

## Agenda – Finance Committee

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Meeting Venue:

Committee Room 1 – Senedd

Meeting date: 11 January 2018

Meeting time: 09.30

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

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### 1 Introductions, apologies, substitutions and declarations of interest

(09.30)

### 2 Paper(s) to note

(09.30)

(Pages 1 – 5)

#### 2.1 Letter from the Minister for Housing and Regeneration – Regulation of Registered Social Landlords (Wales) Bill – 12 December 2017

(Pages 6 – 8)

#### 2.2 Letter from the Future Generations Commissioner for Wales – Welsh Government budget 2018–19 – 14 December 2017

(Pages 9 – 10)

#### 2.3 Letter from the Cabinet Secretary for Finance – Landfill Disposals Tax Communities Scheme – 13 December 2017

(Pages 11 – 12)

#### 2.4 Letter from the Cabinet Secretary for Education – Additional Learning Needs and Education Tribunal (Wales) Bill – 15 December 2017

(Pages 13 – 16)

#### 2.5 Letter from the Cabinet Secretary for Health and Social Services – Public Health (Minimum Price for Alcohol) (Wales) Bill – 21 December 2017

(Pages 17 – 20)

#### 2.6 Regulation of Registered Social Landlords (Wales) Bill: Technical note

(Page 21)



**3 Devolution of fiscal powers to Wales: Evidence session 1 (Wales Audit Office)**

(09.30–10.15)

(Pages 22 – 91)

Mike Usher, Director and Sector Lead, Health and Central Government, Wales Audit Office

Richard Harries, Director, Financial Audit, Wales Audit Office

Matthew Coe, Audit Manager, Wales Audit Office

Paper 1 – Auditor General for Wales – Fiscal Devolution in Wales: An update on preparations for its implementation

Paper 2 – Welsh Government response to the report

**4 Devolution of fiscal powers to Wales: Evidence session 2 (Welsh Government)**

(10.15–11.15)

(Pages 92 – 133)

Mark Drakeford AM, Cabinet Secretary for Finance

Andrew Jeffreys, Director, Welsh Treasury

Claire McDonald, Implementation Programme Manager, Welsh Revenue Authority (WRA)

Paper 3 – The third annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014

**5 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting**

(11.15)

**6 Devolution of fiscal powers to Wales: Consideration of evidence**

(11.15–11.30)

(Pages 134 – 158)

Paper 4 – The UK Government’s Third Annual Report on the Implementation and Operation of Part 2 (Finance) of the Wales Act 2014

**7 Landfill Disposals Tax (Wales) Act 2017: Tax Statutory Instrument**

(11.30–11.45)

(Pages 159 – 164)

Paper 5 – The Landfill Disposals Tax (Administration) (Wales) Regulations 2018

[The Landfill Disposals Tax \(Administration\) \(Wales\) Regulations 2018](#)

[The Landfill Disposals Tax \(Administration\) \(Wales\) Regulations 2018 – Explanatory Memorandum](#)

## **8 Correspondence from the Assembly Commission**

(11.45–12.00) (Pages 165 – 185)

Paper 6 – Assembly Commission 2<sup>nd</sup> Supplementary Budget 2017–18 – Explanatory Memorandum

Paper 7 – Projected underspend: Remuneration Board’s Determination

## **9 Public Services Ombudsman for Wales: 2nd Supplementary Budget 2017–18**

(12.00–12.15) (Pages 186 – 187)

Paper 8 – Public Services Ombudsman for Wales: 2nd Supplementary Budget 2017–18 – Explanatory Memorandum

## **10 Welsh Government budget 2018–19: Review of new budget process**

(12.15–12.45) (Pages 188 – 214)

Paper 9 – Review of new budget process

## **11 Inquiry into the financial estimates accompanying legislation: Welsh Government response**

(12.45–13.00) (Pages 215 – 221)

Paper 10 – Welsh Government response

## **12 Regulation of Registered Social Landlords (Wales) Bill: Consideration of draft report**

(13.00–13.30) (Pages 222 – 231)

Paper 11 – Draft report

## Concise Minutes – Finance Committee

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Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Thursday, 7 December  
2017

Meeting time: 09.32 – 11.00

This meeting can be viewed  
on [Senedd TV](#) at:

<http://senedd.tv/en/4430>

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### Attendance

Category	Names
Assembly Members:	Simon Thomas AM (Chair) Neil Hamilton AM Mike Hedges AM Jane Hutt AM Nick Ramsay AM David Rees AM
Witnesses:	Vaughan Gething AM, Cabinet Secretary for Health and Social Services Tracey Breheny, Welsh Government Janine Hale, Welsh Government
Committee Staff:	Catherine Hunt (Second Clerk) Leanne Hatcher (Second Clerk) Georgina Owen (Deputy Clerk) Owen Holzinger (Researcher) Gareth David Thomas (Researcher) Ben Harris (Legal Adviser)





## **1 Introductions, apologies, substitutions and declarations of interest**

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Steffan Lewis AM.

## **2 Paper(s) to note**

2.1 The papers were noted.

**2.1 Letter from the Chair of the Public Accounts Committee – Welsh Government Draft Budget 2017–18 – Welsh Government Supporting People Programme – 24 November 2017**

**2.2 Auditor General for Wales Fee Scheme 2018–19**

2.2 The Committee approved the Auditor General for Wales Fee Scheme 2018–19, in accordance with section 24(7) of the Public Audit (Wales) Act 2013.

## **3 Public Health (Minimum Price for Alcohol) (Wales) Bill: Evidence session**

3.1 The Committee took evidence from Vaughan Gething AM, Cabinet Secretary for Health and Social Services; Tracey Breheny, Deputy Director Substance Misuse Policy, Government & Corporate Business; and Janine Hale, Principal Research Officer (Health Economics) on the financial implications of the Public Health (Minimum Price for Alcohol) (Wales) Bill.

3.2 The Cabinet Secretary agreed to:

- provide information on the peer review conducted on the data sources used in the Sheffield University modelling;
- provide more information on the funding allocated to raise awareness of the minimum unit price;
- report back to the Committee following the meeting between Welsh Government and Home Office officials, particularly in relation to any impact on the fiscal framework; and
- report back to the Committee on discussions with the Welsh Retail Consortium regarding a possible voluntary levy.

**4 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting and the start of the meeting on 13 December 2017**

4.1 The motion was agreed.

**5 Public Health (Minimum Price for Alcohol) (Wales) Bill: Consideration of evidence**

5.1 The Committee considered the evidence received.

**6 Remuneration Board's Determinations Underspend – Scoping paper**

6.1 The Committee agreed its approach to its inquiry on the Remuneration Board's Determination Underspend.

# Concise Minutes – Finance Committee

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Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Wednesday, 13 December  
2017

Meeting time: 09.33 – 12.24

This meeting can be viewed  
on [Senedd TV](#) at:

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## Attendance

Category	Names
Assembly Members:	Simon Thomas AM (Chair) Neil Hamilton AM Mike Hedges AM Jane Hutt AM Nick Ramsay AM
Witnesses:	Robert Chote, Office for Budget Responsibility
Committee Staff:	Bethan Davies (Clerk) Leanne Hatcher (Second Clerk) Georgina Owen (Deputy Clerk) Martin Jennings (Researcher) Gareth David Thomas (Researcher) Ben Harris (Legal Adviser)

## 1 Impact of the UK leaving the European Union – Scoping paper

1.1 The Committee considered a scoping paper on Wales's financial preparedness for leaving the European Union.



## **2 Forward Work Programme – Scoping paper**

2.1 The Committee considered its forward work programme for the spring term.

## **3 Tax Statutory Instruments: Technical briefing**

3.1 The Committee received a technical briefing on Tax Statutory Instruments from the following Welsh Government officials: Liz Matthews, Welsh Revenue Authority Operations Project Manager; Gurvinder Bhakar, Lawyer, Treasury Team; Andrew Hewitt, Land Transactions Tax Project Manager; and Sarah Govier, Devolved Tax Policy Project Manager.

## **4 Introductions, apologies, substitutions and declarations of interest**

4.1 The Chair welcomed Members to the meeting.

4.2 Apologies were received from Steffan Lewis AM and David Rees AM.

## **5 Paper(s) to note**

5.1 The papers were noted.

5.1 **PTN1 – Letter from the Cabinet Secretary for Finance – Welsh Revenue Authority Budgets for 2017/18 – 2019/20 – 4 December 2017**

5.2 **PTN2 – Assembly Commission Corporate Performance Report April 2017 – September 2017 – 7 December 2016**

## **6 Briefing: Forecasts for Devolved Taxes**

6.1 The Committee took evidence from Robert Chote, Chairman of Office for Budget Responsibility on forecasts for devolved taxes.



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref MA - L/RE/0857/17

Simon Thomas AM  
Chair  
Finance Committee  
National Assembly for Wales

12 December 2017

Dear Simon

Thank you for your letter.

As requested, a breakdown of the total outstanding debt for each RSL is attached. The figures are as at 31 March 2016, the most recent available.

You also sought clarification whether an RSL's historical debt would transfer to the Welsh Government if it is declared bankrupt.

RSLs' historical debt does not automatically transfer to the Welsh Government in the event of bankruptcy.

The steps which will be taken in an event of insolvency are provided for in sections 39 - 50 of the Housing Act 1996.

The initial step will be a notice given to the Welsh Ministers by persons or organisations intending to enforce any security over land, or who intends to present a petition for the winding up of a landlord. Further notice must then be given once the action is actually taken.

This triggers a moratorium for a period of at least 28 days during which the landlord cannot dispose of any land, including homes, without the Welsh Ministers consent except for certain specified routine disposals such as lettings. This consent requirement is not affected by the Bill.

During the moratorium, which is for 28 days but extendable, the Welsh Ministers will work with the secured creditors to make alternative proposals for the future management and ownership of the land, the most likely of which would be to identify another RSL to take over the land by way of a transfer of engagements. A transfer of engagements means all assets

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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and liabilities of an RSL, including any historical debt, will be taken over by the transferee RSL.

The Welsh Ministers can appoint an interim manager to implement the agreed proposals and can empower the manager to do whatever is necessary to implement the proposals. The Welsh Ministers can give assistance to the RSL or manager for the purpose of carrying out the proposals, including lending staff and /or paying remuneration or expenses, as well as other reasonable financial assistance.

These insolvency provisions are not materially affected by the Bill. The provisions are in place to ensure the protection of tenants, social housing assets, and public investment by requiring early notice from any party of any intention to take steps which may result in insolvency, and providing for a moratorium period in which to determine and take those steps.

It should also be noted that issues which may indicate a risk of insolvency would be likely to be picked up through co-regulation, regulatory oversight and intelligence. The regulation team's initial response would then be to work with and support the RSL, along with the funders, to pro actively manage and resolve issues to attempt to avoid escalation to a potential insolvency situation.

Yours sincerely

A handwritten signature in black ink that reads "Rebecca Evans". The signature is written in a cursive, flowing style.

**Rebecca Evans AC/AM**  
Y Gweinidog Tai ac Adfywio  
Minister for Housing and Regeneration

Attachment - Breakdown of Total Outstanding Debt for Each Registered Social Landlord at 31 March 2016.

## Attachment

### Breakdown of Registered Social Landlord Outstanding Debt

Housing Association	Loan Balance Outstanding 31/03/2016 £'000s
Bro Myrddin	14,114
Bron Afon	73,915
Cadwyn	30,449
Cantref	30,019
Cardiff Community	72,029
Cartrefi Conwy	28,500
Coastal	152,427
Cynon Taff	25,197
Family	78,465
First Choice	17,214
Grwp Cynefin	92,686
Gwynedd	69,000
Hafod - Care	17,558
Hafod - Housing	82,847
Linc	98,446
Melin	78,029
Merthyr Tydfil	15,620
Merthyr Valley Homes	24,000
Mid Wales	40,965
Monmouthshire	19,400
Newport City Homes	63,000
Newydd	62,436
North Wales	58,267
NPT Homes	69,675
Pembroke	77,844
Pennaf - Clwyd Alyn	136,411
Pennaf - Ty Glas	9,279
Pobl - Catrefi	92,491
Pobl - Charter	145,300
Pobl - Derwen	20,322
Pobl - Gwalia	143,310
Pobl - Seren Living	4,866
RCT Homes	66,500
Rhondda	29,045
Taff	33,076
Tai Calon	71,500
Tai Ceredigion	21,400
United Welsh	177,090
Valleys to Coast	55,100
Wales and West	157,536
<b>Grand Total</b>	<b>2,555,329</b>



Simon Thomas AM,  
Chair, National Assembly for Wales Finance Committee

Thursday 14<sup>th</sup> December 2017

Annwyl Simon,

Thank you for inviting me to provide evidence to the Finance Committee in relation to the Welsh Government 2018-19 draft budget process. I was pleased to note that three of your nine recommendations to the Welsh Government explicitly referenced the Well-being of Future Generations Act.

During the evidence session, you asked for further detail about the feedback that my office has provided to the Welsh Government in relation to their sessions piloting participatory budgeting.

We acknowledged that the scale of the challenge of how to seek people's views on the budgeting process in a meaningful way is not to be under-estimated. Welsh Government are viewing this as a longer-term piece of work, and it is helpful that their starting point is to use pilot sessions to work out the best approaches to take. However, if Welsh Government does not provide communities and individuals with the same information (or at least the headlines) being used by decision-makers, they risk people feeling that they are being "done to" and not "done with". People will not feel that they are being taken on a journey as policy develops, one that provides them with the understanding and rationale for decisions and new approaches and the opportunity to meaningfully contribute. Welsh Government risks asking them to divide a pot of money without the wider context – in one of the pilot sessions it was evident that there were frustrations that some services within the local community were being cut whilst for example, the majority of money goes into the health budget; yet people did not fully understand what was behind this or how to change it. Comments indicated that people wanted long-term thinking and preventative spend but needed more information on this.

We also provided a number of comments on how the sessions were run and suggestions for taking the work forward, particularly in relation to the five ways of working set out as the sustainable development principle in the legislation. In a single session it is a challenge to explain the financial and political process involved in budget setting as well as moving to seek people's views. We suggested that Welsh Government should give further thought to the best balance to strike between facilitating a conversation that is useful to people in developing their understanding of the context of the budget setting process but also generating something that is useful in informing the budgeting process and the next steps for engagement.





Comisiynydd  
**Cenedlaethau'r  
Dyfodol**  
Cymru

**Future  
Generations**  
Commissioner  
for Wales

Welsh Government should see this work as an opportunity to see this work as not just a short series of engagements but to develop ongoing conversations. It is also an opportunity to consider the legacy both for Welsh Government to build their expertise in 'involvement techniques' amongst officials; and, as a result of this, to develop knowledge and skills within communities themselves around active participation and engagement, building knowledge and understanding of budgeting and other political processes. This means people, who are the experts in their own lives, will be better placed to offer up solutions and suggestions rather than frustrations. Welsh Government could explore taking further engagement to where people already are, and working in collaboration with partners to factor engagement into existing initiatives. In terms of improving the involvement/facilitation capability of officials, we suggested perhaps they could work with one or two trusted individuals who are used to working within their communities, building their knowledge and skills and work to support them to effectively facilitate the discussions.

I welcome Welsh Government's commitment to trialling new approaches to involvement, and my team are providing support and challenge to officials to take stock of the learning from the pilot sessions and plan next steps.

Yn gywir / Yours sincerely

Sophie Howe  
Comisiynydd Cenedlaethau'r Dyfodol  
Future Generations Commissioner for Wales

Mark Drakeford AM/AC  
Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance

Llywodraeth Cymru  
Welsh Government

Simon Thomas AM  
Chair  
Finance Committee  
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13 December 2017

*Dear Simon,*

I am writing to provide you with an update on the appointment of a distributive body for the Landfill Disposals Tax Communities Scheme.

On 8 September, the Welsh Government published the invitation to tender for the appointment of a distributive body. Following a competitive tender process, I am delighted to announce that the Wales Council for Voluntary Action (WCVA) have been appointed to run the Scheme from April 2018. This marks a real change from the existing UK Landfill Communities Fund and, through having a single distributive body, brings the LDT Communities Scheme closer to those communities affected by the disposal of waste to landfill. I am grateful to the Finance Committee for your support for this during the passage of the legislation.

As part of the draft Budget 2018-19, I committed to allocate £1.5m (£1.4m project funding and £100k for the distributive body's administration costs) per annum to the Scheme for the next four years to uphold our commitment to communities affected by the disposal of waste to landfill. This provides a stable funding stream to those communities for the next four years even though Landfill Disposals Tax revenue is expected to reduce in this period.

Over the next few months officials will be working with WCVA to finalise the details of the Scheme in readiness for the publication of the Scheme by 1 April 2018 in line with our legislative commitment at section 92 of the Landfill Disposals Tax (Wales) Act. Following the Scheme launch in April 2018, responsibility for the Scheme will hand over to my colleague Hannah Blythyn, Minister for Environment and the budget for the Scheme will form part of the Environment MEG.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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Officials have also been working with HMRC to ensure that any projects in Wales currently supported by the Landfill Communities Fund will not be adversely affected by the new arrangements. A two year transitional period has been agreed which will allow current Welsh projects time to be completed and for any remaining Landfill Communities Funds to be spent. The transitional period will run from 1 April 2018 to 31 March 2020.

Best wishes,

Mark

**Mark Drakeford AM/AC**

Ysgrifennydd y Cabinet dros Gyllid

Cabinet Secretary for Finance

Ein cyf/Our ref: MA(L)/KW/0871/17

Lynne Neagle AM  
Chair  
Children, Young People and Education Committee  
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15<sup>th</sup> December 2017

Dear Lynne,

In September the former Minister for Lifelong Learning and Welsh Language wrote to you to provide you with an update on the implementation of the additional learning needs (ALN) transformation programme and committed to doing so on a quarterly basis; this was in response to the Children, Young People and Education Committee's second recommendation in its stage 1 report on the Additional Learning Needs and Education Tribunal (Wales) Bill.

This letter is the second of these updates. I have also previously provided you with a copy of my letter to the Finance Committee on 11 December on the breakdown of the £20m package of investment to deliver the programme.

### **Legislation and Statutory Guidance**

It was my privilege to help steer the Additional Learning Needs and Education Tribunal (Wales) Bill through its final stages, and I was delighted that it was unanimously passed by the Assembly on Tuesday 12 December, exactly a year on from its introduction in 2016.

I would like to reiterate my thanks to your Committee for its diligent consideration throughout the legislative process which strengthened the robustness of the Bill. I am confident this legislation will help create a better system for supporting some of our most vulnerable learners.

Going forward, in anticipation that the Bill gains Royal Assent, our focus in 2018 will shift to the subordinate legislation, including a consultation in the autumn on some of the draft regulations and the next iteration of the draft ALN Code. These will then be

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subject to Assembly scrutiny. I anticipate the final Code being published by the end of 2019.

### **Implementation/ transition support**

On 11 December I published a summary of consultation responses on the implementation of the Bill alongside our proposed approach. Beginning September 2020, learners with existing Statements will transfer to the new system within two years, and all other learners with non-statutory plans within three years. This reflects stakeholder feedback from our consultation on options for implementation.

This will now be used to develop and refine a transition guide for delivery partners setting out detailed guidelines to support implementation. This will include detailed timescales for the roll-out of individual development plans to each cohort of learners in the phased approach. The guidance will be developed in partnership with key stakeholders and published for consultation next year. 2018 will see an acceleration of activities as we move into the implementation phase, including increased support and challenge for partners to prepare for operating the new system.

The five ALN transformation leads will take up post by spring 2018 and will be responsible for supporting delivery partners to undertake readiness assessments and develop implementation plans. The readiness work will be complemented by a thematic review that Estyn will be undertaking, exploring the extent to which primary and secondary schools, pupil referral units and education other than at school providers are aware of the reforms being introduced through the Bill and are preparing for implementation.

In September 2017 the ALN Strategic Implementation Group (ALN SIG) held its final meeting in its current format. The group has been instrumental to date in co-constructing the approach to implementation and the transformation programme as a whole. They have agreed that as we move into the implementation phase of the reforms, a smaller high-level group will oversee the work of the ALN Transformation Leads and support consistency of implementation, collaboration and the sharing of good practice.

