how the WRA is managed and governed. The Remit Letter and Framework Document, along with the WRA Corporate Plan for 2018-19 (which sets out how the three key priorities in the Remit Letter will be achieved) help to clarify the WRA’s role, as well as its working arrangements with the Welsh Government.

## The Welsh Revenue Authority's governance structures were appropriately established

1.9 Exhibit 6 provides an overview of the WRA's internal governance structure:

### Exhibit 6: the WRA's internal governance structure



Source: Welsh Revenue Authority

1.10 As we reported in 2017, significant work on the WRA's governance arrangements was completed before it came into existence on 18 October 2017. This work included the appointment of the Chair (February 2017) the Chief Executive (July 2017) and the non-executive members of the WRA Board (September 2017). Subsequently, the WRA has established its governance structures.

- 1.11 The Board comprises the non-executive Chair and Deputy Chair, four non-executive members, the Chief Executive, two executives and (from October 2018) a staff elected member. This membership complies with the requirements of the Tax Collection and Management (Wales) Act 2016. The Board has convened regularly since October 2017 and has established two sub-committees, an Audit and Risk Assurance Committee (ARAC) and a People Committee.
- 1.12 The ARAC comprises four non-executive Board members and is also attended by four executive advisors<sup>2</sup>. The ARAC first met in November 2017 and has delegated responsibility to scrutinise the WRA's arrangements for risk, controls, governance and accounting arrangements, audit results and responses. The Committee also advises the Chief Executive on the WRA's use of public money and stewardship of its assets.
- 1.13 The People Committee is composed of three non-executive Board members, accompanied by three executive attendees<sup>3</sup>. It first met in June 2018, and is responsible for overseeing the WRA's remuneration strategy, as well as other issues around staff terms, recruitment, performance and talent management.
- 1.14 The WRA has also established governance arrangements to support the Chief Executive. Prior to 1 April 2018 an Executive Committee was set up, consisting of all staff members who report directly to the Chief Executive. The Committee covered matters including organisational performance, governance, policies and strategies. A Scheme of Financial Delegation from the Chief Executive to WRA officials was also issued in March 2018.
- 1.15 The governance arrangements established before 1 April 2018 to support the Board and the Chief Executive were operating effectively. The development of the WRA's internal governance arrangements has continued since 1 April 2018, as shown in [Exhibit 6](#) above. The WRA's internal auditors reviewed its governance arrangements in October 2018, concluding that they are 'suitably designed and applied effectively', with only minor observations arising.

2 The Chief Executive, Chief Finance Officer, Head of Internal Audit and Risk Manager/ Committee Secretariat.

3 The Chief Executive, Head of Human Resources and Organisation Development Manager/ Committee Secretariat.

## With the help of its suppliers, the WRA finalised its digital systems in time to collect devolved taxes from 1 April 2018

- 1.16 At the time of our 2017 report, the delivery of digital systems remained the WRA Implementation Programme's area of highest risk. The WRA needed to develop a Tax Management System (TMS) to collect LTT and LDT from 1 April 2018, as well as a finance system to account for the operation of the WRA and taxes collected. It contracted a supplier to build and test the TMS, who completed their work over the first three months of 2018.
- 1.17 The TMS is divided into two principal areas – registration and tax returns. The WRA opened registrations for LTT users on 20 February 2018, allowing practitioners such as solicitors and conveyancers to register an account on the TMS. According to WRA statistics, over 1,200 LTT practitioners registered on the TMS before tax collection began, growing to over 5,300 by October 2018. The launch of registration for LTT was supported by the opening of the WRA's online and telephone helpdesk, which also opened to the public on 20 February 2018.
- 1.18 Given that there were only 18 Landfill Site Operators in Wales and the registration process was more complex, the WRA had previously decided to register LDT taxpayers manually outside the TMS. Registration for LDT began earlier on 23 January 2018.
- 1.19 Following Welsh Government security accreditation of WRA systems on 22 March 2018, the WRA opened the tax return element of the TMS for both LTT and LDT from 27 March. From that date, taxpayers could enter the system and draft LTT and LDT returns, but could not submit a return until 1 April 2018, when the TMS was launched in full.
- 1.20 The WRA completed a series of engagement events with users of the TMS prior to 1 April 2018, including user testing sessions, roadshow events across Wales and England and online webinars. These events included demonstrations of how to register and submit returns on the system. Because of the tight final timetable for delivery of the TMS, the WRA prioritised this engagement work on the tax return element of the system as practitioners would file returns on an ongoing basis, while registration on the system was a simpler, one-off exercise.
- 1.21 The finance system was also developed in time for the WRA to collect devolved taxes. Again, this system can be divided into two parts – corporate finance and tax. The corporate finance element (accounting for WRA operations) was finalised on 1 March 2018, with the tax element (accounting for tax collection) going live on 1 April 2018. There is also an automated interface between the TMS and the tax finance system, minimising human intervention in tax collection and processing.

## The WRA prioritised the recruitment of key staff, ensuring all critical roles were filled prior to 1 April 2018

- 1.22 The WRA had 49 FTE staff members in post in April 2018, 14 fewer than originally planned. Recruitment took longer than planned as security vetting took more time than originally thought. The WRA therefore revised its recruitment strategy, prioritising the recruitment of senior management posts (to allow them to shape their teams), and customer-facing roles (to allow the helpdesk to open in February 2018). This ensured that these delays in planned recruitment did not hamper the early key operations of the WRA.
- 1.23 The WRA has also been able to recruit many Welsh-speaking staff, with Welsh speakers currently accounting for approximately one third of its workforce. We review the recruitment of staff beyond 1 April 2018, and the learning and development opportunities provided to them, from [paragraph 1.38](#) below.

## The total cost of setting up the Welsh Revenue Authority fell within budget

- 1.24 The Welsh Government initially estimated the implementation costs of the WRA at between £4.9 million and £6.4 million for the three-year period 2016-17 to 2018-19. In our 2017 report, we reported that the budget for implementation costs had been reprofiled, with a total estimated cost of £6.3 million for the two-year period 2016-17 to 2017-18.
- 1.25 The final cost of implementing the WRA can now be confirmed. As [Exhibit 7](#) shows below, the WRA was delivered within this revised budget:

### Exhibit 7: breakdown of WRA implementation costs

	<b>Budgeted costs</b>	<b>Actual outturn</b>
2016-17	£1.3 million	£1.275 million
2017-18	£5.0 million	£4.971 million
<b>Total</b>	<b>£6.3 million</b>	<b>£6.246 million</b>

Source: Welsh Revenue Authority

- 1.26 The WRA's first Remit Letter details the WRA's operational budget for its first accounting period. The funding allocations are £1.5 million for 2017-18, and £6.0 million for 2018-19, and are in addition to the implementation costs noted above.
- 1.27 The outturn and forecast data available indicates that the WRA expects to meet these allocations. The WRA's operational expenditure in 2017-18 was within budget at £1.497 million, and its management accounts for August 2018 forecast that the WRA will also operate within its allocation for 2018-19.