The eight expert groups which were established by the ALN SIG will continue to work towards their agreed set of actions. This includes helping to develop the Individual Development Plan (IDP) template, awareness raising materials and new arrangements for health practitioners.

### **Workforce development**

Specialists play a vital role in supporting learners with ALN. In partnership with the Welsh Local Government Association and the Wales Data Unit, local authority heads of service have been helping us get a clearer picture of local authorities' current specialist support services workforce.

I have agreed to allocate £352,000 from within the ALN workforce development budget to be distributed as grant funding to local authorities over the next 2 financial years (2018-19 and 2019-20) to support the postgraduate training of local authority-

based specialist and advisory teachers of learners with visual impairment (VI), hearing impairment (HI) and multi-sensory impairment (MSI). This funding may also be used to facilitate training in Braille and British Sign Language for local authority-based specialist staff.

In order to ensure a continued supply of Educational Psychologists, we fund Cardiff University's Doctorate in Educational Psychology (DEdPsy) professional training programme. I have agreed to continue the current arrangement to DEdPsy for a further cohort from September 2018, whilst negotiations about arrangements from 2019-20 onwards are concluded.

Following recommendations from the Committee, we have undertaken further work on scoping the role of the ALN Coordinator (ALNCo). My officials have worked closely with a range of stakeholders to identify skills and training requirements for this important role. We envisage ALNCoS providing strategic leadership and acting as the first point of contact within the education setting for the provision of professional advice and guidance. ALNCoS will be expected to apply evidence based practice and to assess the impact of different approaches and techniques on outcomes for learners with ALN. They will also be expected to support sustainable and effectively professional learning for all ALN across the setting.

### **Awareness raising**

As a result of the feedback to the consultation on implementing the Bill, we have commissioned Eliesha Cymru to develop a suite of learning and training materials to support implementation of the ALN transformation programme, including the Bill. These will form the basis of multi-agency implementation training once the Code and subordinate legislation are in place. This will help practitioners to understand and prepare for the changes being introduced under the new system and help ensure consistency across Wales.

Rapid evidence assessments and accessible guides on effective interventions to support children and young people with a range of ALN were commissioned earlier this year. The rapid evidence assessments of interventions to support children and young people with ADHD and ASD are nearing completion. The evidence from the assessments has been used to develop accessible guides and workshops have been held with practitioners and parents to understand their preferences regarding the structure and content of the guides.

### **Supporting policy/ business continuity**

This strand of the programme focuses on ensuring the existing SEN and LDD system operates smoothly until the new ALN system comes into effect. As we move into implementation, this aspect of the programme increasingly focuses on maintaining business continuity.

To support the current post-16 specialist placement process, we have published technical guidance for specialist further education (FE) establishments. This guidance provides clear advice on Welsh Government's expectations regarding the role of specialist FE establishments in delivering post-16 provision for young people.

We have also published revised technical guidance for Careers Wales. Workshops will be used to reinforce the guidance and explore how it is working in practice.

I am confident we can continue to work effectively during the implementation phase on what is a major transformation package which will benefit the most vulnerable people of Wales.

I am copying this letter to Simon Thomas AM, Chair of the Finance Committee and Mick Antoniw AM, Chair of the Constitutional Affairs and Legislative Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kirsty Williams'.

**Kirsty Williams AC/AM**

Ysgrifennydd y Cabinet dros Addysg  
Cabinet Secretary for Education

Vaughan Gething AC/AM  
Ysgrifennydd y Cabinet dros Iechyd a Gwasanaethau  
Cymdeithasol  
Cabinet Secretary for Health and Social Services

Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref : MAL/VG/0869/17

Simon Thomas AM  
Chair  
Finance Committee

21 December 2017

Dear Simon

Thank you for your letter of 12 December which outlines the areas on which I agreed to provide further information during my recent attendance at Finance Committee on 7 December.

The full report by the University of Sheffield will include an analysis of the modelled impacts of different minimum unit prices (ranging in 5p increments from 35p to 70p) and an analysis of the wider impacts of introducing a minimum unit price, including impacts on workplace absences and crime.

It will also include a comparison of the proportional increase in alcohol duty which would be required to achieve the same reduction in alcohol consumption and alcohol-attributable deaths among hazardous and harmful drinkers as an example MUP. As I mentioned during my evidence to the committee, the planned publication date for this report is now February 2018.

Both my officials – in a technical briefing about the Public Health (Minimum Price for Alcohol) (Wales) Bill to the Health, Social Care and Sport Committee on 25 October – and I had indicated, in a letter to that committee on 14 November, that the original intention had been for the full report to be available in January 2018. However, there has been a delay in obtaining data from the Ministry of Justice, which is used to inform the modelled impacts of introducing a minimum unit price on crime.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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My officials had been expecting to receive the Ministry of Justice data in October, but it was only received by the Welsh Government on 6 December. As a result, there has been a subsequent delay in the University of Sheffield being able to update this element of its modelling and analysis.

The University of Sheffield published its interim report on 29 November. This provides an update to the 50p MUP example used in its 2014 report and which is included in the Bill's explanatory memorandum. The additional data from the full report, while clearly important in terms of the scrutiny of the Bill itself, will be particularly relevant to the setting of the actual level of the MUP, should the National Assembly pass this legislation.

However, I appreciate your concerns about how the timetable for the publication of the University of Sheffield's full report fits with the committee's stage one reporting deadline; I will ensure my officials keep all committees involved in the Bill's scrutiny updated. I will share the full report at the earliest opportunity.

Following my attendance at the Finance Committee, I also agreed to provide additional information about a number of other matters.

### **Details of the peer review conducted on the approach to assessing uncertainty used in the Sheffield University modelling**

You asked for further details of the peer review of the Sheffield Alcohol Policy Model and its approach to assessing uncertainty. The approach taken to scenario/sensitivity analysis is recommended by the UK Treasury's Green Book and is not unique to this model. In most cases, the peer review of the Sheffield modelling work has been undertaken anonymously, as is standard for peer review of journal articles for publication. However, the papers based on the Sheffield Alcohol Policy Model have been published in a number of different journals across different fields, including journals such as *The Lancet* (twice), the *BMJ* and *PLOS Medicine*. The Sheffield model and approach will have been peer reviewed by leading economists, epidemiologists, health economists and public health experts. The reports by the University of Sheffield for the National Institute for Health and Care Excellence (NICE), the Department for Health and Public Health England have also been independently reviewed. The University of Sheffield has also established expert steering groups for individual research projects – the most notable of these was for the Interdisciplinary Alcohol Research Programme. The steering group (with which the University of Sheffield discussed key modelling decisions) included the following experts in alcohol policy and epidemiology: Paul Gruenewald, Peter Miller, Bill Ponicki, Robin Room, Tim Stockwell, Alex Wagenaar, Clare Beeston, Joanna Shapland, Gerhard Gmel and Juergen Rehm.

The explanatory memorandum produced for the Bill has also been independently peer-reviewed by two academics.

### **Information about the funding allocated to raise awareness of the minimum unit price**

The Welsh Government fully recognises the importance of investing in communications to raise awareness of the requirements of the legislation, ahead of its implementation.

Learning from our experiences of implementing previous, comparable legislation, we need to build momentum and ensure compliance among retailers from the outset.

The Regulatory Impact Assessment for the Bill identifies £100,000 for communications (see table nine). Specifically, paragraph 303 notes: "There will be a need for a strong focus on communicating the requirements of the legislation, particularly during the first few months of implementation. This includes publicising the change to businesses, for example via direct mail, websites, social media and trade publications, at an estimated cost of £80,000, and to the public, for example via a PR campaign, launch event and web and social media, at an estimated cost of £20,000."

### **Meeting between Welsh Government and UK Government officials, particularly in relation to any impact on the fiscal framework**

Welsh Government officials met Home Office officials on 19 December. Discussions are ongoing about any impacts on the fiscal framework and I will write to the Finance Committee about this matter in the New Year.

### **Discussions with the Welsh Retail Consortium regarding the committee's query about whether MUP should be accompanied by a voluntary levy**

My officials are due to meet with representatives from the Welsh Retail Consortium early in the New Year and will report back to the committee in relation to discussions about this idea. However, there are recognised challenges, including uncertainties around potential increases in revenue for retailers and where in the supply chain these might fall. This will be kept under review.

### **Costs associated with additional inspection and enforcement activities by local authorities.**

My officials have been working closely with the WLGA; the Directors of Public Protection in Wales and the Welsh Heads of Trading Standards to ensure the inspection and enforcement activities associated with the Bill's implementation are appropriately resourced.

The explanatory memorandum highlights that £150,000 will be needed in the first year of implementing the Bill, with £100,000 in the second year and £50,000 in the third year to resource inspection and enforcement activities over and above what would be happening anyway, as part of existing inspection regimes involving premises supplying alcohol. Discussions between officials and Trading Standards are currently ongoing about the most appropriate expenditure profile within the three-year allocation (2019-2022) of £300,000.

This will ensure we have the most effective inspection regime by targeting enforcement at the right time in the implementation of the legislation. I will write to the committee with further details about how the funding will be profiled within the overall allocation of £300,000 once this has been formally agreed.

Yours sincerely

A handwritten signature in black ink that reads "Vaughan Gething". The signature is written in a cursive, flowing style.

**Vaughan Gething AC/AM**

Ysgrifennydd y Cabinet dros Iechyd a Gwasanaethau Cymdeithasol  
Cabinet Secretary for Health and Social Services

## **Regulation of Registered Social Landlords (Wales) Bill**

### **Technical Note for the Finance Committee**

#### **Communicating changes proposed by the Regulation of Registered Social Landlords (Wales) Bill with tenants**

At the Finance Committee meeting on 23 November, the cost of communicating changes to RSLs governance arrangements as a result of the Bill was discussed. Members may find the information provided in this note of interest for clarification purposes.

When asked “How well has the ONS decision been communicated in the sector generally, including with tenants?” at the EAAL Sub Committee on 7th November, the Tenant Participation and Advisory Service - TPAS Cymru responded “..... it's certainly been communicated well within the sector in terms of the professional level. I don't think there's any doubt about that. We've drawn on conversations with tenants, our tenant networks, regulation events and had some conversations with tenants at those.”

In addition, officials have presented at various tenant meetings to ensure that tenants have the opportunity to hear about the proposals and there was a public consultation explaining the proposals in detail.

The Welsh Government has and will continue to work with TPAS within the existing contract to ensure the message on the implications of the Bill is disseminated as widely as possible.

Communicating the specific governance changes is, however, a matter for the RSL concerned and is part of their routine business. For example, 10 RSLs changed their governance instruments in the last year. I can also confirm the cost of communicating governance changes has not been raised in any conversations or consultation with RSLs or Community Housing Cymru and is therefore not a material concern.

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## Fiscal Devolution in Wales: An update on preparations for its implementation



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU







I have prepared and published this report in accordance with the Government of Wales Acts 1998 and 2006.

The Wales Audit Office study team comprised Matthew Coe, Gareth Lucey, Ben Robertson and Deborah Woods under the direction of Richard Harries.

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

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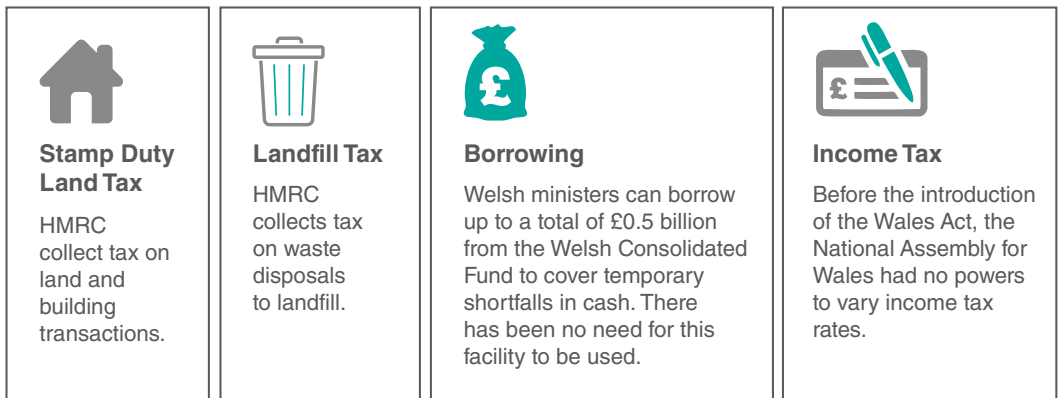
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# Summary

- 1 Fiscal devolution refers to the transfer of taxation and borrowing powers from the UK Government to the National Assembly for Wales (the National Assembly) and Welsh Ministers. From 1 April 2018, and for the first time in over 800 years, Wales will become responsible for raising an element of its own tax revenues.
- 2 The **Wales Act (2014)** devolved certain taxation and borrowing powers from the UK Government and Parliament to the Welsh Government and National Assembly. The Act empowers the National Assembly to legislate for taxes on the purchase or leasing of land and buildings and the disposal of waste to landfill for the first time. It also paves the way for the future devolution of an element of income-tax-raising powers to the National Assembly, extends the circumstances in which Welsh Ministers can borrow in the short term to manage the Welsh Government's budget, and grants Welsh Ministers new powers to borrow for capital expenditure. **Exhibit 1** sets out the specific changes to the financial environment in Wales.

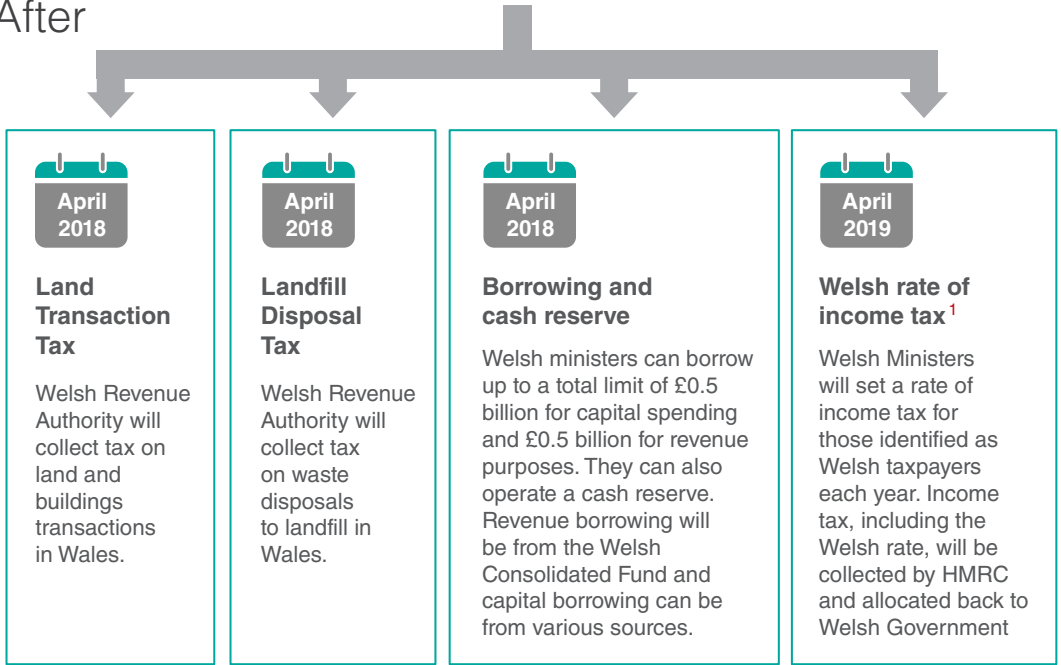
Exhibit 1 – Devolved taxes in Wales

Before



Wales Act 2014  
(and subsequent legislation)

After



Source: Wales Audit Office

1 The Welsh and UK governments are working towards an implementation date for income tax devolution of April 2019.

- 3 The Wales Act 2014 was followed by the **Tax Collection and Management (Wales) Act 2016**, which received Royal Assent in April 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 establishes the foundations for Wales' devolved tax regime. This includes the establishment of the Welsh Revenue Authority (WRA) on 18 October 2017 to collect the devolved Welsh taxes, land transaction tax and landfill disposal tax (**Exhibit 2**).

**Exhibit 2 – The establishment of the WRA**

**The Welsh Revenue Authority**

Llywodraeth Cymru  
Welsh Government

**The Welsh Revenue Authority (WRA)**  
is a new public body responsible for collecting devolved Welsh taxes from 2018.

**Summer 2017**  
WRA Board appointed

**Autumn 2017**  
WRA Board established

**April 2018**  
WRA fully operational

**In 2018 the WRA will collect £288m\*** of taxes in Wales

\* Office of Budgetary Responsibility forecast (March 2017) for Landfill Disposals Tax and Land Transaction Tax to be collected April 2018-March 2019

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- 4 In December 2016, we published a report on the preparations the Welsh Government was making for the implementation of fiscal devolution<sup>2</sup>. We concluded that the Welsh Government was preparing well to take on its fiscal devolution responsibilities, including the establishment of the Welsh Revenue Authority by the April 2018 commencement date. However, we noted that significant challenges remained in getting detailed plans in place and delivering key projects. We also noted that, because the key work was still progressing, we would carry out a second review in autumn 2017 to assess the progress being made.
- 5 This report summarises that progress, firstly on the broader fiscal reform agenda, and secondly by the Welsh Revenue Authority Implementation Programme (WRAIP) and (from 18 October 2017) the WRA itself. The review sought to answer the question: ‘Has the Welsh Government made sufficient progress towards successfully implementing fiscal devolution for Wales by 1 April 2018?’ [Appendix 1](#) provides more detail about our audit methods.
- 6 In our previous report we made one key recommendation that, in order to meet the key milestones of its critical timetable, the Welsh Government needed to finalise its detailed delivery plans as soon as possible to allow the programme boards and groups to move forward into the delivery phase in 2017. We also identified a number of specific areas these detailed delivery plans needed to address and have reviewed progress in these areas as part of this second review. A summary of the progress against the areas of focus is outlined below.

2 Auditor General for Wales, **Preparations for the Implementation of Fiscal Devolution in Wales**, December 2016. The report provided further detail on the changes to the tax regime in Wales arising from the UK Government’s **Wales Act 2014**.

**Exhibit 3 – Progress against the areas of focus from 2016**

**Specific area identified in December 2016**

Given that the bills for the specific taxes are progressing through the legislative process, the Welsh Government will need to ensure the impact of any amendments to these bills is reflected in the detailed project plans and processes.	Good progress
There will be challenges in agreeing a timely fiscal framework, striking the balance between preparing forecasts as late as possible to ensure accuracy, and allowing adequate time for the National Assembly’s scrutiny of the 2018-19 budget.	Good progress
The Welsh Government needs to ensure that it is continuously reviewing what Welsh Treasury functions it needs in light of fiscal devolution, in particular the capacity and number of staff to deliver these roles up to and beyond 1 April 2018.	Ongoing
Detailed and close engagement will be required as the programme moves through the delivery phase and approaches the implementation date of 1 April 2018, including the need to raise awareness of the changes to the tax regime in Wales among the wider general public.	Good progress
The WRA’s statutory basis, governance and accountability frameworks need to be clearly defined and understood by all of its key stakeholders from the outset.	Good progress
The WRAIP needs to approve formally the underlying project plans as soon as possible for each project to move quickly into delivering its objectives. The programme will need very careful governance, management and monitoring as it progresses over the coming months.	Good progress
More detailed budgets now need to be developed to ensure the WRA is established on time, within cost and with the right skilled people.	Mixed progress

Source: Wales Audit Office

- 7 **We concluded that the Welsh Government and WRA have made important progress in most areas but are now in a critical phase to deliver key projects in the few remaining months to April 2018. The main focus and challenge in the next period to 1 April 2018 are the delivery of robust tax collection systems, including the delivery and testing of the digital systems, and the publication, following customer engagement, of the guidance required by WRA customers when completing their tax return.** The following paragraphs provide a brief overview of our key findings.
- 8 **The fiscal reform agenda has made progress in all key areas during 2017.** The UK and Welsh Governments have agreed a revised ‘fiscal framework’, although it is too early to fully assess its financial value for Wales. The Welsh Government continues to make good progress in developing the legislative framework required for devolved tax arrangements. The governance structure and management arrangements for the fiscal reform agenda have continued to evolve appropriately in response to changing circumstances. The Welsh Government prepared timely forecasts of revenues for the newly devolved taxes, and is developing its approach for the Welsh Rates of Income Tax. The Welsh Government has made good progress to date in developing and implementing revised budgetary procedures. The Welsh Government has successfully engaged with tax experts and stakeholders to establish a tax policy framework and annual work plan for the Welsh Treasury in 2018-19.
- 9 **The Welsh Revenue Authority Implementation Programme is entering a critical phase with a tight timetable to deliver to 1 April 2018, in particular the digital tax collection systems.** Governance arrangements for the WRAIP have evolved to give greater prominence to people and finance-related issues. Following the WRA’s establishment in October 2017, further work is required to ensure that the relationship between the Welsh Government and the WRA is clearly understood. The establishment of a working WRA is generally progressing well but the delivery of digital systems remains the highest risk and is entering a critical phase with little room for error. While the implementation costs remain within the estimated range, the WRA’s initial operating budgets will be higher than previously estimated. Good relationships are being developed between the WRA and external stakeholders.