### The WRA's operational guidance was largely in place on 1 April 2018

- 1.28 Operational guidance for taxpayers and practitioners is available through the WRA website<sup>4</sup>. All necessary guidance for LTT and LDT was drafted and approved by 1 April 2018, but publishing delays led to some guidance documents not being formally produced until April 2018. The WRA therefore prioritised the publication of guidance that practitioners were more likely to need in April, with users able to contact the WRA helpdesk to request draft versions of any unpublished guidance. The WRA has produced one version of operational guidance, for use by staff and practitioners alike, to reduce the scope for misunderstandings.
- 1.29 While developing its operational guidance, the WRA sought feedback from stakeholders including the Law Society and professional service companies for LTT, and landfill site operators for LDT. To ensure that the guidance properly reflected the meaning of all relevant legislation, the WRA also worked closely with the Welsh Treasury officials who had developed the original LTT and LDT Bills.

### Since 1 April 2018 the Welsh Revenue Authority has administered Land Transaction Tax and Landfill Disposals Tax appropriately

#### The WRA's Tax Management System has operated effectively since 1 April 2018

- 1.30 The TMS has operated effectively since 1 April 2018, with no significant disruptions to its availability. In addition, the interface between the TMS appears to be working well, with data transferred between the systems every hour.
- 1.31 The number of registered TMS users has increased over time, growing from 1,200 registered users in April 2018 to over 5,300 in October 2018. More than 97% of LTT and LDT returns are now filed online.

4 <https://beta.gov.wales/welsh-revenue-authority/guidance-and-services>

- 1.32 The WRA has contracted the same supplier that developed the TMS to provide ongoing system support from April 2018. Given the tight deadlines for the development of the TMS, and the fact that the system is bespoke, it would have been risky for the WRA to choose another supplier. However, the support contract can be cancelled at any point at short notice, allowing the WRA flexibility in determining its future support needs. It will be important for the WRA to develop appropriate strategic partnerships with digital suppliers, to ensure that systems are developed and maintained efficiently and effectively in future.
- 1.33 Since April 2018, the WRA and its supplier have made minor updates to the TMS to improve functionality or fix issues. The WRA plans a programme of work for the supplier to develop more detailed system changes, based partly on the feedback obtained from users on its operation to date. The WRA has deliberately waited to enact significant changes to the TMS (compared with those changes required to keep the system in operation) to ensure that the system could operate effectively in the short term, and to ensure that feedback obtained represented the views of most users.

### **The Welsh Revenue Authority has responded appropriately to internal and external feedback by making relevant changes to its processes and guidance**

- 1.34 The WRA has received generally positive feedback from Tax Forum meetings and other customer contacts on its operations. Early indications suggest that customers are pleased with the quality of assistance provided by the helpdesk, and that they receive detailed responses to queries.
- 1.35 The WRA has established methods to plan amendments to its systems and processes. WRA staff record internal and external feedback on its processes, consider any consistent themes arising from the feedback, and raise 'change requests' where required. As **Exhibit 8** shows, these change requests are then considered as appropriate:

### Exhibit 8: consideration of change requests

Name	Authorised actions
Change Team	This team receives all change requests and authorises changes where they are judged to be beneficial and can be implemented at no cost.
Change Control Group	This group receives change requests referred by the Change Team which need further consideration, and can approve change requests that have no cost commitment.
Change Portfolio Committee	This Committee reviews any remaining change requests referred by the Control Group that have a cost commitment and prioritises them in line with its strategy and available finance.

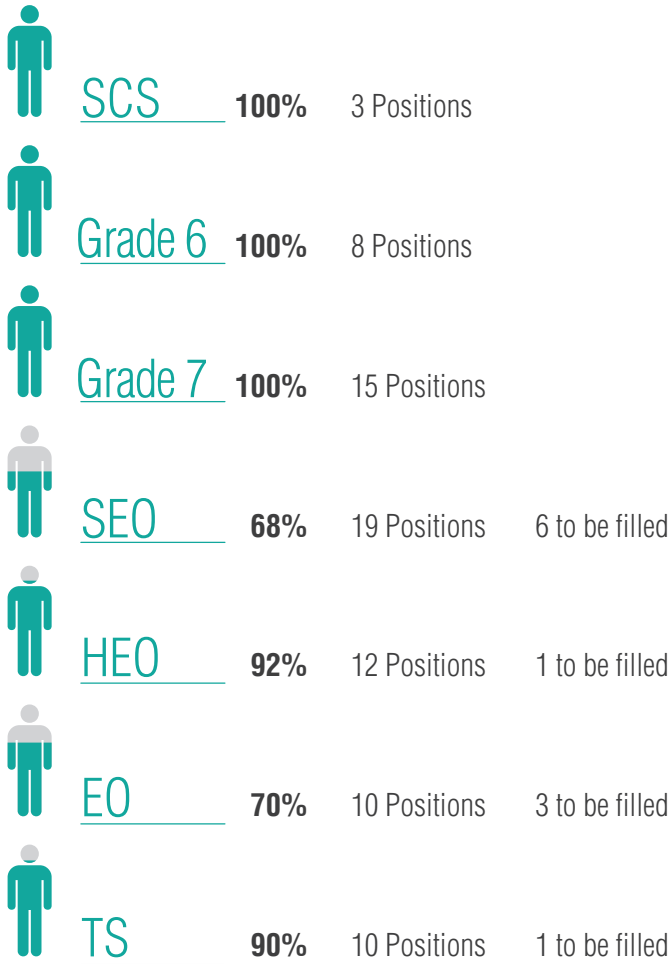
Source: Wales Audit Office

- 1.36 The WRA has responded promptly to customer feedback. For example, in May 2018, many Landfill Site Operators informed the WRA that topsoil did not qualify for site restoration relief under law, despite environmental regulations requiring its use. In October 2018, the National Assembly agreed to amend the Landfill Disposals Tax (Wales) Act 2017, allowing this relief to be claimed on topsoil taken to landfill.
- 1.37 In response to user feedback, the WRA has also reflected on and, where appropriate, amended its operations. For example, the WRA identified that a high proportion of queries it received were in respect of LTT higher rate transactions. In response, the WRA has arranged three webinars on the topic of LTT higher rates to provide advice and support to practitioners.

### Recruitment has continued at an appropriate rate to maintain the WRA's operations

- 1.38 The WRA's recruitment strategy continues to be flexible and responsive to business need, with an estimated 30% of all staff being employed on a loan basis once initial recruitment is complete. The WRA expects that the recruitment of all remaining roles will be complete by 31 March 2019. At the time of our fieldwork, 11 vacancies remained out of the total of 77 posts in the organisation (equivalent to 75 FTE staff), as demonstrated in [Exhibit 9](#) below:

Exhibit 9: proportion of posts filled at each level of the WRA



Source: Welsh Revenue Authority

1.39 The WRA has had little difficulty in attracting recruits. On average, the WRA received 18 applications per post, with one recruitment campaign receiving 241 applications. The WRA is a small and specialised organisation and has representatives of 16 out of 28 Civil Service ‘government professions’ within its current workforce<sup>5</sup>.