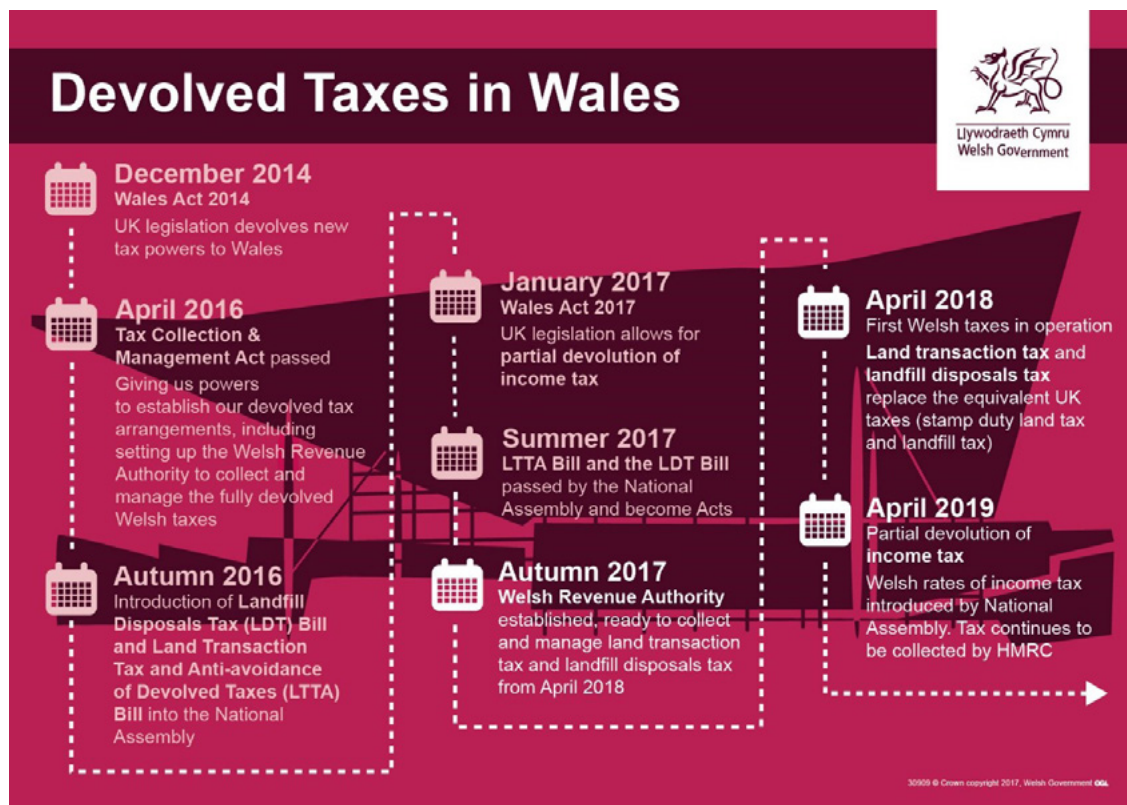


- 10 The WRAIP is now in a critical phase of delivery to ensure taxes can be collected from 1 April 2018, and the Auditor General may provide a short update early in 2018 on the further progress made at that date on the key areas of focus identified below. The Auditor General does intend to conduct another review in the autumn of 2018 to assess how the WRA is operating, the success of the implementation of Welsh Landfill Disposals Tax (LDT) and Land Transaction Tax (LTT) collection, and preparations for the introduction of the Welsh Rates of Income Tax from 1 April 2019.

### Key areas of focus through to April 2018

- 11 The Welsh Government is well advanced along the critical timetable for the devolution of taxes to Wales which is summarised in **Exhibit 4** below.

Exhibit 4 – Summarised timetable for devolved taxes in Wales



Copyright: Welsh Government



- 12 While we are not raising any specific recommendations in this report, in the few remaining months to 1 April 2018, the Welsh Government and the WRA need to remain focused on the essential actions needed to deliver working tax-collection systems at that date.
- 13 The specific areas/key milestones for this coming period include:
- practical delivery and testing of the WRA's digital tax collection and management system and finance systems in time for 1 April 2018;
  - a joint readiness assessment by the Welsh Government and Her Majesty's Revenue and Customs (HMRC) to confirm that both sides are ready for the transition to the new devolved taxes;
  - development and agreement of a clearly defined and realistic operating budget for 2018-19 for the WRA, based on the actual delivery model and expected staffing levels;
  - finalisation of clear contingency plans to deal with any non-delivery of projects that might occur;
  - complete the recruitment of the remaining 55 WRA staff so they are in post when needed;
  - the Operational Policy project will need to work closely with the National Assembly and Ministers to ensure that any potential risks or delays to the legislative process are mitigated;
  - operational guidance needs to be issued to WRA customers and internal WRA policies finalised;
  - the Welsh Government needs to agree arrangements for future independent reviews of Welsh Treasury forecasts;
  - appropriately timed post-implementation review shortly after April 2018 and lessons learned review;
  - clear communications plans by the WRA for ongoing engagement with Welsh public-sector bodies, other UK tax collection agencies and other key stakeholders;
  - early agreement on WRA strategy and medium-term plans after the final Remit Letter is issued by Welsh Ministers; and
  - the WRA's governance and accountability frameworks need to be finalised and clearly understood by all of its key stakeholders, particularly through the agreement of a final Framework Document with the Welsh Government and the issuing of the final Remit Letter by Welsh Ministers.

## Part 1

The fiscal reform agenda has made progress in all key areas during 2017



## The UK and Welsh Governments have agreed a revised fiscal framework, although it is too early to fully assess its financial value for Wales

- 1.1 The devolved tax regime will operate within a revised fiscal framework between the Welsh Government and the UK Government. The Welsh Government reached agreement with HM Treasury in December 2016 on this revised fiscal framework that will take effect for the 2018-19 financial year.
- 1.2 The Fiscal Framework Agreement sets out how the UK Government will calculate the total block grant and adjustments for new tax revenues, and the powers of the Welsh Government to save and borrow public money. The framework also enables the Welsh Government to set devolved taxes with a firm understanding of the likely financial implications. It is expected to be a permanent framework, with periodic reviews but without regular renegotiation. [Exhibit 5](#) outlines the main features of the agreement.

## Exhibit 5 – Fiscal Framework Agreement between the Welsh Government and UK Government



### The block grant adjustment

The UK Government provides a block grant of funding to the Welsh Consolidated Fund, which in turn funds the Welsh Government. The block grant will be reduced to reflect the anticipated revenues from the LDT and LTT collected in Wales. The methods for calculating the reduction in the block grant in subsequent years are now agreed and a separate calculation is done for each tax. Looking forward, for the Welsh Rate of Income Tax (WRIT) there will also be separate calculations for the standard rate, higher rate and additional rate of income tax, as the Welsh share varies considerably for each band.



### Borrowing powers

The Wales Act 2017 extends the borrowing powers created in the Wales Act 2014. The total limit for capital borrowing is increased from £500 million to £1 billion, and the annual limit is increased from £125 million to £150 million. The revenue borrowing limit remains at £500 million and will cover any shortfall arising from tax revenues being lower than forecasts or coming in more slowly than expected.



### A cash reserve

A new Wales Reserve from 2018-19 will allow the Welsh Government to carry forward up to £350 million of unspent budgets or surplus tax revenues above forecasts. Annual drawdowns will be limited to £125 million for revenue purposes and £50 million for capital expenditure.



### **Compensating adjustments**

The agreement recognises that fiscal decisions in one country can directly impact on revenues or public expenditure elsewhere in the UK. The framework allows for compensating adjustments to the block grant arising from changes in policies from Government decisions. Behavioural effects, such as increased migration due to different tax rates, can also be accounted for in exceptional circumstances.



### **Revenue forecasts**

The UK Government will use OBR forecasts to calculate block grant adjustments. Forecasts will be reconciled to outturns once these are available. The outcome of reconciliations will be applied to the Welsh Government's funding for the following year. The Welsh Government will establish independent forecasting arrangements after a short interim period.



### **Administration and scrutiny**

Governance will be overseen by the Joint Exchequer Committee (Wales) which comprises the relevant Welsh Government and UK Government Ministers, supported by senior officials. The National Audit Office will provide independent assurance that HMRC has correctly identified and transferred relevant income tax revenues to the Welsh Government.

Source: Wales Audit Office

- 1.3 The Welsh Government expects that the new framework is likely to be more favourable to Wales than the current arrangements. It reforms the Barnett Formula and reflects the long-term funding needs identified and recommended in the Holtham Report. The Welsh Government's assessments indicate that Wales will have more funding available for public services than under the current arrangements. However, the framework has only just been established and it is too early to assess its overall benefits for Wales, as this depends on tax revenues as well as spending allocations.
- 1.4 The Fiscal Framework provides clarity on the principles for calculation of block grant adjustments for new tax revenues. The adjustments will be based on actual revenues arising from Wales in 2017-18, so Wales will be subject to two key risks in particular: the risk of its devolved tax base increasing or decreasing at a faster rate than the UK average; and the risk that revenues will be higher or lower than forecast. Both of these risks can have a positive or negative impact on Welsh public finances and are likely to change over time.
- 1.5 The agreement also allows the Welsh Government to borrow more and to put more funding into reserves in order to help smooth the impact of these risks. This provides greater flexibility in dealing with underspends in its budgets, and the Welsh Government can carry forward up to £350 million of its resource and capital budgets as part of the Wales Reserve facility.
- 1.6 Ongoing liaison between the Welsh Government and HM Treasury is required to administer the practical details of the framework, and to resolve any disputes that may arise. The Welsh Government is working on memoranda of understanding setting out more detailed guidance with HMRC and the Office for Budget Responsibility. The Welsh Government told us that the principles of the revised fiscal framework have operated smoothly in the early stages of their 2018-19 budget process.

## The Welsh Government continues to make good progress in developing the legislative framework required for devolved tax arrangements

1.7 The Welsh Government has developed the legislative framework to establish the devolved tax arrangements provided for in the Wales Act 2014 through three key pieces of Welsh primary legislation. Royal Assent has been granted for three Acts of primary legislation in this area (Exhibit 6).

### Exhibit 6 – Primary legislation for devolution of tax-collection powers to Wales that have received Royal Assent

<p><b>Tax Collection and Management (Wales) Act 2016</b></p> <p>Establishes the foundations of the tax regime in Wales. This includes the arrangements for collecting and managing the new devolved taxes, and the creation of the WRA.</p> <p>Date of Royal Assent - 25 April 2016</p>	<p><b>Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017</b></p> <p>Establishes a tax on transactions involving interests in land, such as buying a house, and provides the WRA with the powers to take forward anti-avoidance action.</p> <p>Date of Royal Assent - 24 May 2017</p>	<p><b>Landfill Disposals Tax (Wales) Act 2017</b></p> <p>Establishes a tax on disposing of waste to landfill, and provides the WRA with the powers to enforce compliance with this legislation.</p> <p>Date of Royal Assent - 24 May 2017</p>
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Source: Wales Audit Office

- 1.8 Among other things, Welsh Ministers will need to decide whether to provide the WRA with statutory criminal powers. The Welsh Government will need to develop secondary legislation to enact the tax rates and bands set by Welsh Ministers. The 'Operational Policy' project of the WRAIP is also developing other secondary legislation aimed at WRA operations, including permitted disclosures, LDT administration regulations and LTT transitional regulations.
- 1.9 In addition, the Welsh Government is already looking ahead to developing the resolution that will allow Welsh Ministers to determine the rate of income tax for Welsh taxpayers from 1 April 2019. The Welsh Government expects to present the draft resolution for consideration by the National Assembly in late 2018.

### **The governance structure and management arrangements for the fiscal reform agenda have continued to evolve appropriately in response to changing circumstances**

- 1.10 The Fiscal Reform Oversight Group has assured the fiscal reform agenda since the beginning of 2016 and met four times during 2017. The Oversight Group was chaired by the Deputy Permanent Secretary of the Welsh Government and included representatives of the Welsh Treasury, WRAIP, the wider Welsh Government and an independent external member. The Oversight Group assured the range of matters stemming from the first report of the Silk Commission and subsequent UK legislation (Wales Acts 2014 and 2017), such as tax policy development, budget production and scrutiny, the fiscal framework, and implementation of the WRA itself. However, as elements of the fiscal reform agenda have been delivered, the need for the assurance role of the Oversight Group was assessed and the Oversight Group concluded that it was no longer a necessary forum. The Oversight Group took a decision to cease their role in December 2017.



- 1.11 The WRAIP Board continues to drive delivery of the implementation of the WRA and the activities required to collect devolved taxes. Overseen by a Programme Director and a Programme Manager, the WRAIP is essentially made up of four individual projects - digital services; operational policy; people; and finance. We consider progress on each project in **Part 2** of this report.
- 1.12 As parts of the overall reform agenda have been delivered by the Welsh Government, additional UK Government governing groups have been established which align to the fiscal reform agenda. For example, a Welsh Tax Devolution Programme Board has been established by HMRC from July 2017. This Board provides senior oversight of both Stamp Duty Land Tax and Landfill Tax Transition Board and the newly established Welsh Rates of Income Tax Board, and provides an escalation route for both projects. All three of these groups have representation from the Welsh Government, HMRC, HM Treasury and the Wales Office. HMRC intends for the Welsh Tax Devolution Programme Board to continue into 2019, particularly as the focus changes from the implementation of LTT and LDT to the introduction of the WRIT from 1 April 2019.
- 1.13 These governance arrangements have evolved throughout the year and should allow the Welsh Government and the WRA to appropriately monitor the implementation of fiscal devolution in Wales.

## The Welsh Government prepared timely forecasts of revenues for the newly devolved taxes, and is developing its approach for the Welsh Rates of Income Tax

- 1.14 Robust forecasts of potential tax revenue are an essential part of the Welsh Government's new budgetary process, and enable effective decision making. There is an inherent risk of uncertainty in all forecasts whether from poor initial assumptions, or due to external factors such as UK Government policy and the recent introduction of the additional rate for second homes which has made LTT harder to predict. LTT receipts are also highly sensitive to economic conditions that impact on changes in property prices and the number of property transactions.
- 1.15 The Welsh Government began preparing tax forecasts LTT and LDT at the start of 2017, refining and updating them over the following months as part of the Budget process. The models were first put through an internal quality assurance process. The models were also tested against known tax revenues or estimated receipts from previous years to assess their accuracy and adjusted as necessary.

## Exhibit 7 – Approach taken to forecasting tax receipts for LTT and LDT

This table outlines the Welsh Government's approach to forecasting tax receipts for LTT and LDT.

<b>Tax</b>	<b>Approach to forecasting</b>
Land Transaction Tax (LTT)	<ul style="list-style-type: none"><li>• Similar approach to that used by the Office for Budget Responsibility to estimate Stamp Duty Land Tax revenues in England.</li><li>• Office for Budget Responsibility (OBR) economic forecasts for the UK as a whole used to estimate growth in property prices and number of transactions.</li><li>• Prices and number of transactions determine tax revenue for each of the four main types of tax (residential main rate, residential additional rate, non-residential property, non-residential leases).</li><li>• Model tested against actual Stamp Duty Land Tax revenues from Wales in 2015-16 and previous years.</li><li>• Includes a sensitivity analysis – how revenues will change if property prices or the number of transactions differ from those forecast.</li></ul>

Tax	Approach to forecasting
Landfill Disposals Tax (LDT)	<ul style="list-style-type: none"> <li>• The Welsh share of tax receipts cannot be separately identified from HMRC’s information on Landfill Tax across England, Wales and Northern Ireland, so accurate information on current tax receipts was not available.</li> <li>• Collected information from Natural Resources Wales to estimate amount of waste received by landfill sites in Wales in 2015-16. This is split into standard and lower-rate waste.</li> <li>• Standard-rate waste is split into waste from Welsh local authorities and other sources: <ul style="list-style-type: none"> <li>o waste from local authorities is assumed to fall in line with new incineration capacity (or in line with the authority’s three-year trends, if there are no current plans to use incineration); and</li> <li>o the non-local authority element of standard-rate waste is assumed to fall by 10% a year, in line with UK trends.</li> </ul> </li> <li>• Total volume of lower-rate waste is assumed to fall by 1.1% a year, in line with a three-year average to March 2016.</li> <li>• Assumed that increase in incinerator capacity happens as planned.</li> <li>• No revenue included for unauthorised disposals because there was no reliable information on which to base a forecast.</li> <li>• Model tested against HMRC’s estimate of Landfill Tax receipts from Wales in previous years.</li> <li>• Sensitivity analysis to assess effect on revenues if inflation differs from forecast, if the volume of local-authority waste remains at 2015-16 levels, or if there are changes in non-local-authority waste trends.</li> </ul>

Source: Bangor University, **Independent Scrutiny and Assurance of Devolved Tax Forecasts for Wales**, October 2017

- 1.16 The revised Fiscal Framework Agreement described in paragraphs [paragraphs 1.1 to 1.6](#) requires independent scrutiny of the Welsh Government's forecasts and the Welsh Government appointed Bangor University to undertake this work for the 2018-19 Welsh Government budget. Bangor University worked closely with the Welsh Treasury to review and test the Welsh Treasury's forecasting methodology, and made suggestions on how those methods could be improved.
- 1.17 Bangor University published its commentary and opinion on the forecasts alongside the Draft Budget in October 2017. They concluded that the forecasts were 'based on robust and appropriate methodologies and assumptions'. The University will assess any changes to the forecasts made following the UK Government's Autumn Budget and the OBR's accompanying Economic and Fiscal Outlook published on 22 November 2017.
- 1.18 Bangor University made several specific recommendations to improve the future forecasting of LDT and LTT which the Welsh Government accepted. The report also recommended that the Welsh Government should consider developing more Wales-specific data, for example on LTT where that data is not available. However, this would be challenging and time-consuming, and the costs and benefits of doing so would need to be carefully assessed by the Welsh Government.
- 1.19 The Welsh Government is currently considering its forecasting needs for the Welsh Rate of Income Tax, which is being introduced in April 2019. Following a similar approach as for LDT and LTT, an outline forecast model for the 2019-20 Welsh Government budget will need to be developed in early 2018 and independently assessed.
- 1.20 To inform the model, information on income tax received from Welsh taxpayers is available from a dataset maintained by HMRC, the Survey of Personal Incomes. This provides anonymised data for individuals but not the full range of information available to HMRC and through it to the UK Government to enable tax policy decisions. Particular issues are:
- information is not analysed below the Wales level;
  - there are concerns about the timeliness of this data, as the most recent dataset relates to 2014-15 due to the time lag involved in collating anonymised data from tax returns; and
  - Welsh Government does not have early access to the dataset.

1.21 Despite this, the dataset remains the best source of information, and earlier access to the dataset and real-time information about income tax receipts in Wales would significantly help the forecasting model. The Welsh Government is continuing to discuss these issues with HMRC.