The Welsh Revenue Authority has delivered training to staff in line with an agreed plan to maintain key operations

1.40 The WRA has prioritised the delivery of training to its staff to match the ongoing development of the organisation. The WRA has adopted a staged approach to the delivery of training (other than induction training for new staff), as outlined in Exhibit 10.

5 ‘Government professions’ are professions recognised within the UK Civil Service, ranging from communicators to engineers, to procurement managers and lawyers.

## Exhibit 10: training priorities for the WRA

Priority stage	Training to be delivered
Stage one	Providing operational staff with the knowledge to administer LTT and LDT from 1 April 2018.
Stage two	Addressing any skill gaps of new recruits against job specifications.
Stage three	Enabling the WRA to fulfil its corporate responsibilities in areas like data protection and freedom of information.

Source: Wales Audit Office

1.41 Stage four will shortly commence, with a greater focus on individual personal development needs. This stage will be important to the WRA, as effective development of people and teams should ensure that it can continue to recruit and retain high calibre staff, and this will be a key area of focus for the organisation moving forward. As part of this, the WRA will need to develop a mechanism to evaluate the results of learning and development programmes that it delivers or commissions.

### Appropriate arrangements have been made to share data arising from LTT and LDT transactions with stakeholders

1.42 LTT statistical data is published monthly, accompanied by narrative reports every quarter. LDT reports and data are published every quarter. The published data relates to tax due from taxable activity related to the relevant period.

1.43 The WRA provides this data to the Welsh Treasury in the same format as published on its website. The WRA and the Welsh Treasury have worked together to ensure that the data produced meets the Welsh Government's forecasting needs, while ensuring that taxpayer confidentiality is protected by aggregating LTT and LDT data and giving no detail of individual taxpayer transactions.

1.44 Initial indications suggest that the WRA's data is providing useful insight for the Welsh Treasury. For example, the first quarter of LDT data for 2018-19 indicated a significantly higher level of tax revenue than forecast. The WRA data gives the Welsh Treasury the first revenue information relating to landfill in Wales, as no specific Welsh data was available under UK Landfill Tax. On reviewing this data, the Welsh Treasury made the decision to revise its LDT revenue forecast for 2019-20, increasing it by £14 million.

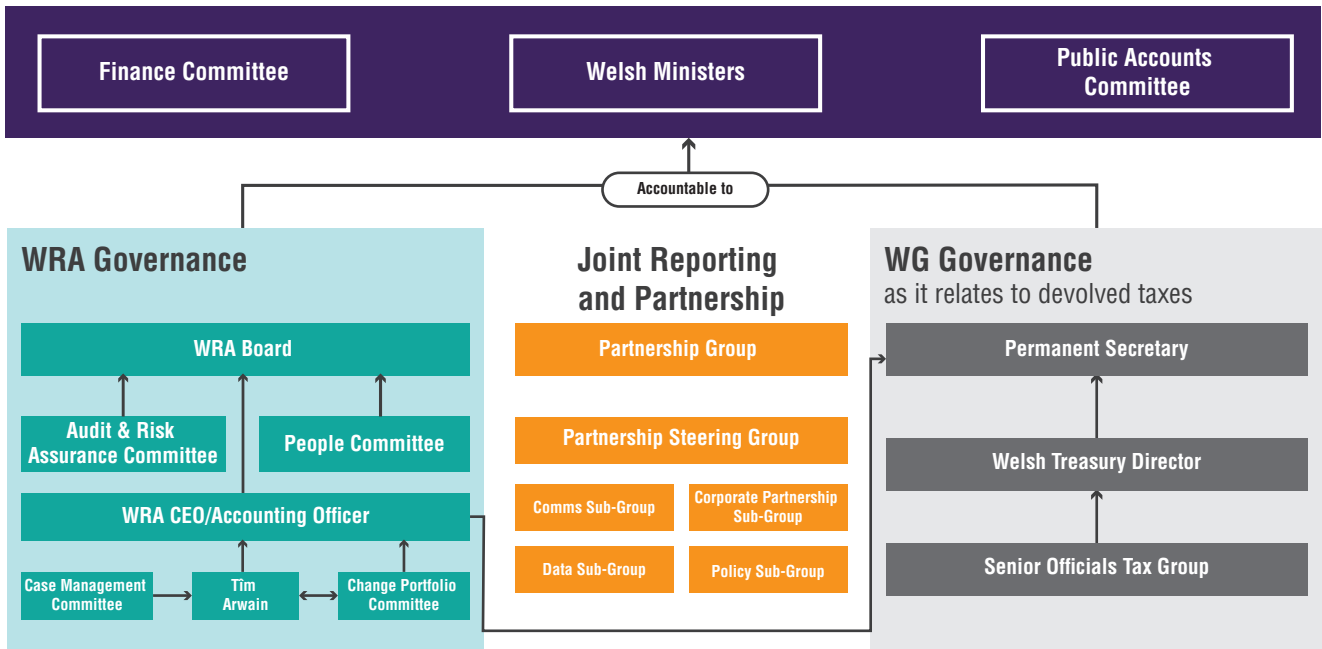
- 1.45 The WRA and Welsh Treasury are also reviewing how to share data most effectively. LTT data used to be published around two weeks after each month-end, but this speed led to significant revisions to this data in subsequent months (as LTT taxpayers have up to 30 days after transactions to submit a return). Consequently, the WRA now publishes LTT data around a week later, reducing the revisions to data to a reasonable level for the Welsh Treasury. The WRA also plans to publish annual data summaries for LDT and LTT in May 2019 and June 2019 respectively, for the Welsh Treasury and the public.
- 1.46 HMRC receives data on LTT and LDT transactions from the WRA on a weekly basis, for use in compliance work and their own statistical releases. The WRA is also liaising with other potential stakeholders to identify what data may be usefully shared in future. The WRA has primarily focused on developing and refining its own datasets, while also ensuring that taxpayer confidentiality is protected. In future, the WRA aims to establish a data user group with all recipients of its data to learn lessons, share relevant issues and receive feedback.

**The Welsh Revenue Authority has taken appropriate steps to be able to respond to potential future developments, including working with the Welsh Treasury where appropriate, and has key areas of focus as it continues to develop**

**The Welsh Treasury and the Welsh Revenue Authority have adopted a joint governance structure for Welsh fiscal devolution that allows both bodies to identify and respond to potential developments**

- 1.47 The Welsh Treasury and the WRA have worked together to establish a joint governance structure, ensuring that the working relationship developed under the WRAIP continues as the WRA evolves, while maintaining an appropriate level of independence. This 'joint reporting and partnership' structure is summarised in **Exhibit 11** below.

Exhibit 11: joint WRA/Welsh Treasury governance structure



Source: Welsh Revenue Authority/Welsh Government

- 1.48 As set out in the Framework Document, the Cabinet Secretary for Finance meets the Chair of the WRA at least quarterly to consider the WRA’s performance and to assess how the partnership with the Welsh Treasury is evolving.
- 1.49 There then sits a Partnership Group comprising the Welsh Government’s Permanent Secretary, the Director of the Welsh Treasury and the Chair and Chief Executive of the WRA. The group agreed its terms of reference in July 2018 and meets quarterly to discuss WRA performance and strategy, and seeks to maximise the opportunities for, and benefits of partnership working between the Welsh Government and the WRA. The group can also act as an escalation route where necessary and appropriate, for example, when reviewing services provided by the Welsh Government to the WRA.
- 1.50 Five working groups feed into the Partnership Group as listed in [Exhibit 12](#) below.

## Exhibit 12: joint working groups between the WRA and the Welsh Treasury

Working group	Function
Partnership Steering Group	Oversees the four sub-groups below, ensuring that they carry forward an appropriate programme of joint work between the WRA and Welsh Treasury.
Policy	Considers, comments and advises on tax policy across the WRA, the Welsh Treasury and Local Government Strategic Finance.
Communications	Ensures that the internal and external communications of both bodies are consistent, and evaluates communications activity.
Corporate Partnership	Makes the necessary governance and operational arrangements to make joint working a success.
Data	Provides a forum for sharing data issues and best practice, including considering how data collection can be made more consistent.

Source: Wales Audit Office

1.51 This structure allows both bodies to work together, particularly on developing areas such as tax policy and data sharing. The WRA and Welsh Treasury are continuing to clarify these joint governance arrangements as the two organisations evolve. This approach to joint and open working should ensure that both parties maintain their independence but remain well placed to respond in partnership to future tax developments or changes.

### The Welsh Revenue Authority has designed flexible systems and processes which will help it to respond to future changes or developments

1.52 The WRA has established appropriate processes to enable regular and detailed assessment of strategic risks. Tîm Arwain (previously called the Executive Committee) prepares and monitors the WRA's Corporate Risk Register, which is periodically reviewed by the WRA's Board and Audit and Risk Assurance Committee.

- 1.53 The WRA's IT systems are fully cloud-based, with no physical infrastructure. Provided staff have access to a secure internet connection, they can work from different locations if needed. This system has already been tested by inclement weather and by an office evacuation in early 2018. In both instances, staff were able to implement contingency plans by working in different locations, maintaining service delivery to customers.
- 1.54 The WRA's finance system is also flexible in nature. The WRA worked with a specialist supplier to develop its own finance software, mapping out the current and potential future needs of the system which were then incorporated into its development. The WRA now has an ongoing support contract with the system developer, which allows it to make required changes to the system quickly and easily.
- 1.55 The TMS is a bespoke system designed specifically for the WRA's operational needs. The system developer now provides ongoing support to the WRA and has already made appropriate changes to fix minor system issues since 1 April 2018. As with the finance system, the support contract with the supplier allows the WRA to make changes to the system when needed.
- 1.56 Given the WRA's relatively small size, staff on loan provide valuable skills and experience. When recruitment is complete, the WRA estimates it will employ 30% of its staff on a loan basis. The WRA is comfortable with maintaining this proportion to keep its staffing structure adequately flexible.
- 1.57 The WRA's Board has established the People Committee which focuses on the recruitment and retention of staff. WRA staff now share certain responsibilities between job roles to transfer knowledge and allow succession planning. This sharing of responsibilities between staff has helped the WRA to manage succession planning, business continuity and has provided opportunities for personal development.

### **The Welsh Revenue Authority needs to consider some important issues going forward as it develops its three-year Corporate Plan**

- 1.58 The WRA's 2018-19 Corporate Plan set out how it proposed to achieve its priorities in its first year of operation. Legislation now requires the WRA to produce a three-year Corporate Plan covering 2019-2022, which must be submitted for approval by the Cabinet Secretary for Finance by 31 March 2019. The WRA's development of this revised Corporate Plan will be critical in shaping its strategic approach.

1.59 We have identified some important areas that the 2019-2022 Corporate Plan will need to cover, as set out in [Exhibit 13](#) below:

**Exhibit 13: areas of focus for the WRA's 2019-2022 Corporate Plan**

Area of focus	Detail
Definition of the WRA's purpose	<p>The WRA has worked to confirm its organisational purpose. Doing so will set the scope of its strategy and activity in the upcoming three-year period, and the WRA is now carrying out wider engagement on its purpose statement.</p>
Identification of performance measures for the WRA	<p>The 2018-19 Corporate Plan set out potential performance measures for the WRA. The WRA is developing a performance framework to assess progress and address any concerns over the next few years.</p> <p>A notable measure within the framework will be 'reducing tax risk' whereby the WRA is seeking to measure its effectiveness in helping taxpayers pay the right amount of tax at the right time. This would be an innovative performance measure for a tax authority and would need to be carefully designed.</p>
Approach to 'tax risk'	<p>With the WRA now collecting LTT and LDT it will need to develop a strategy for 'tax risk' (the risk that taxpayers do not pay the right amount of tax at the right time). Such an approach would be in line with the 'WRA Approach' set out in its 2018-19 Corporate Plan.</p>
Costing WRA activity	<p>The WRA's budget for 2019-20 has been set at £6 million. At this early stage in its development the WRA is continuing to refine its understanding of its cost base. However, several factors pose financial pressure on the WRA such as forthcoming pay awards, pay scale movements, and increased employer pension contributions.</p> <p>The WRA will need to identify its cost base for 2019-2022 as quickly as possible and agree what activity (if any) will need to be prioritised as part of its corporate plan and the budget that will be made available by the Welsh Government beyond 2019-20.</p>

Area of focus	Detail
Strategy for digital development and support	<p>The WRA has an aspiration to increase its digital capability. As a small organisation, it cannot employ all the digital expertise it needs directly. The WRA will need to establish a strategy combining in-house expertise with input from external suppliers, to ensure that its systems remain in operation and developments can be made as needed.</p>
Development of an internal policy framework	<p>The WRA has adopted most of its internal operational policies directly from Welsh Government equivalents. It has taken a pragmatic approach to developing its own bespoke policies, prioritising areas of work specific to the WRA's requirements or early tax collection operations.</p> <p>The WRA will need to confirm how it intends to develop and confirm its policy framework as the organisation evolves.</p>

Source: Wales Audit Office

## Part 2

The Welsh Treasury has appropriate arrangements in place to obtain assurance over HMRC's implementation of Welsh Rates of Income Tax



- 2.1 This section of the report reviews the Welsh Treasury's arrangements to obtain assurance over HMRC's implementation of WRIT. It does not directly consider HMRC's work to implement WRIT, which is the focus of a separate report by the National Audit Office (NAO).
- 2.2 The NAO report will include an overview of WRIT project activities during 2017-18, including the governance of the project and progress on key activities such as taxpayer identification, communications and IT delivery. It will also seek to provide assurance on the costs incurred by HMRC and recharged to the Welsh Government.