## The Welsh Government has made good progress to date in developing and implementing revised budgetary procedures

1.22 The Wales Act 2014 provides increased fiscal responsibilities of tax devolution and borrowing to the Welsh Government. In addition, in 2015 the National Assembly's Finance Committee recommended that a two-stage budget scrutiny process be developed<sup>3</sup> with further clarity on the roles of the Finance Committee and the other subject committees during the budget scrutiny process. The Welsh Government therefore established the Future Budget project in 2014 to address this and to update the existing arrangements set out in the Government of Wales Act 2006 and the National Assembly's Standing Orders.

1.23 The National Assembly agreed in June 2017 the final amendments to its updated Standing Orders, and a new budget protocol to deliver the changes required. In line with the Finance Committee's 2015 report recommendations, the Welsh Government has published its 2018-19 Draft Budget in two stages. Welsh Government officials have drawn up and begun to implement the budget planning framework for the 2018-19 Draft and Final Budgets and are developing the process for supplementary budgets. Progress on implementing this budget planning framework is set out in [Exhibit 8](#).

3 National Assembly for Wales – Finance Committee, **Best Practice Budget Process Part 2 – Planning and implementing new budget procedures**, March 2015

Exhibit 8 – Progress on implementing the 2018-19 revised budget planning framework



Source: Wales Audit Office

- 1.24 A positive development in the revised budgetary process is the publication of key external documents alongside the 2018-19 Outline Draft Budget. This included the Welsh Government's Tax Policy Report; the Bangor University report on the independent scrutiny and assurance of devolved tax forecasts; the chief economist's report; and the Memorandum of Understanding between the Welsh Government and the Office for Budget Responsibility. Following the Finance Committee's scrutiny of all of this additional information alongside the Outline Draft Budget, the Welsh Government will publish the 2018-19 Final Budget in December 2017.
- 1.25 Going forward, the Welsh Government is also establishing a Fiscal Strategy and Policy Group to assure advice to the Cabinet Secretary for Finance on fiscal matters, and provide a forum to collectively discuss and manage the individual fiscal elements which now feed into the overall Welsh Government Budget.

### **The Welsh Government has successfully engaged with tax experts and stakeholders to establish a tax policy framework and annual work plan for the Welsh Treasury in 2018-19**

- 1.26 The Welsh Government continues to run a well-managed engagement programme with key stakeholders. These arrangements have developed as the fiscal reform programme matures and the implementation date of 1 April 2018 approaches. The key external stakeholders remain the members of the Tax Advisory Group and the Tax Forum. Along with the Senior Officials' Tax Group, the Tax Advisory Group provides strategic advice to the Cabinet Secretary for Finance on tax policy and administration, and comprises representatives from business, local Government and third-sector organisations. The Tax Forum provides a platform for WRA officials to engage with relevant professions and organisations.



- 1.27 The extensive engagement with these groups contributed to the Welsh Government's publication of a **Tax Policy Framework** and work plan in June 2017. The Tax Policy Framework sets out the priorities for taxes in Wales, and the five key principles that will inform tax policy and development. It also sets out how the Welsh Government will engage with both experts and the public as it develops those tax policies. The work plan contains a number of priorities for the first year and they are aligned with the goals of the Well-Being of Future Generations (Wales) Act 2015; the Welsh Government's 'Taking Wales Forward' agenda; and with wider policy objectives. The Welsh Government intends to publish an updated 2018-19 work plan in early 2018.
- 1.28 As part of the 2018-19 Outline Draft Budget stage, the Welsh Government published a comprehensive update on progress in delivering the objectives in the work plan. The update included the announcement of the rates and bands for the new LTT and LDT. Publication of the update alongside the Outline Draft Budget is a positive move that reinforces the new link between spending and tax policy for Wales going forward.
- 1.29 We have also seen an increase in communications to raise awareness of the introduction of new taxes from 1 April 2018, and to engage the wider public in understanding and contributing to the tax policy agenda. This has included the 'Year to Go' campaign in March 2017, and, following the publication of the Tax Policy Framework, in July 2017, the Cabinet Secretary for Finance led a debate in the National Assembly on new taxes. This debate was widely reported and there was a good public response to this in both social media and in news articles. The positive momentum and broader awareness this has generated will need to be maintained as 1 April 2018 approaches.

## Part 2

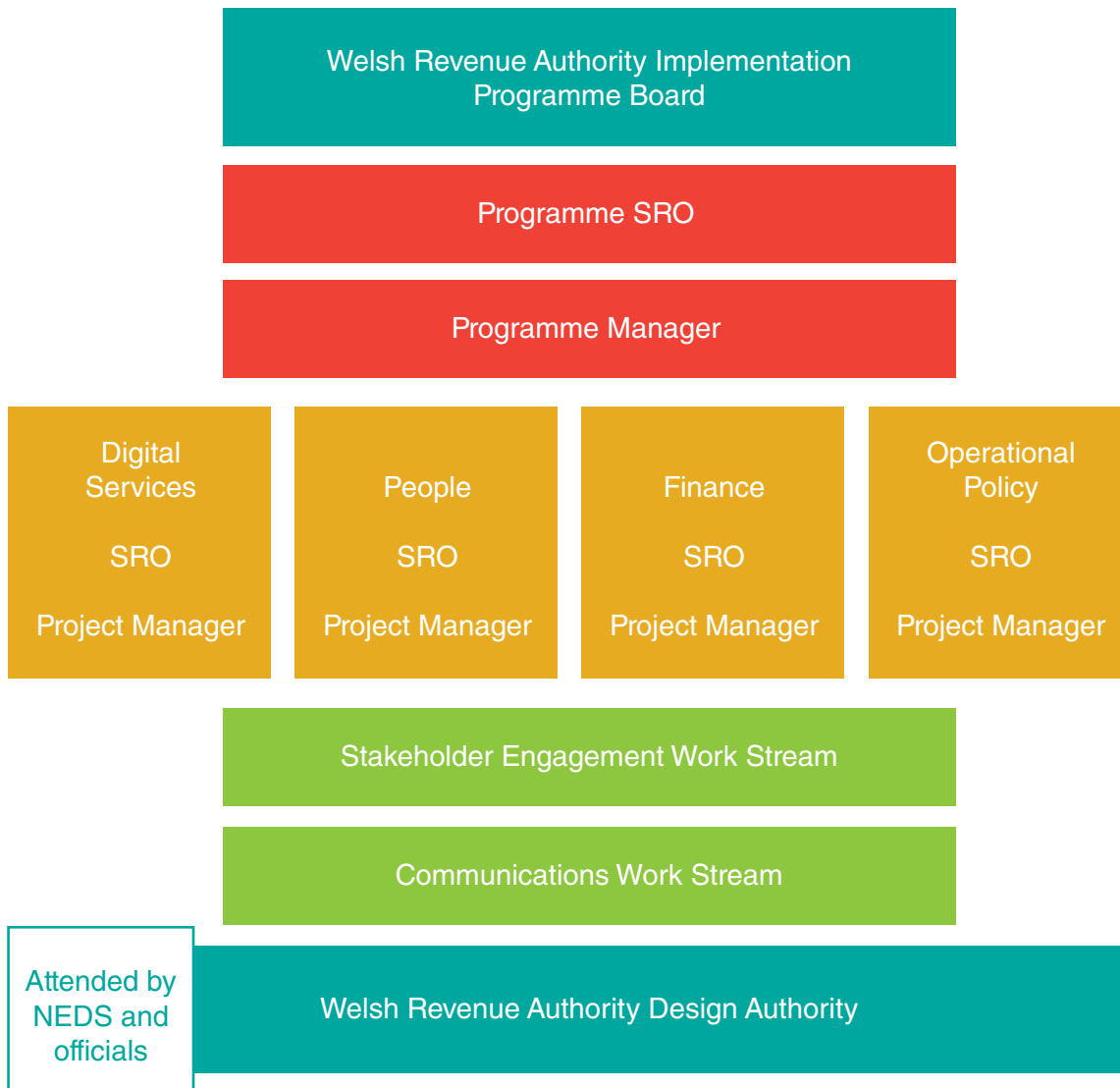
The Welsh Revenue Authority Implementation Programme is entering a critical phase with a tight timetable to deliver to 1 April 2018, in particular the digital tax collection systems



## Governance arrangements for the WRAIP have evolved to give greater prominence to people and finance-related issues

- 2.1 The WRAIP is responsible for establishing the WRA and tax collection systems before 1 April 2018. The governance arrangements and structure of the WRAIP are clear, with individual project boards taking forward specific aspects.
- 2.2 The structure has developed in 2017. The previous Governance and Organisation project was replaced with two new projects 'People' and 'Finance'. In part this was to ensure the application of the right focus and expertise to the two areas but also to recognise that the WRA needed to develop and deploy its own finance system. This change significantly increased the scope of the WRAIP. New external members were invited to advise on the WRAIP Board and a shadow WRA was formed in order to ensure that the future organisation and its customers contributed to the delivery of the programme. [Exhibit 9](#) sets out the current governance arrangements and structure of the WRAIP.

Exhibit 9 – Governance structure of the WRA Implementation Programme and its key project workstreams



Source: Welsh Government

- 2.3 As noted in our 2016 report, the WRAIP Board has defined terms of reference covering the structure, composition and remit of the Board. Membership of the WRAIP Board continues to include both senior Welsh Government officials and external representatives who provide experience, knowledge and insight. The WRAIP is led by the WRAIP Director who is also the Chief Executive of the WRA, and also includes a WRA representative.
- 2.4 WRAIP Board papers are concise and include programme timetables, project delivery plans and highlight reports from each project board. The level of detailed reporting is generally sufficient and members can and do request further information if required. Information on the costs of implementation and future operation of the WRA is less detailed.
- 2.5 The WRAIP risk register does have a clear assessment of the major risks and mitigating actions being taken by the programme. Risks are identified, monitored, mitigated and closed, and interdependencies are generally identified. The programme does take an understandably cautious approach to assessing risks. This takes account of the significant reputational risks to all parties as well as the operational impact of non-delivery of the programme.

**Following the WRA's establishment in October 2017, further work is required to ensure that the relationship between the Welsh Government and the WRA is clearly understood**

- 2.6 Significant work on the governance arrangements of the WRA was done prior to its establishment on 18 October 2017. This work included recruitment of key people such as the Chair (February 2017), the Chief Executive (July 2017) and the non-executive members of the WRA Board (September 2017). The first WRA Board meeting on 18 October 2017 received and reviewed key governance documents such as standing orders, terms of reference, Board sub-committee structures and delegated authorities.

- 2.7 The WRA is the first non-ministerial department of the Welsh Government, with substantial autonomy over day-to-day operations but within a remit set annually by the Welsh Ministers. Because of this there could be confusion over how the WRA is managed and governed, and how it should interact with the rest of the Welsh public sector. There are two key documents that will be key to ensuring a broad understanding, particularly within the Welsh Government, of the WRA's role going forward:
- **Framework Document** – this document defines a permanent framework to underpin the relationship between the Welsh Government and WRA. As a result, both parties are working closely to get the Framework Document right at the outset. The principles of the Framework are agreed, but the application of the framework on a practical day-to-day basis is still being worked through. It will be important that this Framework Document is clearly understood, throughout the Welsh Government in particular, and is revisited regularly as the role of the WRA develops over time.
  - **Remit Letter from Welsh Ministers** – this will set out the shorter/ medium-term objectives for the WRA, and the finalised Remit Letter is expected to be issued by the end of December 2017. Once received, the WRA can produce a corporate plan and detailed operating budget to April 2019, with medium-term strategies to be developed later in 2018.
- 2.8 With the closure of the Fiscal Reform Oversight Group in October 2017, a key issue is the dual role that the WRA Chief Executive has as the WRAIP Implementation Director up to 1 April 2018. The individual is responsible for the migration of responsibility from the Welsh Government to the WRA, while also delivering a programme of work to establish the organisation that he will lead. In effect he is delivering a programme of work to himself. This does raise potential risks to effective governance and the accountability of decision making.
- 2.9 To mitigate these challenges a new Governance Group – separate from the WRAIP Board – was established in November 2017. The Group is made up of the Welsh Government's Permanent Secretary, the Director of the Welsh Treasury, the WRA Chair and WRA Chief Executive/WRAIP Director. While it will act as a short-term governance solution for delivery decisions up to April 2018, the Welsh Government and WRA are currently considering whether this Group has an ongoing strategic and partnership role beyond April 2018, given the need to clearly understand the WRA relationship with the Welsh Government.



The establishment of a working WRA is generally progressing well but the delivery of digital systems remains the highest risk and is entering a critical phase with little room for error

2.10 The WRAIP has delivered against a number of key milestones and deliverables identified in our report last year. Progress against these milestones is set out in **Exhibit 10** and commented on in the project level sections below.

**Exhibit 10 – Progress against key milestones and deliverables by the WRAIP**

<p><b>Tranche 1</b>  <b>February 2016 – September 2016</b>            Original capabilities delivered:</p> <ul style="list-style-type: none"> <li>• WRA Delegation Decision</li> <li>• Digital Services Project Confirmation Phase</li> <li>• Appointment of Welsh Revenue Authority Implementation Director</li> </ul>	<p><b>Tranche 2</b>  <b>September 2016 – April 2017</b>            Original capabilities partially delivered:</p> <ul style="list-style-type: none"> <li>• Decision on location of WRA</li> <li>• Digital services ‘testing’ the market followed by procurement of services</li> <li>• WRA Chair announced</li> </ul>
<p><b>Tranche 3</b>  <b>April 2017 – November 2017</b>            Original capabilities partially delivered:</p> <ul style="list-style-type: none"> <li>• WRA Board members appointed</li> <li>• Phased recruitment of WRA Staff</li> <li>• Delivery of Digital Services</li> </ul>	<p><b>Tranche 4</b>  <b>November 2017 – April 2018</b>            Capabilities to be delivered:</p> <ul style="list-style-type: none"> <li>• Communication campaign</li> <li>• Internal and external guidance published</li> <li>• Regulations in place</li> <li>• UK taxes ‘switched off’, Welsh taxes ‘switched on’</li> </ul>

Source: Welsh Government

- 2.11 The key milestones that have been achieved in line with the planned timetable are the location of the WRA, and the appointment of the WRA Chair and Board members. The phased recruitment of WRA staff has begun and is ongoing. However, the digital services project has not been delivered within the original planned timetable and we consider this further in [paragraphs 2.25 to 2.33](#) below.
- 2.12 As noted previously there are four projects that are crucial to the successful delivery of the programme and establishment of the WRA. Progress for each of the four projects is considered in more detail below.

### **The people project has made good progress in recruiting staff and is on track to deliver its main objectives**

- 2.13 The people project is responsible for all HR aspects of setting up the new WRA, including the corporate structure, recruitment, and learning and development. The WRA's organisation structure has evolved since the first draft in March 2017 and there are currently three senior staff in the structure below the Chief Executive – Head of Operational Delivery, Chief Strategy Officer and Chief Finance Officer – to reflect the WRA's main corporate functions. There are 75 posts in total, at a projected annual cost of £3.8 million. The 75 posts include nine transitional posts to help the WRA establish itself that will be removed later in 2018-19.
- 2.14 The people project is making good progress against its recruitment plan. To date the WRA has appointed 19 staff, including a Head of HR. Fifteen staff have taken up post, including the Chief Executive, senior management team and 70% of the next management tier. Recruitment is already underway for another 16 posts, and a further 28 posts will be prioritised and filled as needed by 1 April 2018. WRA are working to balance recruitment carefully to ensure staff are employed and trained when needed, but are not in post unnecessarily early. Twelve posts will therefore be filled after April 2018. The Welsh Government and WRA are happy with the number, calibre and diversity of candidates and have not struggled to recruit suitable candidates for the jobs advertised so far.



- 2.15 The WRA has successfully recruited a number of staff with relevant experience on loan from other organisations, primarily the Welsh Government and HMRC. This does mean the WRA is initially relying heavily on staff on loan from these other organisations – 15 of the 19 appointments to date, including senior posts. Secondments have the advantage of flexibility and ease of transfer for both employer and employee, and have helped attract suitable candidates into the WRA, a new and untested organisation. However, such a dependence on loaned staff brings a risk that key skills will be lost once those staff return to their 'home' employer. To mitigate this risk WRA are starting to stagger these loans, and have also advertised other posts as permanent roles.
- 2.16 Good succession planning and knowledge transfer will therefore be vital in managing this risk. The WRA considers knowledge transfer a key priority because of its reliance on seconded staff and has a high-level knowledge transfer plan in place. This identifies the knowledge to be transferred and how this will be done, with a focus on on-the-job learning rather than formal training courses. These proposals will need to be developed into a more detailed learning and development plan quickly in 2018.
- 2.17 The people project team has developed an initial training plan to ensure all operational staff receive induction training and essential technical training before 1 April 2018. Further training will follow later, once requirements are clearer and nearer to the time that staff will make use of the relevant skills.
- 2.18 The people project is on track to deliver its targets by 1 April 2018, and the key challenge is to recruit the remaining 56 staff so they are in post when needed. The additional challenges are to maintain the initial enthusiasm, morale and creativity of all staff; transfer expert skills to permanent staff; and retain those skills within the WRA in the medium to longer term.

## The operational policy project is well advanced in developing key guidance and working practices for the WRA

- 2.19 As noted in **Part 1** above, the WRA operational policy project is managing the drafting and production of secondary legislation to implement fiscal devolution in Wales. Among other things, this project is also developing the internal policies of the WRA itself including compliance and tax avoidance policies and all external facing guidance and procedures. So far the delivery of the secondary legislation, operational policies, and guidance and working practices of the WRA is on track. Nevertheless, the timetable for completion is tight.
- 2.20 Key individuals from the Welsh Government and WRA are drafting both the guidance for each tax and the secondary legislation. Monthly meetings ensure relationships and resources are managed, and that there is full consultation and a smooth transition of knowledge to the WRA.
- 2.21 Drafting has commenced on the guidance for LTT, LDT and the areas covered by the Tax Collection and Management (Wales) Act 2016. Building on relationships established in developing the primary legislation, early drafts of the LTT and LDT guidance were shared with key stakeholders including HMRC, the Law Society and Valuation Office Agency, professional bodies and small and large practitioners based in Wales and England. Early feedback on the draft guidance has been positive and amendments are being made in response to their comments.
- 2.22 A further 19 items of subordinate secondary legislation have been identified by the operational policy project as being required to fully implement the WRA and its tax collection activities on 1 April 2018. Liaison took place during the passage of the legislation with the National Assembly's Constitutional and Legislative Affairs Committee to identify the most appropriate category for each individual item of legislation, as follows:
- Commencement Orders: where proposed legislation is published and approved directly by Ministers or officials without an Assembly vote being required;
  - Negative Resolution: where legislation is published and approved directly by Ministers or officials, but the Assembly can agree within 40 days to annul the legislation if an Assembly Member tables such a motion; and
  - Affirmative Resolution: where legislation is published, and requires the approval of the full Assembly before it can come into force.

- 2.23 The Operational Policy project has established a detailed schedule to ensure each individual item of legislation is passed when required for a smooth progression of the fiscal reform agenda. The project will need to work closely with the National Assembly and Ministers to ensure that any potential risks or delays to the legislative process are mitigated.
- 2.24 Consultation remains a key element of the legislative process. All draft legislation (other than Commencement Orders) is subject to scrutiny by the National Assembly and there is input from external stakeholders.

**The digital services project remains very high risk as it enters a critical phase of delivery over the few remaining months to 1 April 2018**

- 2.25 The Digital Services project is managing the ongoing development and delivery of the Digital Tax Collection and Management System (DTCMS). Once in place, this system will allow Welsh taxpayers to submit returns for LTT and LDT online from 1 April 2018. The system will be made up of two parts:
- **Registrations** – allows taxpayers and/or their agents to register via the system. Development is due to be completed in December 2017, with actual registration to begin in January 2018.
  - **Tax returns** – allows taxpayers and/or their agents to submit formal tax returns for LDT and LTT. Development is due to be completed in February 2018, with a ‘go-live’ date of 1 April 2018.
- 2.26 The Welsh Government intended to issue a contract to a successful supplier for the DTCMS by the end of 2016. However, a contract was not issued until April 2017, delaying the start of the project by four months. This delay was due to an unexpectedly high number of bids and a lack of detail in the initial tender specifications that led to requests for clarification from potential suppliers. The Welsh Government appointed a supplier in April 2017 and development work then began in May 2017.