## Plans are in place to pass the Welsh resolution required to enact Welsh Rates of Income Tax, with the majority of UK legislation already passed

### Most of the UK legislation required to establish and enact Welsh Rates of Income Tax has been passed

- 2.3 WRIT is only partially devolved to Wales, and as such Income Tax remains under the administration of the UK Government. Therefore, the majority of legislation required to implement WRIT has been passed by the UK Parliament.
- 2.4 The Wales Act 2014, as amended by the Wales Act 2017, confirms that the National Assembly has the power to pass a resolution to set WRIT. This Act defines a Welsh taxpayer, setting out measures to assess whether an individual is resident in Wales for Income Tax purposes. It then establishes the process for determining WRIT for the basic, higher and additional rates of tax.
- 2.5 Despite the Wales Act 2014 establishing the concept of WRIT and defining its processes, further technical changes to UK legislation are required. These changes reflect areas where the National Assembly's new rate-setting powers interact with other areas of the Income Tax system (such as Gift Aid and pensions tax relief). Following a technical consultation process on these areas, HMRC introduced two statutory instruments in December 2018 which are expected to be passed by the UK Parliament in January 2019:
  - a The Devolved Income Tax Rates (Consequential Amendment) Order 2018
  - b The Income Tax (Pay as You Earn) (Amendment No.2) Regulations 2018

## The National Assembly for Wales will consider a motion to approve Welsh Rates of Income Tax in January 2019

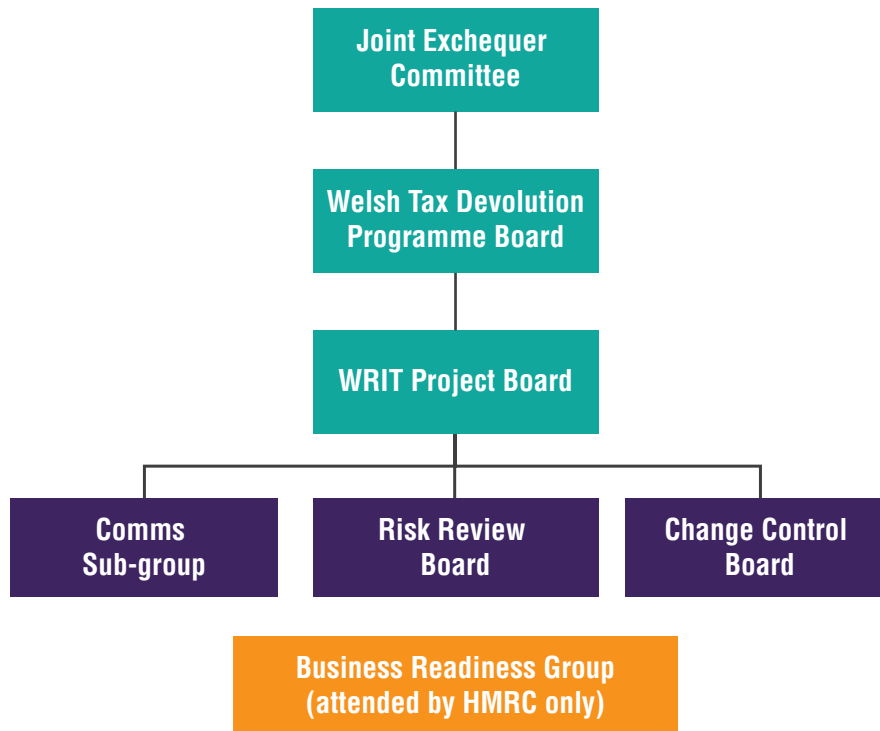
- 2.6 The Wales Act 2014 requires the National Assembly to pass a resolution determining WRIT each financial year. Under National Assembly Standing Orders, the WRIT resolution must be passed prior to the annual Budget Motion being agreed each year. Consequently, for 2019-20 the National Assembly will consider a WRIT resolution at a plenary session in January 2019, immediately before voting on the annual Budget Motion. The Cabinet Secretary for Finance proposed the first Welsh rates as part of the draft Budget published on 2 October 2018.
- 2.7 This resolution, if approved, will formally enact WRIT from 6 April 2019 and no further legislation will be required, unless there are further changes to wider UK tax legislation. While the Welsh Treasury currently does not foresee any delays to this resolution being approved, any issues could impact on HMRC's WRIT project, by limiting the time available to process WRIT changes in its own systems.

## The Welsh Treasury is actively participating in governance arrangements to transfer responsibilities for Welsh Rates of Income Tax to Wales

### HMRC has established a project to set up WRIT and the Welsh Treasury attends the Project Board

- 2.8 The Welsh Treasury and HMRC established the Welsh Tax Devolution Programme Board in July 2017. This Board provided senior oversight of the Stamp Duty Land Tax and Landfill Tax Transition Boards during preparations for the introduction of LTT and LDT and continues to provide oversight of the WRIT Project Board. The WRA is not involved in the governance or administration of WRIT.
- 2.9 In December 2017 a Memorandum of Understanding was agreed between the Welsh Government and HMRC, setting out the respective procedures, processes and responsibilities for the establishment and operation of WRIT. The governance structure set up for the WRIT project is illustrated in [Exhibit 14](#) below.

## Exhibit 14: WRIT project governance structure



Source: Welsh Government

- 2.10 Once the Welsh Tax Devolution Programme Board has determined that the WRIT Project Board has delivered its objectives, HMRC and the Welsh Treasury will approve the transition to WRIT in spring 2019, with an exchange of Ministerial letters then following.
- 2.11 Once WRIT is ready to be established in April 2019, the Welsh Treasury and HMRC will confirm a Service Level Agreement setting out the arrangements for the ongoing administration of WRIT. The WRIT Project Board has begun considering the detailed requirements of this Service Level Agreement, which will need to be finalised by 6 April 2019. The future governance structure for the administration of WRIT from 2019-20 will also need to be confirmed.

### The Welsh Treasury uses the project's governance structure to influence discussion and raise matters of concern

- 2.12 The WRIT Project Board meets monthly and is attended by officials from HMRC, the Welsh Treasury, the Wales Office and the Department for Work and Pensions. These meetings provide oversight of the detailed work and delivery of the project and provide an opportunity for all parties involved to review progress, scrutinise and challenge as appropriate.

- 2.13 Since June 2018 the Welsh Treasury has introduced an update paper as a standing item to WRIT Project Board meetings. These papers set out the latest developments since the previous meeting, including any communications with and feedback from the Cabinet Secretary for Finance and the National Assembly. This standing item ensures that the Welsh Treasury can raise issues and areas of concern and that required actions are captured and addressed.
- 2.14 The WRIT Project Board can escalate any matters of high risk or concern to the Welsh Tax Devolution Programme Board for further consideration or action. The Director, Welsh Treasury and Deputy Director of Tax Strategy, Policy and Engagement attend these meetings and can raise specific concerns from the Welsh Treasury in this forum.
- 2.15 In addition to scheduled meetings there is regular informal contact between officials from HMRC and the Welsh Treasury to raise immediate issues and generally co-ordinate the WRIT project. Welsh Treasury officials consider that good working relationships have been established at all levels to support the smooth transition to WRIT.