2.27 Several factors have further complicated the delivery and management of the Digital Services project including:

- the scope of the DTCMS became more complex following the decision by Welsh Ministers that LTT would maintain a higher tax rate on second properties, in line with that used for Stamp Duty Land Tax.
- the decision in January 2017 for the WRA to have an in-house finance system integrated with DTCMS, rather than use part of the Welsh Government's existing finance system.
- initially there was a lack of clarity between the supplier and the project team for how changes in design were to be managed under AGILE<sup>4</sup> methodology. This was due to too few expert WRA staff in post early enough to work effectively in an AGILE way with the supplier. This has led to ongoing discussions about the nature and subsequent cost of those changes.

2.28 The WRAIP has made good use of gateway review processes throughout 2016 and 2017 across the whole programme. Gateway reviews have been particularly beneficial on the digital services project with two key reviews being carried out – a full project review in June 2017, and a follow up in September 2017. Both of these reviews gave the project a rating of 'amber/red', defined as follows:

‘ Successful delivery of the programme is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and establish whether resolution is feasible.’

2.29 Between June and September 2017 the project looked to strengthen arrangements and identify and recruit the right people and skills to engage better with the supplier. This did take time and needed to be balanced with financial cost constraints in the programme. The September 2017 review found that the project had made significant progress on a number of urgent recommendations from the June review. The September review also noted that although a lot of activity had taken place, the timescale for delivery by 1 April 2018 is now extremely compressed with little or no margin for any further slippage; and that there remains a major risk that successful delivery of the DTCMS may not be achieved by that date.

4 This methodology involves a high degree of consultation with stakeholders to identify requirements, with development and testing of elements of the system then being combined into short 'sprints'. This contrasts with the more traditional 'waterfall' method of software development, which has clearly separate design, implementation and testing phases. AGILE is widely thought to produce software more in line with user needs, within tight timescales.

- 2.30 After September 2017, and with key personnel now in place, we have seen a step change in project management arrangements between the digital services project and the supplier. Specifically:
- the formal scope of the DTCMS has been fixed to focus solely on what needs to be delivered for 1 April 2018. No further changes to the design are permitted, other than those that arise from development and testing under AGILE methodology.
  - the project plan for completion has been revised, reduced and agreed between the digital services project and the supplier. Specific times have been allocated for development and user testing in each of the remaining 'sprint' periods under the AGILE methodology.
  - there is now daily contact between the digital services project and the supplier to monitor overall progress and report any issues arising. There are also regular update reports issued to the WRAIP Manager each week.
- 2.31 In the remaining period to implementation, there are three principal areas of focus for the project:
- the project needs to be held to its agreed scope by the WRAIP Manager and recently appointed senior WRA staff. It is important to ensure the focus is on the successful delivery of the DTCMS as it stands, rather than trying to introduce further changes.
  - the digital services project must develop and finalise contingency plans. While there are alternative ways to collect LDT and LTT and disaster recovery procedures can be outlined, the detailed contingency plans are not yet confirmed.
  - the appointment of a testing manager within the Digital Services project. This will ensure appropriate and thorough end-to-end testing prior to implementation.
- 2.32 The delivery of the DTCMS was originally planned for September 2017 with testing starting in October 2017. This did allow for a significant contingency period before April 2018. However, this has taken longer due to the changes in scope for additional rate, and the finance system and testing will now begin in December 2017 and will continue through until February 2018.

2.33 At this point, with the DTCMS due to be delivered by mid-February 2018, little of this contingency period remains and the project is entering a critical phase. Any further significant issues could seriously threaten the successful delivery of this project. Despite there being little room for error, all indications from the WRAIP and WRA are that, provided the revised project plan is followed, the DTCMS will be in place and operational by 1 April 2018.

### **The finance project has made significant progress on procuring and implementing an in-house financial system in a short space of time**

2.34 Initially, WRAIP intended that the WRA would use the Welsh Government's existing finance system. However, following advice from the Welsh Government, WRAIP decided in February 2017 that it would need to have its own finance system. WRAIP then conducted a benchmarking exercise (which included Revenue Scotland) to confirm and refine that decision. In particular, WRAIP learned that it would be easier to integrate the tax finance system alongside the development of the DTCMS before going live. It would also be easier to match individual tax payments to individual tax returns. The introduction of the additional rate of LTT was also an important factor emphasising the need for effective integration of the two systems. The decision further highlights the WRA's independence from the Welsh Government, and allows future development of its own systems as additional taxes are transferred. This decision will result in additional implementation costs of approximately £0.5 million, as well as ongoing additional operating costs for the WRA finance and information technology staff.

2.35 The finance project was established by WRAIP in February 2017 to identify and deliver appropriate financial processes for the tax collection and corporate finance functions of the WRA. The finance project developed the requirements and identification of an off-the-shelf finance system by April 2017 and appointed a supplier in June 2017.

- 2.36 The finance project confirmed the final scope with the supplier and procured the finance system in August 2017. Implementation of the finance system is already well advanced and consists of two parts: a corporate finance system for running costs, and a tax finance system to collect and manage the payment of taxes. The main risk for the project is the interface required between the tax finance system and the DTCMS, and work began in October 2017 on the interface requirements. The finance system also includes an HR system which WRA will use, although payroll services will continue to be provided by the Welsh Government.
- 2.37 So far, robust project management and an experienced project manager have enabled significant progress to be made in a short timeframe. Current indications are that the plan to deliver the finance and HR systems needed by 1 April 2018 will be achieved alongside the digital services project.

**While the implementation costs remain within the estimated range, the WRA's initial operating budgets will be higher than previously estimated**

- 2.38 In December 2016, we reported that the Welsh Government estimated that the costs of setting up the WRA and its annual operating budget would be in line with its initial estimates. The set-up costs for the WRA were initially estimated at between £4.9 million and £6.4 million, and the estimated annual operating costs of the WRA would be between £2.8 million and £4 million. However, more detailed budgets were needed to ensure that the WRA is established on time and within cost.
- 2.39 Detailed budgets have not been developed at a project level as programme costs have been reported and scrutinised at a programme management level, with high-level information being submitted to the WRAIP Board. The Minister has written to the National Assembly's Finance Committee in March 2017, September 2017 and December 2017 explaining the changes to the initial implementation and operating costs of the WRA. **Exhibit 11** shows the current forecast costs through 2017.



## Exhibit 11 – comparison of initial estimates to current forecast costs

	Initial estimates	Current forecasts
Implementation Costs – WRAIP	£4.9 million - £6.4 million for the three-year period 2016-17 to 2018-19	<b>£6.3 million</b> for the two- year period 2016-17 to 2017-18
Annual Operating Costs – WRA	£2.8 million - £4 million in 2018-19 and beyond	<b>£1.5 million in 2017-18</b> <b>£6.0 million in 2018-19 and 2019-20</b>

Source: Welsh Government

- 2.40 Current projections show that the implementation costs are still on track to be within the original estimates. More costs are being incurred in the first two years of the three-year period than originally planned and funding has been re-profiled accordingly. £1.3 million of costs were incurred in 2016-17 and the Welsh Government now believe the remaining £5.0 million of implementation costs will be incurred in full in 2017-18. The Welsh Government therefore expects no further costs of implementation will be incurred in 2018-19.
- 2.41 The annual running costs of the WRA are now reported to be in the region of £6.0 million for a full year in 2018-19 and 2019-20, against the initial estimates of up to £4.0 million. The estimated annual operating costs were based on the assumption of establishing a similar body with similar approaches and systems to Revenue Scotland. However, there have been significant changes in planned systems and process within the WRA, most notably the adoption of an in-house finance and HR system, and also in-house paper tax return and cheque receipting. The addition of a higher rate for additional properties has added complexity to the digital systems, processes and resource requirements. The two bodies are now quite different and are not directly comparable as the WRA is carrying out more functions itself than originally envisaged. Because of these changes, the WRA's annual operating budgets for 2018-19 and beyond will be substantially higher than the original estimates, as shown by the current forecasts above.



- 2.42 We also noted in our previous report that the total budget for 2017-18 identified that £2.5 million was specifically identified for implementation costs. The Minister confirmed in March 2017 that the updated estimate for implementation costs was £3.5 million with a further £1.0 million of expected operating costs for the WRA in 2017-18. The Welsh Government's current forecasts suggest the full remaining implementation cost budget of £5.0 million and WRA operating costs of £1.5 million will be spent in 2017-18. A supplementary budget will therefore be needed in February 2018 to cover the difference between the initial estimate of £2.5 million and current total forecast costs of £6.5 million for 2017-18.
- 2.43 Going forward, more detailed costings need to be maintained, monitored and reported by both the WRAIP and the WRA so as to fully inform future decision and budget discussions.

## Good relationships are being developed between WRA and external stakeholders

- 2.44 As noted in [paragraphs 1.26 to 1.29](#), WRAIP and the WRA have established good working relationships with external stakeholders, building on those established by the Welsh Treasury. Stakeholder engagement is managed as a workstream across the programme, and there are detailed stakeholder plans in place to engage on particular areas of work, including user testing and systems, guidance, etc.
- 2.45 There is an implementation group with HMRC to manage the transition from Stamp Duty Land Tax and Landfill Tax. Mature relationships have developed over the last few years of HMRC working with the Welsh Treasury and the WRAIP. Relationships with HMRC have also been helped by the recruitment or secondment of a number of key managers into the WRA. This needs to continue ahead of the joint readiness review in early 2018, which will confirm to HM Treasury and the Welsh Government whether the transfer of LDT and LTT collection can commence from 1 April 2018.

- 2.46 WRA has also worked well with the Land Registry and Valuation Office Agency, producing consistent guidance for properties that straddle the Wales/England border. This joint working needs to continue as the bodies share information for compliance purposes for the LTT. As more WRA staff are appointed and the systems and processes are established, there is a clear need at an operational level to mirror the good engagement to date by senior managers.
- 2.47 Looking ahead further, careful cultivation of relationships with these and other stakeholders, such as local Government bodies, is needed to realise the potential of WRA to work with the Welsh Government and other public sector bodies as a lever for change in delivering key policies in Wales.

# Appendices



# Appendix 1 – Methods

We reviewed a range of information during our audit including:

- Various legislation including the Wales Act 2014, Tax Collection and Management (Wales ) Act, the Land Transaction Tax Act, the Landfill Disposal Tax Act, and the Anti-Avoidance of Devolved Taxes (Wales) Act
- Publicly available information on fiscal devolution relating to both Wales and Scotland
- Reports on tax forecasts by Bangor University
- The project plans
- The highlight reports from key programme and project/group boards
- The governance documents
- The results of gateway reviews that have been undertaken
- Various reports from other audit bodies on fiscal devolution and project management including Audit Scotland, and the National Audit Office
- Published documents from the Welsh Government and Welsh Ministers

We received introductory presentations from both the Welsh Government and the Welsh Revenue Authority which covered:

- Presenting progress to the audit team to set the scene
- Identifying how the programme and WRA are developing
- How the agenda, programme and projects are being delivered
- The key risks to delivery
- Recommendations from Gateway reviews and actions being taken
- The next stages for the individual projects/group and the overall Welsh Government fiscal reform agenda

We received a demonstration from the Welsh Revenue Authority of the tax collection system under development.

We spoke to a wide range of representatives and officials from:

- The Welsh Government including the Permanent Secretary, the Director, the Welsh Treasury and the WRA Implementation Director
- The WRA including the Chair and the Chief Executive
- HM Revenue & Customs
- The suppliers and developers of DTCMS and the finance system to WRA
- External members of the WRAIP Board



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Llywodraeth Cymru  
Welsh Government

Mr Huw Vaughan Thomas  
Auditor General for Wales  
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28/12/2017

Dear Auditor General for Wales

**Response to the report 'Update on preparations for the implementation of fiscal devolution in Wales' (21 December 2017)**

I would like to thank you for this report. I am pleased that our significant achievements over the past twelve months have been recognised, and I very much welcome the recommendations made by the WAO.

As the report rightly identifies, this is a dynamic programme of activity, which is constantly adapting to deliver during this critical time in our fiscal devolution journey. The report clearly identifies the specific areas for action which are essential to move us forward to April 2018. We are confident that we can meet these challenges and that the successful devolution of taxes to Wales will be achieved.

Engagement between the WAO and the Welsh Government continues to be active and constructive. As a result, once again, this report provides a well-informed and accurate reflection of our efforts to deliver fiscal reform for Wales. I welcome the AGW's intention to carry out a further review into the success of operations and preparations for the Welsh Rate of Income Tax in the autumn.

Yours sincerely

**Andrew Jeffreys**  
Director  
Welsh Treasury

- c.c. Cabinet Secretary for Finance
- Chair of the NAW Finance Committee
- Chair of the NAW Public Accounts Committee
- Welsh Government Corporate Governance Unit
- Permanent Secretary, Welsh Government
- Chair of the Welsh Revenue Authority
- Chief Executive of the Welsh Revenue Authority



Document is Restricted



## **The third annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014**

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Laid before the National Assembly for Wales and presented to Parliament, pursuant to Section 23 of the Wales Act 2014

December 2017

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## Foreword



In a few months, the first Welsh taxes for almost 800 years will be introduced. They will be managed and administered by the Welsh Revenue Authority, the first non-ministerial government department created by the Welsh Government. These are important changes, as Wales takes greater responsibility for its finances and seeks to use its tax levers to help support its wider policy ambitions.

This past year has seen progress on many fronts: Royal Assent for the legislation needed to introduce land transaction tax and landfill disposals tax; the establishment of the Welsh Revenue Authority; and the development of new budgetary procedures for the National Assembly. Last December I reached agreement with the UK Government on a fiscal framework, which sets out the funding arrangements for Wales after March 2018. This has introduced a long-term funding floor, for providing a fairer basis from which Wales can grow and develop to meet the needs of its citizens. In turn, this has made it possible to begin working towards the introduction of Welsh rates of income tax in April 2019.

With the introduction of Welsh rates of income tax, £5bn of devolved and local tax revenue will be raised in Wales to spend on Welsh public services. This provides an opportunity to develop our own distinctive approach to tax policy, which I announced in June. The tax policy framework seeks to deliver a regime which is clear, stable, progressive and robust, and central to this will be engagement with taxpayers, tax experts, businesses, the public sector and the third sector. The response from citizens to the call for new tax suggestions has shown there is a real interest in how we can use tax as a means to deliver some of our wider objectives for Wales - such as tackling an environmental or social concerns, creating jobs and boosting growth, or helping to deliver crucial public services or infrastructure - or a combination of these.

Many have given their time and expertise to advise the Welsh Government in its preparations for tax devolution. I am grateful for their helpful contributions, and I look forward to continuing to work with individuals and organisations across Wales in the years ahead.

Our preparations for tax devolution are advanced. We continue to work hard to ensure a smooth transition when the Welsh taxes are introduced in April.

A handwritten signature in black ink that reads "Mark Drakeford". The signature is written in a cursive style.

Mark Drakeford AM  
Cabinet Secretary for Finance

## Introduction

Under section 23 of the Wales Act 2014<sup>1</sup>, Welsh Ministers and the Secretary of State for Wales are each required to report annually on the progress made in effecting the provisions under Part 2, until the first anniversary after the final provisions have been implemented. This is the third annual report by Welsh Ministers.

Section 23(7) of the Act specifies the annual reports must include the following information on the finance provisions:

- (a) *A statement of the steps that have been taken, whether by the maker of the report or by others, since the making of the previous report (or, in the case of the first report, since the passing of this Act) towards implementation of the provisions of this Part,*
- (b) *A statement of the steps that the maker of the report proposes should be taken, whether by the maker of the report or by others, towards the implementation of the provisions of this Part,*
- (c) *An assessment of the operation of the provisions of this Part that have been implemented,*
- (d) *An assessment of the operation of any other powers to devolve taxes to the Assembly or to change the powers of the Welsh Ministers to borrow money, and of any other changes affecting the provisions inserted or amended by this Part,*
- (e) *A statement of the effect of this Part on the amount of any payments made by the Secretary of State under section 118 of GOWA 2006 (payments into the Welsh Consolidated Fund), and*
- (f) *Any other matters concerning the sources of revenue for the Welsh Government that the maker of the report considers should be brought to the attention of Parliament or the Assembly.*

The reports are not required to address the following sections of the Wales Act 2014 – section 10 (Welsh taxpayers for social security or child support purposes); section 11 (Amendments to the definition of a Scottish taxpayer) and section 22 (Budgetary procedures), however Welsh Ministers have included progress towards delivering section 22 in this report.

The reports are due each year before the anniversary of the day on which the Act gained Royal Assent – 17 December 2014 – with the final report being due on, or as soon as practicable after, the first anniversary of the day on which the last of the provisions in Part 2 is implemented.

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

## Fiscal framework for the Welsh Government

1. Following negotiations between the Welsh Government and UK Government, the Cabinet Secretary for Finance and Local Government<sup>2</sup> and the Chief Secretary to the Treasury announced the agreement of a fiscal framework for the Welsh Government on 19 December 2016<sup>3</sup>.
2. The fiscal framework comprises the following package of arrangements:
  - Reform of the Barnett formula as applied to Wales – implementing the funding floor recommended by the Holtham Commission;
  - Agreement on the methodologies for adjusting the Welsh block grant following tax devolution (as this will reduce the revenue going to the UK Government) which reflect Wales' unique circumstances, including a method for adjusting the block grant for income tax, which ensures the characteristics of the tax base in Wales are appropriately reflected;
  - Borrowing – Wales' capital borrowing limit will increase to £1bn;
  - A new Wales Reserve to enable the Welsh Government to manage its budget across years – the Welsh Government will be able to save surplus revenues from devolved taxes and underspends on the Departmental Expenditure Limit in the Wales Reserve for use in future years;
  - Provision for independent oversight – giving independent bodies a role, where required, to provide input into disputes between the Welsh and UK Governments on matters relating to the fiscal framework agreement.
3. Taken as a whole, the package protects the Welsh Government's budget from undue risks which may arise following the devolution of tax powers, including the impact of some significant UK policy changes. The agreement also paves the way for the partial devolution of income tax to Wales – the introduction of Welsh rates of income tax – in April 2019.

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<sup>2</sup> Mark Drakeford AM was the Cabinet Secretary for Finance and Local Government from May 2016 to November 2017, when he became the Cabinet Secretary for Finance following a Cabinet reshuffle.

<sup>3</sup> <http://gov.wales/docs/caecd/publications/161219-fiscal-agreement-en.pdf>

## Welsh tax policy

4. On 12 June 2017, the Cabinet Secretary for Finance and Local Government published the *Tax Policy Framework*<sup>4</sup> and 2017 tax policy workplan<sup>5</sup>. The framework sets out how the Welsh Government intends to use its tax powers, including the five tax principles:

Welsh taxes should:

- Raise revenue to fund public services as fairly as possible;
  - Deliver Welsh Government policy objectives, in particular supporting jobs and growth;
  - Be clear, stable and simple;
  - Be developed through collaboration and involvement;
  - Contribute directly to the Wellbeing of Future Generations Act goal of creating a more equal Wales.
5. The work plan included the research areas under consideration by the Welsh Government – some of which are short term and include analysis to underpin the decisions on rates and bands for the new Welsh taxes – land transaction tax and landfill disposals tax, to be introduced in April 2018 – and longer-term work, such as a review of the overall balance of taxation between income and property.
  6. An update on progress, including a detailed tax rates and bands technical paper (annex), was published on 3 October 2017, alongside the Welsh Government's draft outline Budget<sup>6</sup>.

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<sup>4</sup> <http://gov.wales/docs/caecd/publications/170612-framework-en.pdf>

<sup>5</sup> <http://gov.wales/docs/caecd/publications/170612-workplan-en.pdf>

<sup>6</sup> <http://gov.wales/docs/caecd/publications/171003-welsh-tax-policy-report-a-en.pdf>

## Land transaction tax

Section 15 of the Wales Act 2014 amends the Government of Wales Act 2006 ("GOWA 2006") to enable the National Assembly for Wales to legislate for a Welsh tax on transactions involving interests in land. Section 16 and Schedule 2 amend UK legislation to dis-apply UK stamp duty land tax in relation to Wales. The amendments have effect on or after such date as is appointed by the Treasury by Order. Section 17 concerns the supply of information about land transactions in Wales to HMRC.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that stamp duty land tax would be 'switched off' from April 2018<sup>7</sup>.

### Legislation

7. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill passed through the National Assembly for Wales' legislative processes in the first half of 2017.
8. During the passage of the Bill, a number of amendments were introduced. These include the schedule for the higher rates for residential property transactions, the addition of an independent review of land transaction tax within six years of implementation, an obligation on the Welsh Revenue Authority to publish guidance for taxpayers where properties straddle the Wales-England border, and a commitment that the WRA would analyse land transaction tax data in relation to the higher rate to inform discussion with local authorities about the impact of the higher rates in their area. The Bill as passed also includes a number of amendments to the Tax Collection and Management (Wales) Act 2016.
9. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 received Royal Assent on 24 May 2017.
10. The first commencement order of the Act was made on 24 September 2017. This order commenced certain provisions on 18 October 2017. The provisions commenced were, primarily, those necessary to enable Welsh Ministers to use regulation-making powers before the date the tax goes live, 1 April 2018. The regulation-making powers commenced include the ability to:
  - Set the tax rates and tax bands for land transaction tax;
  - Set the amount of the relevant rent;
  - Create the transitional rules of the change from stamp duty land tax to land transaction tax;
  - Make administration requirements.
11. These regulations are mainly subject to the affirmative procedure and will be debated and voted on by the National Assembly in January 2018.

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<sup>7</sup> *Wales Bill: financial empowerment and accountability* Cm 8838, para 16:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294470/Wales\\_Bill\\_Command\\_Paper\\_-\\_English.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf)



12. Further provisions will be commenced in due course to ensure the Act, and the Tax Collection and Management (Wales) Act 2016, comes fully into force by 1 April 2018.

### Rates and bands

13. The tax rates and bands for land transaction tax were published in the Welsh Government's draft outline Budget 2018-19 on 3 October 2017<sup>8</sup> to aid scrutiny of the Welsh Government's tax and spending decisions. These tax rates and bands were subject to further consideration of any changes made to stamp duty land tax in the UK Government's Autumn Budget. Following the changes to stamp duty land tax for first-time buyers, new residential rates and bands were announced on 11 December<sup>9</sup>.
14. For residential properties, we have six bands and a progressive tax regime which mean around 80% of first-time buyers in Wales will pay no tax and around 90% of homebuyers in Wales will either pay the same or less tax than under stamp duty land tax. There are four rates for non-residential properties and three non-residential lease rates. Wales will have the lowest starting rate of tax for the purchase of business premises in the UK and all businesses buying premises up to £1.1m in Wales will either pay no tax or less tax than under stamp duty land tax.
15. Information about the considerations made in setting the rates and bands was included in the *Welsh Tax Policy Report* published alongside the draft outline Budget<sup>10</sup>. The tax revenue forecasts included in the draft Budget were assured by Bangor University and a description of the tax revenue forecast methodology is provided in its report<sup>11</sup>. Updated forecasts will be published with the final Budget on 19 December and will also be assured by Bangor University.
16. Regulations to bring the land transaction tax rates and bands into effect will be laid with the associated Explanatory Memorandum, including a Regulatory Impact Assessment, in January 2018.
17. In December 2017, HMRC wrote to indicate the savings from no longer operating stamp duty land tax in Wales, the cost to the Welsh Government of transitioning from stamp duty land tax to land transaction tax and the cost of implementing Welsh rates of income tax. These costs remain under discussion.

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<sup>8</sup> Draft Budget 2018-19 outline proposals:

<http://gov.wales/docs/caecd/publications/171003-budget-narrative-a-en.pdf>

<sup>9</sup> <http://gov.wales/about/cabinet/cabinetstatements/2017/lttratesandbands/?lang=en>

<sup>10</sup> <http://gov.wales/docs/caecd/publications/171003-welsh-tax-policy-report-a-en.pdf>

<sup>11</sup> Bangor University (2017) *Independent scrutiny and assurance of devolved tax forecasts for Wales*:

<http://gov.wales/docs/caecd/publications/171003-bangor-report-en.pdf>

## Landfill disposals tax

Section 18 of the Wales Act 2014 amends GOWA 2006 to enable the National Assembly for Wales to legislate for a Welsh tax on disposals to landfill. Section 19 amends Part 3 of the Finance Act 1996 to dis-apply UK landfill tax in relation to Wales.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that landfill tax would be 'switched off' from April 2018.

### Legislation

18. On 28 November 2016, the Cabinet Secretary for Finance and Local Government introduced the Landfill Disposals Tax (Wales) Bill to the National Assembly for Wales. The Landfill Disposals Tax (Wales) Bill passed through the National Assembly for Wales' legislative stages in the first half of 2017.
19. During the passage of the Bill, a number of significant amendments were introduced. These included the introduction at Stage 3 of section 91, which places a duty on the Welsh Ministers to have regard to the objective of reducing landfill disposals in Wales when exercising their powers and duties under the Act. The duty to prepare and publish a landfill disposals tax communities scheme and the addition of Schedule 1 Qualifying Materials were also introduced in Stage 2.
20. The Landfill Disposals Tax (Wales) Act 2017 received Royal Assent on 7 September 2017.
21. The first commencement order of the Act was made on 24 September 2017. This order commenced certain provisions on 18 October 2017. The provisions commenced were, primarily, those necessary to enable the Welsh Ministers to use their regulation making powers to:
  - Set the tax rates for landfill disposals tax;
  - Establish the customer insolvency credit;
  - Establish the requirements for determining the tax liability of waste fines, including loss on ignition testing;
  - Modify reliefs;
  - Amend Schedule 3, the contents of a landfill invoice.

These regulations are mainly subject to the affirmative procedure and will be debated and voted on by the National Assembly in January 2018.

22. Other provisions commenced include:
  - The duty for Welsh Ministers to have regard to the objective of reducing landfill disposals in Wales when exercising their powers and duties under the Act.
23. Further provisions commenced on 8 November include:
  - Information sharing provisions to enable Natural Resources Wales and local authorities to share information with the Welsh Revenue Authority (WRA);
  - The duty to prepare and publish a Landfill Disposals Tax Communities Scheme.

24. A second commencement order will be made in January 2018 to commence certain provision in January with the remaining provisions of the Act coming into force on 1 April 2018.

### Rates

25. The proposed tax rates for landfill disposals tax were published in the Welsh Government's draft outline Budget 2018-19, on 3 October 2017<sup>12</sup>.
26. There are three rates of tax – a lower rate for materials which meet the conditions set out in the Act, a standard rate for all other material and a new unauthorised disposals rate for taxable disposals made at places other than authorised landfill sites.
27. Information about the considerations made in setting the landfill disposals tax rates was included in the *Welsh Tax Policy Report*, published alongside the draft outline Budget<sup>13</sup>. The tax revenue forecasts were assured by Bangor University and a description of the tax revenue forecast methodology is provided in its report<sup>14</sup>.
28. Regulations to bring the landfill disposals tax rates into effect will be laid with the associated Explanatory Memorandum, including a Regulatory Impact Assessment, in January 2018.
29. In December 2017, HMRC wrote to indicate there would be no cost to the Welsh Government of transitioning from landfill tax to landfill disposals tax. HMRC will transfer to the Welsh Government the savings from no longer administering landfill tax in Wales.

### Landfill disposals tax communities scheme

30. The landfill disposals tax communities scheme is being established to support environmental and community projects in areas affected by the disposal of waste to landfill. The scheme will fund projects that support biodiversity, waste minimisation and environmental enhancements.
31. To maximise the amount of funding reaching communities, the scheme will be delivered as a grant with money allocated to a third party to distribute directly to projects.
32. On 13 December 2016, an update paper was published outlining key decisions made to date in developing the scheme and set out how we propose to shape it. Responses to the paper closed on 7 February 2017 and a summary of the responses was published on the Welsh Government website.
33. A procurement exercise for the appointment of the distributive body to administer the grant was published on 8 September and closed on 11 October. The appointment is due to be made in December.

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<sup>12</sup> *Draft Budget 2018-19 outline proposals:*

<http://gov.wales/docs/caecd/publications/171003-budget-narrative-a-en.pdf>

<sup>13</sup> <http://gov.wales/docs/caecd/publications/171003-welsh-tax-policy-report-a-en.pdf>

<sup>14</sup> Bangor University (2017) *Independent scrutiny and assurance of devolved tax forecasts for Wales:*  
<http://gov.wales/docs/caecd/publications/171003-bangor-report-en.pdf>

34. On 3 October 2017, the Cabinet Secretary for Finance and Local Government allocated £1.5m per year to the scheme for the next four years, as part of the Welsh Government's draft outline Budget 2018-19.

#### Readiness assessment

35. The UK and Welsh Governments will jointly assess readiness for the transition from stamp duty land tax and landfill tax to land transaction tax and landfill disposals tax from 1 April 2018. This assessment will be jointly undertaken as of 31 December 2017. A meeting of the Joint Exchequer Committee (Officials) will take place in early 2018 to assess readiness against the agreed criteria and will be followed by an exchange of Ministerial letters.

## **Welsh Revenue Authority**

36. On 18 October 2017, the Welsh Revenue Authority (WRA) was established. It is the first non-Ministerial department created by the Welsh Government and is legally responsible for the collection and management of Welsh devolved taxes. The WRA held its first board meeting at its new headquarters in Treforest in October.

### Collection of taxes

37. Substantial progress has been made over the past year to enable the WRA to become established, operational and ready to collect taxes from 1 April 2018. Registration for both landfill disposals tax and land transaction tax will begin in early 2018, enabling taxpayers and agents to register their details early, ensuring a smooth transition to filing and payment of tax returns from April 2018. Taxpayers and agents will be able to register and file their returns online.
38. The full cost of implementing the WRA over the two year period 2016-17 and 2017-18 is expected to be £6.3m, with annual operational costs from 2018-19 onwards of £6m.

### Appointments and people

39. The WRA chair, Kathryn Bishop, was appointed in July 2017 and the board members were appointed in September. Dyfed Alsop, the current WRA programme director was appointed as the first WRA chief executive. Recruitment to date has been timely and effective – the top two tiers of the WRA are now in place, including specialist expertise in HR, finance, legal, strategy, compliance, operations and data analysis. The WRA will build a bilingual operational capacity with the external recruitment of its customer-facing team. The WRA and Welsh Treasury have worked closely to ensure the transfer of knowledge to the new organisation to support the introduction of the devolved taxes.

### Stakeholders and partners

40. Stakeholders have volunteered to test the tax systems and guidance. Guidance will also be tested by the relevant tax committees of the Law Society and Chartered Institute of Taxation. Practitioners across the UK (including Scotland) will test both systems and guidance, including practitioners who operate along the Wales-England border. The guidance for registration will be published early in 2018 and all guidance will be published in advance of 1 April 2018.
41. Memoranda of understanding and information-sharing agreements are being developed with the Land Registry, the Valuation Office Agency and Revenue Scotland.
42. Work has progressed with HMRC to confirm readiness with discussions about the technical capability to transfer data to HMRC from April 2018. A Memorandum of understanding and information sharing agreement between the WRA and HMRC is nearing completion and will include data-sharing and joint compliance activity from April 2018.

43. Natural Resources Wales has been named in Welsh secondary legislation as a body to which the WRA may delegate functions. The detail of that delegation will be approved by the WRA board.

## Income tax

Sections 8 to 11 of the Wales Act 2014 provide for Welsh basic, higher and additional rates of income tax to be set by the National Assembly by way of resolution, and further define "Welsh taxpayers".

The Wales Act 2014, when originally enacted, made provision for a referendum to be held in Wales about whether the income tax provisions set out in the Act should come into force. These provisions in relation to a referendum were subsequently removed by section 17 of the Wales Act 2017<sup>15</sup>.

44. Following the agreement of the fiscal framework and the provision in the Wales Act 2017 removing the need for a referendum, the Cabinet Secretary for Finance and Local Government informed the National Assembly that the Welsh Government would work towards the introduction of Welsh rates of income tax in April 2019. This means that from April 2019, the National Assembly for Wales will decide whether to vary the rates of income tax paid by Welsh taxpayers or keep them at the same level as the rates paid by English and Northern Irish taxpayers<sup>16</sup>.
45. When Welsh rates of income tax are introduced, responsibility for most aspects of income tax will remain with the UK Government and HMRC will continue to collect the tax in Wales. HMRC has confirmed it can complete the necessary preparations in time to introduce Welsh rates of income tax in April 2019.
46. While the implementation of Welsh rates of income tax falls to HMRC and the UK Government, the Welsh Government has a close interest in this work. The Cabinet Secretary for Finance has set out five priorities for Wales, which have been acknowledged by the Financial Secretary to the Treasury:
  - Commitment from UK Government Ministers and HMRC senior officials to engage with the National Assembly's Finance Committee;
  - Agreement from HMRC to share timely and high-quality income tax data for Wales, to enable analysis to support advice on the setting of income tax rates, as set out in the fiscal framework;
  - Agreement of an approach to income tax compliance, which meets the needs of both the Welsh Government and HMRC;
  - Clear definition and agreement of costings;
  - Good communication with Welsh taxpayers, particularly in relation to Welsh language.
47. A cross-governmental project board, which includes HMRC and Welsh Government officials, has been established to manage delivery ahead of the 2019 devolution date.

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<sup>15</sup> The Wales Act 2017 received Royal Assent 31 January 2017:  
<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

<sup>16</sup> The Scottish Parliament decides the income tax rates for Scottish taxpayers.

A joint working group has also been established, which is focusing on communications, particularly around Welsh taxpayer identification, with a clear focus on the Welsh language.

48. The costs of implementing Welsh rates of income tax are to be finalised by HMRC. In December 2017, HMRC wrote to indicate its early estimate, based on the experience of implementing the Scottish rate of income tax, is between £5m-£10m. This is lower than the cost for the Scottish rate of income tax (latest estimate £20m-25m).
49. The Department for Work and Pensions is due to make changes to its systems to enable the implementation of Welsh rates of income tax in Wales, and is expected to deliver this in an orderly and efficient way.
50. The Welsh rates of income tax rates and forecast will form part of the draft outline Budget for 2019-20, published in autumn 2018. The Welsh Government has pledged not to increase Welsh rates of income tax during the current Assembly.
51. The Financial Secretary to the Treasury has committed to keep the National Assembly and the Finance Committee fully informed during the implementation process. HMRC has appointed its Director General for Customer Strategy and Tax Design as the additional accounting officer for Welsh rates of income tax, available to appear before the Finance Committee on request. The National Audit Office will report to the National Assembly annually on the performance of HMRC in relation to Welsh rates of income tax.



## Ability to create a new Welsh tax

Section 6 of the Wales Act 2014 amends GOWA 2006 to enable the creation of new devolved taxes by way of Her Majesty making an Order in Council. A recommendation to Her Majesty to make an Order in Council cannot be made until a draft of the statutory instrument containing the Order has been laid before and approved by each House of Parliament and the National Assembly. These could be existing UK taxes which the UK Government devolves to Wales or taxes newly created by the Welsh Government.

The Command paper issued by the UK Government alongside the Wales Bill (March 2014) provides further detail about how Welsh Government proposals for new taxes would, in the first instance, be assessed by the UK Government.

52. On 4 July 2017, the Cabinet Secretary for Finance and Local Government led a debate in the National Assembly, which noted the Wales Act 2014 powers to propose new taxes in areas of devolved responsibility and recognised the need to test the mechanism<sup>17</sup>. The Cabinet Secretary committed to engage with the public, with businesses, with experts and with academics to bring forward ideas for new taxes for Wales. This work forms a strand of the tax policy work plan published in June<sup>18</sup>.
53. During the summer, the Welsh Government considered a range of tax ideas, including many suggested by the public following the National Assembly debate and the ideas proposed by the Bevan Foundation in its 2016 report on potential taxes for Wales<sup>19</sup>. The initial sift involved considering the ideas against the Welsh Government's tax principles (see p4) and the aims of the national strategy *Prosperity for All*.<sup>20</sup>
54. On 3 October, the Cabinet Secretary for Finance and Local Government announced a shortlist of four possible tax ideas<sup>21</sup>:
- A disposable plastic tax;
  - A levy to fund social care;
  - A tourism tax;
  - A vacant land tax.
55. Following further consideration of the evidence and discussion with stakeholders over the next few months, the Cabinet Secretary will write to the UK Government in

<sup>17</sup> The motion in full, agreed unanimously, was:

1. Notes that the Wales Act 2014 allows for the creation of new Welsh taxes.
2. Recognises that it will be necessary to test this new aspect of the devolution machinery.
3. Welcomes a wide range of potential ideas for use of this new fiscal possibility in Wales.
4. Believes that any new taxes should adhere to the views expressed by the Cabinet Secretary for Finance and Local Government, in his written statement issued on 5 July 2016, that 'there should be no change for change's sake'.
5. Calls on the Welsh Government to make arrangements for an independent review of any new taxes to be completed within 6 years of their introduction.

<http://www.assembly.wales/en/bus-home/pages/rop.aspxProceedings=04/07/2017>

<sup>18</sup> <http://gov.wales/docs/caecd/publications/170612-workplan-en.pdf>

<sup>19</sup> Bevan Foundation (2016) *Taxes for Good: New Taxes for a Better Wales*

<https://www.bevanfoundation.org/publications/tax-good-new-taxes-better-wales/>

<sup>20</sup> <http://gov.wales/docs/strategies/170919-prosperity-for-all-en.pdf>

<sup>21</sup> *Welsh Tax Policy Report 2017*, pages 22-23:

<http://gov.wales/docs/caecd/publications/171003-welsh-tax-policy-report-a-en.pdf>

early 2018 to put forward one of the proposals, as part of the process to test the Wales Act mechanism.

## Borrowing

Section 20 of the Wales Act 2014 amends GOWA 2006 to enable the Welsh Ministers to borrow up to £500m to manage cash-flow (to smooth fluctuations in tax receipts and address temporary mismatches between tax and spending) and, subject to the approval of HM Treasury, up to a total of £500m to meet capital expenditure. The new borrowing powers will come into force by way of a Commencement Order made by the Treasury alongside the devolution of stamp duty land tax and landfill tax (planned for April 2018).

Section 21 of the Wales Act 2014, once commenced, will repeal the (more limited) borrowing powers in Schedule 3 to the Welsh Development Agency Act 1975, which have been conferred on the Welsh Ministers.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies:

### *Capital Borrowing*

- Within the £500m limit for capital borrowing, the Welsh Government may borrow up to £125m per annum;
- Sources of capital borrowing are limited to the National Loans Fund (via the UK Government) or commercial banks;
- Until the new capital borrowing powers come into effect (planned for April 2018), the Welsh Government may borrow under Schedule 3 to the Welsh Development Agency Act 1975 for the purposes of funding improvements to the M4 in South East Wales;
- The UK Government will review the Welsh Government's capital borrowing ceiling at each Spending Review, in the light of economic and fiscal circumstances, and the level of devolved taxation.

### *Revenue Borrowing*

- Within the £500m limit for revenue borrowing, the Welsh Government may borrow up to £200m per annum;
- A new cash reserve will assist the Welsh Government in managing volatility by providing a mechanism for saving 'surplus revenues' (for example, tax receipts which come in above forecasts) – the first call on a surplus will be the repayment of any outstanding current borrowing, after which any remainder could be paid into a cash reserve or used to finance additional public spending on devolved matter.