## The Welsh Treasury is obtaining appropriate assurance over HMRC processes to identify Welsh taxpayers

### HMRC has established methods to identify Welsh taxpayers and has shared them with the Welsh Treasury

- 2.16 With overall authority to administer income tax, HMRC has responsibility for identifying Welsh taxpayers from 6 April 2019 and beyond. The Welsh Government notes the correct identification of Welsh taxpayers as one of its priorities for the successful implementation of WRIT.
- 2.17 Taxpayer identification is not a one-off exercise before 6 April 2019. The Office for National Statistics estimates that around 57,000 people move to Wales each year, with a similar number leaving. This compares to roughly 40,000 in each direction for Scotland. With such large-scale cross-border movements, the WRIT project needs to ensure that HMRC has systems in place to accurately identify Welsh income taxpayers over time.
- 2.18 HMRC has established a method to identify taxpayers falling under the scope of WRIT and has identified over two million potential Welsh rate income taxpayers (65% of the Welsh population). This includes people who currently pay income tax, and people who do not but could fall under the scope of WRIT if their circumstances changed. This method involves four stages of work:

- a reviewing the quality of HMRC address data to ensure 91,123 Welsh postcodes are allocated to the correct country in their systems. This will include data cleansing to clear duplicate, missing or incorrect postcodes.
  - b analysing 98 cross-border postcodes in detail, to ensure that the 1,090 properties in those postcodes are allocated to the correct country. Ordnance Survey data has been used to verify the correct country to apply in each case.
  - c matching HMRC customer records correctly to addresses, to ensure that they are correctly identified as Welsh taxpayers. This includes the review of data from sources such as electoral rolls, employer data and council tax records to confirm whether a taxpayer falls under the scope of WRIT.
  - d keeping these customer records up to date over time. HMRC will need to regularly review its customer address data, although a decision on how often this will be required is yet to be taken.
- 2.19 When implementing the Scottish rate of income tax, HMRC initially failed to identify 420,000 Scottish taxpayers. This issue arose as HMRC performed the third step of this exercise (matching customer records to addresses) using an automated scan of their systems. This scan only identified residential addresses entered in standard agreed formats, omitting those which could be entered manually or through other means.
- 2.20 HMRC has confirmed to the Welsh Treasury and the WRIT Project Board that this issue should not recur for WRIT, as the parameters of this scan have been set to identify Welsh postcodes entered in all formats.

### **The Welsh Treasury has sought and obtained advice and assurance over the methods used to identify Welsh taxpayers**

- 2.21 It is difficult for the Welsh Treasury to obtain firm assurance that HMRC's approach to identifying Welsh taxpayers is appropriate. HMRC's systems and data in this area are both bespoke and significant in size and complexity – the need to protect taxpayer confidentiality means that external knowledge of systems is limited. However, the Welsh Treasury has sought appropriate advice and assurance over the methods proposed by HMRC to identify Welsh income taxpayers.
- 2.22 The Welsh Treasury actively participates in HMRC's project governance structures for WRIT. The Welsh Treasury's WRIT project team attends HMRC's monthly WRIT Project Board meetings where they can directly challenge and scrutinise HMRC's methods to identify Welsh taxpayers. Similarly, the Director, Welsh Treasury and Deputy Director of Tax Strategy, Policy and Engagement can raise higher-level issues or queries at regular Tax Devolution Programme Board meetings.

- 2.23 Further to this, the Welsh Treasury has consulted the Knowledge and Analytical Services (KAS) unit, the statistical and analytical research section of the Welsh Government. On behalf of the Welsh Treasury, KAS reviewed HMRC's proposed methods to identify Welsh income taxpayers. The Welsh Treasury confirm that KAS identified no fundamental concerns with the methods identified to identify Welsh taxpayers.
- 2.24 The Welsh Treasury has also sought additional external assurance over the approach proposed by HMRC in this area. An HMRC Health Check Review was performed in March 2018, followed by an independent Project Assurance Review (PAR) in October 2018. The PAR awarded the WRIT Project a rating of 'amber/green' and did not raise any specific concerns over HMRC's proposed approach to identifying Welsh taxpayers.

## The methods used to forecast revenue due to Wales from Welsh Rates of Income Tax are appropriate, and the Welsh Treasury is exploring ways to improve underlying data

### The Welsh Treasury forecasted the revenue due from Welsh Rates of Income Tax for the 2019-20 financial year in time for inclusion in the Welsh Government's Budget

- 2.25 The Welsh Government's Draft Budget for 2019-20, published in October 2018, contained an estimate for WRIT revenues of £2.1 billion. This estimate is based on a model developed and refined by the Welsh Treasury for use in policy decisions and budget forecasting. The WRIT forecasting model uses HMRC Survey of Personal Incomes (SPI) data for Wales, and Office of Budget Responsibility (OBR) forecasts of wages and employment growth for the UK. The OBR growth rates are applied to the SPI data to generate projected WRIT revenues. As there is no growth forecast data specific to Wales, the UK-wide forecast is used.
- 2.26 The WRIT forecasting model has the capacity to consider the impact of behavioural changes when tax rates change. As the Welsh Government has already committed to maintaining WRIT at the same level as UK income tax rates for 2019-20, it anticipates that any behavioural changes arising from the introduction of WRIT should be minimal that year. The Welsh Treasury will need to consider behavioural changes if WRIT rates do diverge from the rest of the UK. Behavioural change impacts on WRIT revenues could be complex to predict, especially in the early years, as the empirical evidence base is limited. In addition, the existing cross-border economic flows in both directions between England and Wales are significantly higher than those between England and Scotland.

## Bangor University has provided assurance over the forecast of revenue due from Welsh Rates of Income Tax during 2019-20

- 2.27 This is the second year that Bangor University has provided independent assurance over Welsh Treasury fiscal forecasts, but the first year that those forecasts have included WRIT. In October 2018 Bangor University published their scrutiny report alongside the Welsh Government's Draft Budget for 2019-20, concluding that 'the forecasts are based on robust and appropriate methodologies and assumptions'.
- 2.28 In July 2018 the Cabinet Secretary for Finance announced that from 2020-21 the OBR will produce independent forecasts of tax revenues, including WRIT, for the Welsh Government Budget. This is in line with the agreed Fiscal Framework between the Welsh and UK Governments. However, as part of this relationship with the OBR, Welsh Treasury officials will continue to have an important role in preparing initial forecasts for Welsh taxes. The Welsh Treasury aims to agree a revised Memorandum of Understanding with the OBR on the arrangements for providing these forecasts by March 2019.

## The Welsh Treasury uses the most recent data available in its WRIT forecasts, and is exploring ways to further improve that data

- 2.29 As noted in [paragraph 2.24](#), WRIT forecast models use HMRC SPI data specific to Wales. Welsh Treasury officials have confirmed that this is the best data source available for analytical purposes. The OBR uses SPI data at a UK-wide level to prepare their forecasts for the UK Government. HMRC confirmed to the National Assembly's Finance Committee in October 2018 that they aim to ensure that the Welsh Government and UK Government both have access to the same data for policy analysis and forecasting.
- 2.30 The most recent SPI data available is from 2015-16, and OBR growth rates are then applied to obtain the projected tax revenue from 2015-16 to the end of the forecast period. There is a delay in the availability of the SPI due to the nature of collecting self-assessment data. The data is not then immediately available to the Welsh Treasury as HMRC creates a version of the SPI which protects taxpayer confidentiality.
- 2.31 Welsh Treasury officials have emphasised the importance of obtaining accurate income tax data as early as possible, and Bangor University recommended as such in their October 2018 report. The Welsh Treasury is therefore continuing to liaise with HMRC to identify ways to improve the SPI and obtain it as quickly as possible. It is also considering how to use potential new sources of data in its forecasts, such as real-time Pay as You Earn information from HMRC once 'C' tax codes are introduced.

## The total cost of implementing Welsh Rates of Income Tax is yet to be finalised

The total cost of implementing Welsh Rates of Income Tax is estimated at between £7.7 million and £9.7 million, with most of that cost relating to HMRC activity

2.32 The Fiscal Framework, signed by the Welsh and UK Governments, confirms that ‘as set out in the Statement of Funding Policy, the Welsh Government will meet all the net costs of devolution including implementing and operating Welsh rates of income tax’. The Welsh Government is therefore liable for all direct and indirect costs of implementing WRIT. This is further confirmed in a Memorandum of Understanding between the Welsh Treasury and HMRC.

2.33 Consequently, the Welsh Treasury is actively monitoring all the costs of implementing WRIT. At November 2018 the total cost of implementing WRIT was estimated at between £7.7 million and £9.7 million, with actual costs of £4.1 million accrued to date. This leaves £3.6 million to £5.6 million of implementation costs to be incurred over the remainder of 2018-19 and 2019-20. The majority of this total related to HMRC’s work on this project, as outlined in [Exhibit 15](#) below.

**Exhibit 15: a summary of WRIT project costs payable by the Welsh Treasury**

<b>Project costs incurred by:</b>	<b>Minimum estimated cost</b>	<b>Maximum estimated cost</b>
HMRC	£7,500,000	£9,500,000
DWP	£189,000	£189,000
Welsh Treasury	£36,000	£41,000
<b>Total cost for WRIT project</b>	<b>£7,725,000</b>	<b>£9,730,000</b>

Source: Welsh Government

2.34 HMRC initiated its WRIT project in April 2017. In September 2017, it provided an initial estimate of its project costs of between £5.0 million to £10.0 million to the National Assembly’s Finance Committee. HMRC explained that this range of costs included a contingency to account for the risks and uncertainty of estimating at such an early stage of the project. In October 2018, HMRC refined this total project cost estimate to between £7.5 million and £9.5 million, as recorded above.

2.35 The costs for DWP relate to amendments to its own systems and processes arising from WRIT, while the Welsh Treasury’s internal costs relate to engagement and awareness activity. HMRC then incurs various categories of WRIT project costs as outlined in [Exhibit 16](#).

**Exhibit 16: a summary of HMRC’s WRIT project costs**

<b>Cost</b>	<b>Description</b>
Staff costs	The cost of HMRC staff resource required to deliver the WRIT project, calculated using HM Treasury guidance in ‘Managing Public Money’.
Other non-IT costs	The cost of activity to enhance public awareness of WRIT (primarily the printing and posting of notification letters to taxpayers).
IT implementation costs	The cost of IT changes needed to recognise Welsh taxpayers, identify changes of address, and set Welsh rates of tax.
Business costs	The cost of HMRC staff resource required to deal with customer contact arising from public awareness activity.

Source: HM Revenue & Customs

2.36 While the estimate range had narrowed, there remained some uncertainty surrounding certain future costs. For example, the scope of work required to incorporate WRIT into existing systems for areas such as Gift Aid and pensions tax relief had yet to be finalised.

2.37 Furthermore, some of these outstanding changes to HMRC’s Income Tax systems will need to be implemented for both the Welsh and Scottish income tax regimes. The Welsh and Scottish Governments, along with HMRC, will need to agree how to share these costs and so the final costs for Wales resulting from these changes cannot yet be confirmed. These costs should form a relatively minor proportion of the total implementation costs.

2.38 On an ongoing basis beyond 6 April 2019, HMRC currently estimates its ongoing costs of running WRIT to be £0.3 million per year. These costs relate to HMRC establishing and maintaining an ongoing compliance regime for WRIT.

### The Welsh Treasury has sought appropriate advice and assurance over HM Revenue & Customs' cost estimates

2.39 It is difficult for the Welsh Treasury to directly confirm the reasonableness of HMRC cost estimates, as costs relate to HMRC's own highly-customised systems and processes. Given HMRC's legal requirements to protect taxpayer confidentiality, any external knowledge of its systems and processes is limited. Despite this, it has taken reasonable measures to obtain assurance over the cost estimates provided by HMRC.

2.40 Firstly, the governance structure established by HMRC to oversee the implementation of WRIT allows the Welsh Treasury to directly scrutinise and challenge cost estimates put forward by HMRC. For example, once the revised October 2018 estimate was produced, members of the Welsh Treasury WRIT project team had the opportunity to discuss this estimate at the October meeting of the WRIT Project Board. Higher level challenge can also be offered at meetings of the separate Tax Devolution Programme Board.

2.41 The Welsh Treasury consulted the Welsh Government's Solution Design Authority (a strategic group that oversees all ICT/Digital spend) on how to appropriately scrutinise technical changes and related costs proposed by HMRC. The advice provided was that employing technical architecture expertise to scrutinise work performed by HMRC would be prohibitively complex, expensive and add little value, particularly as the Welsh Treasury's WRIT Team had added an ICT expert.

2.42 In addition to bolstering the WRIT team's capability, the Welsh Treasury has sought internal and external assurance over the processes followed by HMRC to identify and estimate its WRIT project costs. HMRC carried out an internal Health Check Review in March 2018, which was followed by an independent Project Assessment Review (PAR) covering HMRC and the Welsh Treasury in October 2018. The most recent PAR raised no specific issues on the reasonableness or accuracy of project costs estimated by HMRC.

2.43 HMRC also follow detailed internal assurance processes to scrutinise its project costs and ensure that they accurately represent work completed. This process has been openly shared with the Welsh Treasury, to allow it to question and challenge the approach taken. Among other measures, HMRC's assurance process includes:

- a review of market information and trends, and contractual arrangements,
- b three levels of internal review of each 'change notice', notifying the Welsh Treasury of costs incurred on the WRIT project; and
- c final approval of all change notices by HMRC's Architectural Review Board.

## Plans to engage with the public are clear, proportionate and identify measures of success clearly

### The Welsh Treasury and HM Revenue & Customs are working together effectively to deliver communications regarding Welsh Rates of Income Tax

- 2.44 The WRIT Communications Working Group operates as a sub-group of the WRIT Project Board. Comprised of officials from HMRC, Welsh Treasury and other stakeholders, this group meets monthly to co-ordinate and monitor progress against the separate WRIT Communications Plans produced by the Welsh Treasury and HMRC. The working group aims to co-ordinate these separate plans to avoid duplication of effort.
- 2.45 In June 2018 the Welsh Treasury finalised its WRIT Communications Plan. This is a living document, regularly updated by the Welsh Treasury communications team to reflect decisions made and actions delivered. It outlines the key messages to disseminate, the audiences to focus on and a timetable of communications activity.
- 2.46 The Communications Plan identifies areas of joint working with partners such as the Welsh Government Communications team and Press Office to spread messages about WRIT most appropriately across all stakeholders. The WRA has also been consulted to ensure that, if taxpayers contact it about WRIT, they are told to instead contact HMRC directly.