### Capital borrowing

56. Under the Wales Act 2017<sup>22</sup>, and in line with the fiscal framework agreement, the Welsh Government's limit for capital borrowing will be increased from £500m to £1bn. This increase will take effect from April 2018, when the Welsh devolved taxes – land transaction tax and landfill disposals tax – are introduced. Under the fiscal

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<sup>22</sup> The Wales Act 2017 received Royal Assent on 31 January 2017:  
<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

framework, the annual capital borrowing limit will increase from £125m to £150m when Welsh rates of income tax are introduced in April 2019.

57. The Welsh Government plans to make use of up to £375m of capital borrowing over the next three years (£125m in each year). The remaining £50m (£25m per annum 2019-20 and 2020-21) is being held in reserve.
58. The take-up of planned borrowing will be carefully considered during each budget period and will only be used when all available conventional, cheaper sources of capital financing have been exhausted.
59. The initial focus has been on operationalising direct borrowing powers, so no formal request has been made to activate the powers associated with the Welsh Government issuing bonds to raise market finance<sup>23</sup>.

#### Revenue borrowing and the Wales Reserve

60. Given the block grant offset methodology agreed for income tax as part of the fiscal framework, the Welsh Government expects the £500m revenue borrowing limit provided by the Wales Act 2014 to be sufficient to cover fluctuations in the revenue stream from devolved tax powers.
61. As agreed in the fiscal framework, a new Wales Reserve will be introduced from April 2018. This will enable unspent resources from tax receipts and the block grant to be stored for future years. The Wales Reserve will be capped at £350m and annual drawdowns limited to £125m for revenue spending and £50m for capital spending. There will be no annual limits for payments into the reserve.
62. As part of the adjustment made to enable the full devolution to Wales of non-domestic rates (April 2015), the UK Government will add £98.5m to the Wales Reserve. The Welsh Government will be able to add any underspend from 2017-18 (up to a limit of £251.5m) to the reserve.

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<sup>23</sup> Following intergovernmental and cross-party talks, the UK Government agreed to extend the Welsh Government's borrowing powers to include the issue of bonds: Command Paper *Powers for a purpose: towards a lasting devolution settlement for Wales* (Cm 9020), 27 February 2015, chapter 4, p51: <https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

## Budgetary procedures

Section 22 of the Wales Act 2014, which amends GOWA 2006, provides for the Assembly to legislate for its own budgetary procedures.

63. A report on progress towards establishing new budgetary procedures for the National Assembly is not required under the Wales Act 2014, however the Welsh Government considers it appropriate to review progress.
64. On 21 June 2017, the National Assembly for Wales agreed revisions to its Standing Orders to implement a new budget scrutiny process. In addition, a budget protocol was agreed setting out further details of the revised process. The Welsh Government's draft Budget for 2018-19, published in two stages on 3 and 24 October, was laid and scrutinised under these new procedures.
65. The Wales Act 2017 provides for the devolution of powers related to financial controls, accounts and audit. This enables the Welsh Government and National Assembly to develop and introduce comprehensive Welsh financial framework legislation incorporating both budgetary and accountability arrangements.
66. Further improvements include the alignment of the Welsh Government's Budget motion and consolidated accounts with that of HM Treasury's budget boundary. A phased approach to the implementation of alignment has been adopted. The Government of Wales Act 2006 (Budget Motions and Designated Bodies) Order 2017 was laid on 28 September 2017, designating health trusts in Wales and five of the Welsh Government's subsidiary companies, completing the second phase of this exercise.
67. The next phase of alignment will consider all other Welsh Government bodies classified by the Office of National Statistics to the Central Government sector.

### Independent scrutiny of tax revenue forecasts

68. Following a procurement exercise, Bangor University Business School was contracted to undertake independent scrutiny of the Welsh Government's tax revenue forecasts for inclusion in the 2018-19 Budget. The university's report, which endorsed the Welsh Government's forecasts, was published alongside the draft outline Budget on 3 October.
69. The Cabinet Secretary for Finance is considering the longer-term options for the independent production of tax revenue forecasts, including a role for the Office for Budget Responsibility (OBR).

### Block grant adjustment for the Welsh taxes

70. The methodologies for adjusting the Welsh block grant following the devolution of tax powers were agreed as part of the fiscal framework. The adjustment for 2018-19, in response to the introduction of land transaction tax and landfill disposals tax, and the end of stamp duty land tax and landfill tax in Wales, will be calculated on the basis of the Office for Budget Responsibility's November 2017 Economic and Fiscal Outlook.

The UK Government has committed to publishing the details by the end of the year. Discussions are continuing between the Welsh Government and UK Government about the extent to which this adjustment should allow for the behavioural effect of forestalling<sup>24</sup>.

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<sup>24</sup> This is a one-off effect, by which purchases are deliberately brought forward so they can be completed under the existing tax system. The agreement on the Scottish Government's fiscal framework in early 2016 included an explicit amendment to the block grant adjustment for the Scottish equivalent of land transaction tax (land and buildings transaction tax) to take account of forestalling.

## Appendix 1: Engagement

### Tax Advisory Group (TAG)

TAG provides strategic advice to Welsh Ministers about tax policy and administration and considers the impact new policies may have on the people of Wales. Its membership represents a broad range of perspectives and expertise to ensure that the needs of the people of Wales are represented at the highest level.

The group is chaired by the Cabinet Secretary for Finance and meets three times a year.

#### *Remit*

- To provide advice and support in the development of tax policy and administration in Wales;
- To give advice about the wider impact of Welsh tax policy on stakeholders and the economy and social fabric of Wales;
- To help to improve communication across a range of stakeholders about tax policy and administration to better inform Welsh Government tax consultations and legislation.

#### *Members<sup>25</sup>*

Andrew Evans, Geldards LLP

Frank Haskew, Institute of Chartered Accountants in England and Wales

Councillor Anthony Hunt, Welsh Local Government Association

Janet Jones, Federation of Small Business

Robert Lloyd Griffiths, Institute of Directors

Martin Mansfield, Wales TUC

Ruth Marks, Wales Council for Voluntary Action

David Phillips, Institute for Fiscal Studies

Kay Powell, the Law Society

Ian Price, CBI Wales

Leighton Reed, Broomfield & Alexander Ltd, representing the Institute of Chartered Accountants in England and Wales

Dr Victoria Winckler, the Bevan Foundation

Further information about the TAG is available at:

<http://gov.wales/funding/fiscal-reform/tax-policy-framework/tax-advisory-group/?lang=en>

### Tax Forum

The Tax Forum engages with professions and representative organisations about tax policy and administration. It provides a two-way conversation with tax professionals about the development of tax policy and legislation in Wales. It meets at least twice a year.

The Tax Forum is chaired by the chief executive of the Welsh Revenue Authority (WRA).

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<sup>25</sup> Membership as at November 2017.

## *Remit*

- To discuss, inform and feedback about the approach to the implementation of devolution of taxes in Wales;
- To provide advice and support about communicating the development of tax administration and policy in Wales;
- To give advice about the wider impact of Welsh taxes and tax policy on stakeholders in Wales;
- To work with the Welsh Revenue Authority in enabling communication across key established networks with regards to tax administration.

## *Members*

The membership is drawn from those professions and organisations on which changes in tax administration will have a direct effect. The attendees vary from meeting to meeting, and include representatives of business, the public sector and the third sector. Those who have attended meetings to date are representatives of the following:

Association of Chartered Certified Accountants  
Association of Taxation Technicians  
Bangor Law School  
Cardiff Council  
Cardiff Law School  
Chartered Institute of Public Finance and Accountancy  
Chartered Institute of Taxation  
Conwy Council  
Country Landowners Association  
Country Land and Business Association Limited  
Cyngor Gwynedd Council  
Federation of Small Businesses  
HM Revenue and Customs  
Institute of Chartered Accountants of England and Wales  
Land Registry  
The Law Society of England and Wales  
Office of Tax Simplification  
Royal Institute of Chartered Surveyors Wales  
Valuation Office Agency  
Wales Audit Office  
Wales Social Partners Unit  
Wildlife Trust Wales  
Woodland Trust  
Welsh Local Government Association  
Wales Council for Voluntary Action

Further information about the Tax Forum is available at:  
<http://gov.wales/funding/fiscal-reform/tax-policy-framework/tax-forum/?lang=en>



## Other ways to keep in touch

### *Social media*

Tax devolution in Wales is promoted on social media through a Welsh Treasury twitter account @WelshTreasury: <https://twitter.com/WelshTreasury>

A range of communications tools, including infographics, Twitter cards, Survey Monkey and Doopoll are used to communicate and engage with stakeholders.

### *Newsletter*

The Welsh Treasury newsletter, issued every two to three months, provides brief updates about progress and links to further information.

New subscribers can sign up at:

[https://public.govdelivery.com/accounts/UKWALES/subscriber/new?topic\\_id=UKWALES\\_102](https://public.govdelivery.com/accounts/UKWALES/subscriber/new?topic_id=UKWALES_102)

### *Website*

The Welsh Treasury pages on the Welsh Government website offer further information about tax devolution in Wales, including publications to view or download – both formal publications and communications tools, such as factsheets and leaflets.

## **Appendix 2: Further information**

A range of further information about tax devolution to Wales is available on the internet.

### Background

#### *Independent Commission on Funding and Finance for Wales (Holtham Commission)*

The commission was established by the Welsh Government to consider the funding mechanism for Wales and how it could be improved, including the case for devolution of tax and borrowing powers. It issued two reports with recommendations (2009 and 2010). These and other materials published by the commission are available at:  
<http://gov.wales/funding/fiscal-reform/framework/reports/?lang=en>

#### *Commission on Devolution in Wales (Silk Commission)*

The UK Government's commission was tasked with considering the financial and constitutional arrangements for Wales. Its first report (2012) looked at the case for devolving tax and borrowing powers and related institutional changes:  
<http://webarchive.nationalarchives.gov.uk/20140605075122/http://commissionondevolutioninwales.independent.gov.uk/>

### Welsh Government and the National Assembly

#### *Consultations*

The collection and management of devolved taxes, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/devolved-taxes/?lang=en>

Land transaction tax, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/land-transaction-tax/?lang=en>

Landfill disposals tax, including a summary of responses:  
<http://gov.wales/betaconsultations/finance/landfill-disposals-tax/?lang=en>

#### *Tax Collection and Management (Wales) Act 2016*

This Act puts in place the legal framework for the collection and management of devolved taxes in Wales, including establishing the Welsh Revenue Authority (WRA):  
<http://www.legislation.gov.uk/anaw/2016/6/contents/enacted>

#### *Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017*

This Act provides for the introduction of a land transaction tax from April 2018 and includes measures to tackle the avoidance of devolved taxes:  
<http://www.legislation.gov.uk/anaw/2017/1/contents>

#### *Landfill Disposals Tax (Wales) Act 2017*

This Act provides for the introduction of a landfill disposals tax from April 2018:  
<http://www.legislation.gov.uk/anaw/2017/3/contents/enacted>

## UK Government and Parliament

### *Wales Act 2014*

UK legislation paving the way for devolution of tax and borrowing powers:  
<http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

### *Wales Bill 2014 Command Paper*

Some aspects of the arrangements for devolving tax and borrowing powers (such as target dates, early access to borrowing and the approach to creating new devolved taxes) were set out in the UK Government Command Paper Wales Bill: financial empowerment and accountability, published in March 2014:

<https://www.gov.uk/government/publications/wales-bill>

### *Command Paper: Powers for a purpose: towards a lasting devolution settlement for Wales*

Issued in February 2015, this committed the UK Government to introduce a floor in the level of relative funding it provides to the Welsh Government; to consider the case and options for devolving further powers to the Assembly over air passenger duty; and to enable the Welsh Government to issue bonds:

<https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

### *Welsh Government's fiscal framework*

Published 19 December 2017, this describes the funding arrangements to support the implementation of the fiscal provisions in the Wales Act 2014 and Wales Act 2017.

<http://gov.wales/docs/caecd/publications/161219-fiscal-agreement-en.pdf>

### *Wales Act 2017*

The Wales Act 2017, which removed the requirement for a referendum on Welsh rates of income tax and increased the capital borrowing limit for the Welsh Government, received Royal Assent 31 January 2017:

<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

### **Annex 3: Acronyms used in this report**

GOWA 2006	Government of Wales Act 2006
HMRC	Her Majesty's Revenue and Customs
OBR	Office for Budget Responsibility
TAG	Tax Advisory Group
WRA	Welsh Revenue Authority

Document is Restricted

## Agenda Item 6



**Rt Hon Alun Cairns MP**  
Secretary of State for Wales  
Ysgrifennydd Gwladol Cymru

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Simon Thomas  
Chair  
Finance Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

Ref: 646SUB 17

*20feet*  
December 2017

A handwritten signature in cursive script that reads 'Simon Thomas'.

Thank you for your letter inviting me to attend an evidence session with the Committee in the New Year. Unfortunately due to diary commitments I am unable to attend.

Last week I published the UK Government's Third Report into the implementation of part 2 of the Wales Act 2014. I attach a copy of this report for your information which the Cabinet Secretary for Finance has laid in the National Assembly. I am sure you will agree that this report demonstrates the significant progress that is being made towards implementing the Wales Act 2014 to ensure a smooth transition to devolved taxes from 1 April.

The Government included the requirement to report annually on the implementation of Part 2 of the Wales Act 2014 to ensure that the new tax and borrowing powers are transferred in a transparent manner and that the respective legislatures are kept informed of progress. I will therefore continue to report annually on this progress until Part 2 of the 2014 Act is fully implemented. I trust that the UK Government's reports are valuable in the Committee's considerations.

A handwritten signature in cursive script that reads 'Yours, Alun'.

**Rt Hon Alun Cairns MP**  
Secretary of State for Wales  
Ysgrifennydd Gwladol Cymru

**THE UK GOVERNMENT'S THIRD ANNUAL REPORT  
ON THE IMPLEMENTATION AND OPERATION OF  
PART 2 (FINANCE) OF THE WALES ACT 2014**





# Third Annual Report on the Implementation and Operation of Part 2 (Finance) of the Wales Act 2014

Presented to Parliament pursuant to Section 23(1)(b) of  
the Wales Act 2014

Presented to the National Assembly for Wales pursuant to  
Section 23(1)(c) of the Wales Act 2014

December 2017



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## **FOREWORD**

This report sets out the progress in implementing the tax and borrowing powers under part 2 of the Wales Act 2014.

The Wales Act 2014 provides significant new powers for the National Assembly for Wales and Welsh Government that deliver true accountability into devolved governance in Wales. Three years on from its enactment we are continuing to work with the Welsh Government towards its full implementation.

Most significantly, in December last year, the UK and Welsh Governments reached an agreement on a fiscal framework for Wales. The framework sets out the Welsh Government's funding arrangements to support the implementation of the Wales Act 2014 including how the block grant will be adjusted to take account of tax devolution. The historic agreement also ensures that the Welsh Government will have a fair level of funding for the long term with the implementation of a needs based factor in the Barnett formula for Wales. The introduction of the needs based factor at Budget will result in an additional £69 million of spending power for the Welsh Government over the next three years.

The Wales Act 2017 made further provision for the devolution of tax and borrowing to the Assembly, removing the requirement for a referendum before the devolution of Welsh Rates of Income Tax and doubling the Welsh Government's capital borrowing limit. Taken together with the further devolution provided for in the Wales Act 2017 as part of the new settlement the National Assembly and the Welsh Government will be strengthened, more accountable and more mature institutions, with more levers to support economic growth in Wales.

**RT HON ALUN CAIRNS MP**  
**SECRETARY OF STATE FOR WALES**

## CHAPTER 1

### INTRODUCTION

#### Scope and Content of this Report

1. This is the third report on the implementation of Part 2 of the Wales Act 2014 since the Act gained Royal Assent on 17 December 2014.
2. Part 2 of the Wales Act 2014 deals exclusively with the devolution of financial powers. These include:
  - the creation of new Welsh Rates of Income Tax;
  - the disapplication of UK Stamp Duty Land Tax in Wales and provision for the introduction of a new Welsh tax on land transactions;
  - the disapplication of UK Landfill Tax in Wales and provision for the introduction of a new Welsh tax on disposals to landfill;
  - provision for borrowing by Welsh Ministers; and
  - the power to create new devolved taxes.
3. The financial provisions will be implemented over a number of years with the timetables for Stamp Duty Land Tax and Landfill Tax having been set out in the Command Paper<sup>1</sup> which accompanied the publication of the Wales Bill in March 2014.
4. In order that both Parliament and the National Assembly for Wales (the Assembly) are fully informed through this process, section 23 of the Wales Act 2014 requires the Secretary of State for Wales and Welsh Ministers to report annually on the implementation of this part of the Act. In order that both Parliament and the Assembly are informed of the views of both administrations:
  - the Secretary of State for Wales is required to report to Parliament and provide a copy of the report to Welsh Ministers
  - Welsh Ministers are required to lay the report before the Assembly, and to report themselves to the Assembly and provide a copy to the Secretary of State
  - the Secretary of State is required to lay the Welsh Ministers' report before both Houses of Parliament.

Both Governments will continue to report until the first anniversary of the day on which the last provisions of Part 2 come into force.

5. Section 23(7) of the Wales Act 2014 requires the annual reports to contain:

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<sup>1</sup> Cm 8838 *Wales Bill: Financial Empowerment and Accountability*  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294470/Wales\\_Bill\\_Command\\_Paper\\_-\\_English.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf)

*(a) a statement of the steps which have been taken, whether by the maker of the report or by others, since the making of the previous report (or, in the case of the first report, since the passing of this Act) towards the commencement of the provisions of this Part,*

*(b) a statement of the steps which the maker of the report proposes should be taken, whether by the maker of the report or by others, towards the commencement of the provisions of this Part,*

*(c) an assessment of the operation of the provisions of this Part which have been commenced,*

*(d) an assessment of the operation of any other powers to devolve taxes to the Assembly or to change the powers of the Welsh Ministers to borrow money, and of any other changes affecting the provisions inserted or amended by this Part,*

*(e) the effect of this Part on the amount of any payments made by the Secretary of State under section 118 of Government of Wales Act 2006 (payments into the Welsh Consolidated Fund), and*

*(f) any other matters concerning the sources of revenue for the Welsh Government that the maker of the report considers should be brought to the attention of Parliament or the Assembly.*

6. Annex A provides a detailed list of the paragraphs in this report which address each of these requirements. However, the report is not limited to these requirements, and may also contain any other matters that each Government believes to be relevant or useful to both Parliament and the Assembly.

## CHAPTER 2

### WELSH RATES OF INCOME TAX

7. The Wales Act 2014 established that subject to the outcome of a referendum in Wales on the introduction of Welsh Rates of Income Tax, the main UK rates of income tax applied to non-savings/non-dividend income would be reduced by 10p for Welsh taxpayers, and the Assembly would be able to set, annually, new Welsh Rates of Income Tax (WRIT), which would be added to the reduced UK rates. The rest of the income tax structure remains a non-devolved matter, and continues to be determined by the UK Parliament.
8. The Wales Act 2017, which received Royal Assent on 31 January 2017, removed the requirement to hold a referendum, paving the way for the introduction of WRIT in April 2019.
9. HMRC will administer WRIT as part of the UK's income tax system. HMRC has experience of introducing a similar system when it implemented the Scottish Rate of Income Tax in 2016 and further Scottish income tax powers in 2017. The approach used for Scottish income tax forms the basis of HMRC's approach to implementing WRIT but with modifications to take account of the specific situation of Wales.
10. HMRC is committed to working collaboratively and constructively with the Welsh Government and other stakeholders throughout its implementation and future administration of WRIT. The Welsh Government pays for the costs of implementation.

#### Steps taken towards implementation

##### *Project governance*

11. HMRC has put in place a number of governance arrangements to ensure the effective oversight and accountability of its implementation of WRIT. These arrangements will ensure that the Welsh Government and the Assembly are fully sighted on the implementation process and its associated costs.
12. In May 2017 HMRC appointed Jim Harra, Tax Assurance Commissioner and Director General for Customer Strategy and Tax Design, as Additional Accounting Officer (AAO) for WRIT. The AAO is accountable for the implementation and collection of WRIT and will give evidence before Committees of the Assembly as required, to keep the Assembly fully informed and engaged in the implementation process<sup>2</sup>. HMRC will provide an annual extract from the audited HMRC accounts on WRIT to the Assembly.