### Survey results will allow the Welsh Treasury to measure public awareness of Welsh Rates of Income Tax over time and plan future communications activity

- 2.47 The Welsh Treasury commissioned Beaufort Research to undertake a baseline survey, allowing it to assess the impact of its communications plan over time. This survey established a baseline of awareness of the Welsh tax landscape and WRIT, based on 1,006 interviews undertaken in June 2018. Results showed that 24% of the Welsh population were aware of the introduction of WRIT, and that awareness is greater among older people.

2.48 The Welsh Government KAS unit reviewed this research, combining it with data from sources such as the National Survey for Wales to publish a baseline report on awareness of WRIT which is due to be published in early 2019. This research has been considered as part of the Welsh Treasury's WRIT Communications Plan, in terms of monitoring the success of communications work and identifying key audiences for future activity. Beaufort Research will conduct a new survey in March 2019, providing an opportunity to assess whether there is increased public awareness of WRIT in Wales.

### Measures to engage with the Welsh public are reasonable and strike an appropriate balance between activity and cost

2.49 In November 2018, HMRC issued a bilingual notification letter to over two million individuals in Wales who could be affected by WRIT. The letter confirmed that WRIT would be introduced from 6 April 2019, and that individuals would not need to take any action unless they moved home or had their main residence outside Wales.

2.50 This letter enclosed a bilingual leaflet from the Welsh Treasury to provide further information on WRIT. The Welsh Government communications team conducted user testing of the leaflet with three different demographic groups to confirm its appropriate format and level of detail. The WRIT Communications Working Group reviewed the letter and leaflet once drafted to ensure consistency in the messages delivered by HMRC and the Welsh Treasury.

2.51 The Welsh Treasury has also contracted an external agency to manage a social media campaign to grow public awareness of WRIT, based on the theme of 'My Tax My Wales'. The campaign involves two 'bursts' of activity on the Twitter social media platform: one in October 2018 (around the release of the draft Budget) and the second in February 2019. Initial evaluation of the first burst of social media activity indicates that this campaign has reached over 60,000 Facebook users and 30,000 Twitter users.

2.52 In addition, the Cabinet Secretary for Finance has contacted Assembly Members to raise awareness of WRIT. Members have received the Welsh Treasury leaflet, details of the social media campaign and a document of common questions to help them respond to public queries. The Welsh Treasury has also consulted other stakeholders such as employer groups to maximise the reach of their key messages.

2.53 The forecast cost of this activity is relatively minor at between £36,000 and £41,000, as indicated in [Exhibit 15](#) above. The communications plan is relatively limited in scale, as Welsh taxpayers do not need to take any action once WRIT is introduced unless they need to advise HMRC of a change of address. A more extensive communications campaign could potentially have an adverse effect, increasing costs for the Welsh Treasury and HMRC through greater contact from concerned Welsh taxpayers. On balance therefore, the level of communications activity planned by the Welsh Treasury seems appropriate, but the effectiveness of this work will need to be monitored as it progresses.

## Appendices

Appendix 1 – Background to fiscal devolution in Wales

Appendix 2 – Methods



# Appendix 1 – background to fiscal devolution in Wales

The Wales Act 2014 devolved certain taxation powers from the UK Parliament to the National Assembly and granted limited borrowing powers to the Welsh Government. The Act empowered the National Assembly to legislate for taxes on transactions involving interests in land and the disposal of waste to landfill for the first time. It also allowed the National Assembly to partially increase or reduce income tax rates (subject at that time to a referendum), extended the circumstances in which Welsh Ministers could borrow to manage the Welsh Government’s budget, and granted Welsh Ministers new powers to borrow for capital expenditure. **Exhibit 17** sets out the changes to the Welsh financial environment arising from this Act.

## Exhibit 17: taxation and borrowing powers devolved under the Wales Act 2014

### Before



### Wales Act 2014 (and subsequent legislation)

### After



Source: Wales Audit Office

The Wales Act 2014 was followed by a series of Acts passed by the National Assembly, led by the Tax Collection and Management (Wales) Act 2016. Together with the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 and the Landfill Disposals Tax (Wales) Act 2017, this legislation established the foundations for Wales' devolved tax regime. It established the WRA, the body which collects Land Transaction Tax and Landfill Disposals Tax.

Next, the UK Parliament passed the Wales Act 2017. Among other measures, this legislation amended elements of the previous Wales Act, increasing the maximum borrowing available to Welsh Ministers for capital purposes from £0.5 billion to £1 billion. It also removed the requirement for a referendum to approve the devolution of limited income tax powers to the National Assembly.

A timeline of the relevant legislation passed regarding fiscal devolution in Wales is outlined within **Exhibit 18** below.

#### Exhibit 18: key legislative milestones for fiscal devolution in Wales



Source: Wales Audit Office

In December 2016, the Welsh Cabinet Secretary for Finance and the UK Chief Secretary to the Treasury agreed a Fiscal Framework for Wales. This agreement confirmed the intention of the UK and Welsh Governments to partially devolve income tax powers to Wales from the 2019-20 financial year. Following the passing of the Wales Act 2017, HM Treasury tabled a statutory Commencement Order in July 2018, confirming in UK law that Welsh Rates of Income Tax would apply for the first time from 6 April 2019.

## Appendix 2 – methods

We received an introductory presentation from the WRA which covered:

- the work undertaken to transfer from the WRA Implementation Programme to the WRA between October 2017 and March 2018;
- the current governance structures in place within the WRA, and how working relationships with the Welsh Treasury are being established;
- the WRA's approach to the recruitment and training of staff;
- a summary of the WRA's financial position; and
- key areas of activity since April, and future challenges faced by the organisation.

We also received an introductory presentation from the Welsh Treasury which covered:

- a summary of the methods used to develop tax policy in Wales;
- legislation required to enact LTT and LDT and establish WRIT;
- how working relationships with the WRA are being established; and
- the implementation of WRIT and its areas of focus, including methods to identify Welsh income taxpayers, implementation costs and the forecasting of tax receipts.

We reviewed a range of information during our audit including:

- various items of legislation including the Wales Act 2014, the Wales Act 2017, and other relevant items of UK and Welsh subordinate legislation;
- publicly available information on fiscal devolution in both Wales and Scotland;
- published documents from the Welsh Government and Welsh Ministers;
- the Welsh Government Budget for 2019-20;
- the assurance report on tax forecasts from Bangor University;
- reports from HMRC on the WRIT project, including details of the impact on its IT systems and estimates of project costs;
- minutes and papers from meetings of HMRC's WRIT Project Board, attended by representatives of the Welsh Treasury; and
- minutes and papers from meetings of key elements of the governance structures within the WRA and Welsh Treasury.

Over a two-week period, we also interviewed representatives and officials from the Welsh Treasury (including the Director and Deputy Director) and the WRA (including the Chair and the Chief Executive).



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