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<sup>2</sup> Full details of the responsibilities of Accounting Officers are shown at Chapter 3 of the HM Treasury document, Managing Public Money: [http://www.hm-treasury.gov.uk/d/mpm\\_ch3.pdf](http://www.hm-treasury.gov.uk/d/mpm_ch3.pdf)

13. In July 2017 HMRC set up a new Welsh Tax Devolution Programme Board. The Board meets at least every two months and is chaired by a HMRC Senior Business Sponsor with representation from the Welsh Government, HM Treasury and the Wales Office of the Secretary of State for Wales. The Programme Board provides senior oversight of delivery, ensures any risks or issues that may impede delivery are effectively managed and provides a challenge to, and escalation route for, both the WRIT and Joint SDLT / Landfill Tax Project Boards (see chapter 3).
14. Sitting below the Programme Board, HMRC set up a Welsh Income Tax Devolution Project Board to manage the implementation of WRIT. The Project Board meets monthly and is a cross-governmental group of officials chaired by a HMRC Senior Business Sponsor, with representation from Welsh Treasury, the Wales Office, Department for Work and Pensions and HM Treasury. The Project Board makes decisions within delegated spending limits; provides direction and leadership for the project; and manages risks to delivery.
15. HMRC has also set up two monthly sub-groups on communications and risks that report to the Project Board. These are issue-specific groups to oversee our approach to communications and to actively manage and review risks.
16. Working collaboratively with the Welsh Government underpins HMRC's approach to delivering WRIT. To facilitate this, HMRC and the Welsh Government signed a Memorandum of Understanding in November 2017 that sets out their respective responsibilities in relation to establishing and operating WRIT efficiently and effectively. While it has no formal legal force, both Governments expect its terms to be followed.

### *Communications*

17. As mentioned above, HMRC has set up a monthly Communications Sub-Group, with representation from the Welsh Government and the Wales Office. The Communications Sub-Group has started work designing and implementing a communications and engagement strategy to support the implementation of WRIT. Welsh language provision is a key consideration for the Sub-Group as it plans communications with taxpayers.
18. Specifically, HMRC will work collaboratively with the Welsh Government within the Sub-Group to identify and develop key elements of the communications and engagement strategy, including stakeholder analysis, key messaging and the development of bilingual communications products.

### *Welsh taxpayer identification*

19. Correctly identifying Welsh taxpayers is of central importance to the effective and accurate operation of WRIT. Identification of Welsh taxpayers will be by reference to HMRC address records. HMRC is exploring the particular requirements for WRIT brought about by the populous border region between England and Wales and the challenges that this might pose for Welsh taxpayer identification and the implications of this for HMRC's assurance and communications activity.

### *IT*

20. HMRC is in the process of developing the IT solution in partnership with suppliers that will set out in detail what IT changes it will have to make next year to implement WRIT.

### *Costs*

21. HMRC estimates the overall cost of implementing WRIT will be between £5 and 10 million.

22. This is an early estimate based on our experience of implementing the Scottish rate of income tax (SRIT). They are lower than those for SRIT because HMRC is able to take advantage of system changes already made to accommodate SRIT.

23. Up to 14 December 2017, HMRC has invoiced the Welsh Government for £69,077 to implement WRIT.

### *Welfare*

24. DWP is preparing to make the necessary changes to its infrastructure for the introduction of WRIT from the tax year commencing 6 April 2019. DWP propose to agree with the Welsh Government the financial and practical arrangements for ensuring DWP-administered taxable benefits and associated IT systems recognise and interact with WRIT, and that benefit recipients, who are also Welsh taxpayers, have the correct tax information recorded for HMRC purposes.

25. The agreement to be reached with the Welsh Government is likely to take the form of an Exchange of Letters accompanying a detailed technical Annex and will be published. Work needed to identify the IT systems and clerical processes that will be impacted by WRIT has been completed and DWP has secured the necessary approval for the changes to be made and completed by the April 2019 implementation date.

### **Steps to be taken towards implementation in 2018**

26. Much of the activity needed to implement WRIT will take place in 2018.



27. With regards to IT, this will include changes that:
- Introduce a new “C”<sup>3</sup> code into the PAYE system to identify Welsh taxpayers;
  - help employers to differentiate between UK and Welsh taxpayers;
  - update HMRC’s online calculators for Self Assessment and PAYE;
  - update HMRC’s Personal Tax Account;
  - support third party software developers to update their own products to recognise WRIT; and
  - update the systems used for enforcement and compliance purposes.
28. With regards to Welsh taxpayer identification, HMRC will carry out a wide range of activities during 2018 to ensure that HMRC address data is as accurate as possible before WRIT comes into operation. This will include actions to identify, cleanse and assure the accuracy of Welsh addresses on HMRC’s systems.
29. The above will be supported by a coherent and consistent programme of communications targeted at key audiences, such as employers, agents, software developers and individual taxpayers designed in conjunction with the Welsh Government. HMRC will undertake a range of internal communications to inform its staff of the changes brought about by WRIT and the impacts it will have on HMRC business.

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<sup>3</sup> Welsh taxpayers will be identified on tax coding notices via a “C” code instead of a “W” code to reflect *Cymru* rather than *Wales*

## **CHAPTER 3**

### **WELSH TAXES ON LAND TRANSACTIONS AND DISPOSALS TO LANDFILL**

#### **Introduction**

30. The Wales Act 2014 provides for the power to tax land transactions and waste disposals to landfill sites in Wales to be devolved to the Welsh Government and for Stamp Duty Land Tax (SDLT) and Landfill Tax to be dis-applied in Wales.
31. In summer 2017, the Assembly passed the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 and Landfill Disposals Tax (Wales) Act 2017 that provide for the introduction of a Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) to be introduced on 1 April 2018. The UK taxes will cease to apply in Wales at this point and a corresponding adjustment will be made to the Welsh block grant.
32. The Welsh Revenue Authority (WRA) was established on 18 October 2017 and will administer both LTT and LDT from 1 April 2018.
33. A joint project was set up by HMRC in 2016 to manage the disapplication of both SDLT and Landfill Tax and the transition to LTT and LDT in Wales. The Joint Project Board includes representatives from HMRC and the Welsh Government (since October 2017 the WRA). Board members are involved in decision making to ensure that the project provides effective solutions and value for money. HMRC is represented on the Welsh Government's Operational Policy and Delivery Project Board. This representation gives both HMRC and Welsh Government visibility of key decisions and allows a collaborative and joined-up approach to project delivery.
34. HMRC and the Welsh Government are working closely together on tax, legal and operational issues to ensure a smooth transition to the devolved taxes. To facilitate this HMRC and the Welsh Government signed a Memorandum of Understanding on Land Transaction Tax and for the disclosure of information in 2016.
35. The Welsh Government pays HMRC's costs associated with ceasing to operate SDLT in Wales. Due to the relatively small numbers of Landfill Tax operators affected by the changes being implemented, and the fact that relatively few changes are to be required to HMRC's systems, HMRC has agreed that any costs associated with the disapplication of Landfill Tax in Wales will not be passed on to the Welsh Government. HMRC will transfer to the Welsh Government the savings from no longer administering these taxes in Wales.

## Steps taken towards implementation

### *Project governance*

36. The joint project is overseen by the Welsh Tax Devolution Programme Board (see para 14 above).
37. HMRC's internal Change, Assurance and Investment unit carried out a "Critical Friend Review" of the Joint SDLT and Landfill Tax Project on 1-2 November 2017, assessing the project as Amber-Green and concluding the project "*will be able successfully to achieve its live implementation date*". The purpose of the review was to give independent assurance on the current status of the project in respect of governance, resource and processes and that it is on course to deliver its objective of dis-applying the taxes in Wales on 1 April 2018. The project is acting on both recommendations produced by the review.
38. Welsh Government and HMRC officials have worked together to establish criteria that will be used to assess the readiness of both Governments for the disapplication of the UK taxes and the introduction of their Welsh replacements. At the time of writing it is anticipated that both Governments will be in a position to make assessments of readiness against that criteria by 31 December 2017.

### *Communications*

39. A Joint Communications Group ("JCOMM") was set up in February 2017 to develop a collaborative approach between HMRC and the Welsh Government on communicating the tax changes. JCOMM has representation from HMRC, the Welsh Government (since October 2017 the WRA) and Land Registry and reports to the Project Board.
40. Members are working with a range of external stakeholders on the development of joint guidance explaining the transitional arrangements between the taxes, which will be published early next year. Work is also underway on updates to GOV.UK and key stakeholders in advance of the transition date.
41. ENTRUST, the HMRC appointed regulator of the Landfill Communities Fund (LCF), which will close in Wales after a transitional period, held a Wales closure workshop in Cardiff in October 2017 for environmental bodies and published updated guidance about the closure of the LCF in Wales on their website in November<sup>4</sup>. The Welsh Government will introduce the landfill disposals tax communities scheme from April 2018<sup>5</sup>.

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<sup>4</sup> Further information is available on ENTRUST's website: <http://www.entrust.org.uk/landfill-community-fund/wales/>

<sup>5</sup> Further information at: <http://gov.wales/funding/fiscal-reform/welsh-taxes/landfill-disposals-tax/communities-scheme/?lang=en>

## *IT*

42. Work has started on the changes required to HMRC's systems. These are: changes to HMRC's systems to prevent transactions liable for LTT being submitted and processed for SDLT; and arranging the transfer of LTT transactions data from WRA to HMRC and the Valuation Office Agency (VOA).

## *Costs*

43. HMRC estimates the overall cost of transitioning to LTT in Wales will be £1.75 to 2 million. This is higher than the original estimate of £1 million given to the Welsh Government largely due to changes to HMRC's IT platform and increasingly sophisticated cybersecurity systems and processes.

44. Up to 14 December 2017, HMRC has invoiced the Welsh Government for £289,893 to implement the transition to LTT in Wales.

## **Steps to be taken towards implementation in 2018**

45. The transition to the devolved taxes is due to take place on 1 April 2018. This is also the *Principal Appointed Day* when the new reserved powers model of Welsh devolution comes into force.

46. A meeting of the Joint Exchequer Committee (Officials) will take place in January to assess HMRC and the WRA's joint readiness for the transition to the new taxes, followed by an exchange of Ministerial correspondence. Subject to agreement to transition, HMRC will make Appointed Day Orders to switch off SDLT and Landfill Tax in Wales.

47. HMRC and the WRA will publish joint transitional guidance for conveyancers on the transition from SDLT to LTT and further guidance on cross-border transactions<sup>6</sup> in early 2018. This will be supported by other targeted communications to key stakeholders, updates to GOV.UK, and messages to make clear the respective roles and responsibilities of the tax authorities as the WRA starts to open for LTT and LDT registrations.

48. HMRC will complete and test the IT solution required to support the transition.

49. Following the establishment of the WRA, HMRC and the WRA will put in place a Memorandum of Understanding, information sharing agreement

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<sup>6</sup> Cross border transactions are those where the England-Wales border passes through the title of a property

and joint approach to compliance on the devolved taxes to enable effective collaborative working following transition.

50. Landfill site operators that only operate in Wales will be deregistered from Landfill Tax. The LCF will enter a two-year transitional period to enable LCF projects in Wales to be completed and for all remaining LCF funds in Wales to be spent. The transitional period will run from 1 April 2018 to 31 March 2020. Legislation setting out the disapplication of Landfill Tax and closure of the LCF will be laid early in 2018.

## CHAPTER 4

### BORROWING POWERS

51. The provisions in the Wales Act 2014 enable Welsh Ministers to borrow for the following purposes from April 2018:

- The Act retained the Welsh Government's existing in-year current borrowing powers of up to £500m, whereby Welsh Ministers can borrow from the National Loans Fund (NLF) via the Secretary of State for Wales in order to provide a working balance to the Welsh Consolidated Fund (WCF) or to manage in-year volatility of receipts (where actual income differs from the forecast receipts for that month).
- The Act extended the circumstances under which the Welsh Government can access current borrowing. This enables the Welsh Government to borrow across years to deal with differences between the full year forecast and outturn receipts for devolved taxes. This across years borrowing must again be from the NLF via the Secretary of State for Wales, can be up to £200m each year (within the existing £500m overall cap) and must be repaid within 4 years.
- The Act provides for the Welsh Government to borrow up to £500m to fund capital investment. This borrowing can be from the NLF, commercial banks or bond issuance. Within the overall limit, HM Treasury has agreed that the Welsh Government can borrow up to £125 million each year (from 2018-19 onwards) and can also have early access to borrowing powers to proceed with improvements to the M4 (should it choose to do so). The amounts that the Welsh Government can borrow for this purpose prior to 2018-19 are subject to HM Treasury consent.

#### Steps towards implementation

52. The UK and Welsh Governments have agreed further detail on the Welsh Government's borrowing powers in the Welsh Government's new fiscal framework<sup>7</sup>, which was agreed in December 2016.

53. The fiscal framework agreement sets out that:

- The Welsh Government's overall capital borrowing limit will increase from the £500m provided for in the Wales Act 2014, to £1bn from 2018-19 onwards. The Welsh Government's annual capital borrowing limit will increase to £150m from 2019-20.
- The Welsh Government will be able to borrow for capital expenditure from the National Loans Fund, or through a commercial loan – and following implementation of the UK government's St David's Day

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<sup>7</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/578836/Wales\\_Fiscal\\_Framework\\_Agreement\\_Dec\\_2016\\_2.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/578836/Wales_Fiscal_Framework_Agreement_Dec_2016_2.pdf)

announcement, the Welsh Government will also be able to issue bonds.

- The Welsh Government's resource borrowing powers will remain as set out in the Wales Act 2014, and the Welsh Government will have access to additional budget management tools through the creation of a new Wales Reserve from April 2018 (see 'Other Activities Towards Implementation' in chapter 7 below).

54. The UK government has subsequently legislated in the Wales Act 2017 to increase the Welsh Government's capital borrowing limit to £1bn.

## CHAPTER 5

### POWER TO CREATE NEW TAXES

55. With the agreement of both governments, further existing taxes can be devolved through secondary legislation and the Assembly can be granted powers to introduce new Wales-specific taxes. These powers provide the Assembly with a means of achieving policy outcomes, as well as potentially raising additional revenues.

56. In relation to new Wales-specific taxes, the Command Paper<sup>8</sup> published alongside the Wales Bill in 2013 set out the UK government's intended assessment criteria. This included the extent to which the new tax:

- affects UK macro-economic or fiscal policy and/or the single market
- may be non-compliant with EU legislation
- increases tax avoidance risks
- creates additional compliance burdens for businesses and/or individuals
- is aligned with devolved responsibilities.

57. The Paper also set out the detail that the Welsh Government would need include in any proposals for new taxes, including on:

- estimated revenue and economic impact;
- estimated impact on UK revenue or interaction with UK-wide taxes;
- expected impacts on business and individuals (including a distributional impact);
- assessment against all relevant legislation and directives, including the Human Rights Act, EU State Aid rules, Equality Act etc; and
- collection and compliance plans.

#### Steps towards implementation

58. Accordingly, UK and Welsh Government Ministers have agreed to put in place a process for assessing Welsh Government proposals for new Wales-specific taxes.

59. The Welsh Government published a shortlist of ideas for new Welsh taxes in its draft Budget. It plans to propose one of the following new taxes to the UK government in 2018 to test the powers to introduce new taxes:

- A levy to support social care
- Vacant land tax
- A disposable plastic tax
- A tourism tax

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<sup>8</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294470/Wales\\_Bill\\_Command\\_Paper\\_-\\_English.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf)



## CHAPTER 6

### EFFECT OF NEW POWERS ON THE WELSH BLOCK GRANT

60. A fundamental principle of tax devolution is that an element of the block grant is exchanged for the ability to levy taxes. The UK and Welsh Governments agreed a fiscal framework in December 2016 to underpin the Welsh Government's new funding arrangements, including the block grant adjustments for tax devolution, and their interaction with the Barnett formula and Welsh Government's funding floor.

61. The Welsh Government's new fiscal framework provides for the following block grant funding arrangements:

- From 2018-19 a needs-based factor will be included in the Barnett formula, to determine changes to Welsh Government block grant funding in relation to spending devolution.
- This needs-based factor will be set at 115%, based on the range suggested by the Holtham Commission and the funding floor set at the UK government's Spending Review in 2015.
- While relative Welsh Government funding per head remains above 115%, a transitional factor of 105% will be set.
- Changes to block grant funding in relation to tax devolution will be determined through the Comparable model.
- The mechanism for adjusting the block grant will include an initial baseline deduction, to reflect tax revenues forgone by the UK government at the point of devolution; and then subsequent indexation via the Comparable model, based on changes in corresponding UK government tax revenues.
- The Comparable model will be applied to Stamp Duty Land Tax, Landfill Tax, and each band of Income Tax.

62. The fiscal framework also provides for treatment of policy spillover effects, where the policy decision of one government has an impact on the tax or spending of the other. It was agreed in the framework that the UK and Welsh Governments:

- Would account for all direct effects, either through a block grant adjustment or separately once identified. These are financial effects that directly and mechanically occur as a result of one government's policy decision, before any associated behavioural change.
- Would only account for behavioural effects in exceptional circumstances, where the effects are material and demonstrable, and both governments agree that it is appropriate to do so. These are financial effects that result from people changing behaviour following a policy decision.
- Would not account for second round effects. These are the wider economic impacts that may result more indirectly from policy decisions.

## Steps towards implementation

63. The UK government applied the new fiscal framework funding arrangements to the Welsh Government's block grant for the first time at Autumn Budget 2017.

64. This included the block grant deductions in relation to Landfill Tax and Stamp Duty Land Tax devolution in 2018-19, and the addition of the needs-based factor in the Barnett formula in relation to spending decisions from 2018-19 onwards. It does not include deductions for the Welsh Rate of Income Tax which will be devolved in 2019-20. Deductions for the Welsh Rate of Income Tax will be set out at Autumn Budget 2018.

65. The tax adjustments were based on the forecasts for the relevant taxes that the OBR published alongside the Autumn Budget, and will result in the following deductions from the Welsh Government's block grant:

£m	2018-19	2019-20
<b>Total deductions for tax</b>	<b>269</b>	<b>277</b>

66. The application of the Barnett needs-based factor will result in the following additions to the Welsh Government's block grant:

£m	2018-19	2019-20	2020-21
Non-ringfenced fiscal RDEL	6.9	9.1	
Ring-fenced RDEL (depreciation)	0.6	1.2	
Ring-fenced RDEL (student loan impairments)	0.7	1.4	
CDEL	7.7	17.9	23.9
<i>o/w Financial Transactions Capital</i>	1.2	2.1	1.7
<b>Total additions from Barnett needs-based factor</b>	<b>16</b>	<b>29.6</b>	<b>23.9</b>

## CHAPTER 7

### OTHER ACTIVITIES TOWARDS IMPLEMENTATION

#### Forecasts by the Office for Budget Responsibility (OBR)

67. The OBR began publishing forecasts of taxes collected in Wales alongside the Autumn Statement 2014, and will continue to publish these forecasts twice a year, as part of their statutory duty to produce tax forecasts for the whole of the UK.
68. As agreed in the fiscal framework, the OBR's forecast of tax collected in Wales at the point of devolution will be used to inform the baseline deduction to the Welsh Government's block grant for each devolved tax. The Welsh Government's block grant will subsequently be indexed based on changes in corresponding UK government taxes – these will be based initially on the OBR's forecasts, and then reconciled to outturn data once available.
69. The fiscal framework also sets out a requirement for the Welsh Government to use independent forecasts of the devolved taxes they are due to collect. As agreed in the framework, they will be able to decide whether to use the OBR's forecasts or to put in place alternative independent arrangements.
70. While putting these arrangements in place, the Welsh Government will be able to produce their own forecasts of devolved taxes, which will be subject to independent scrutiny. The Welsh Government did so for Welsh Landfill Tax and Land Transaction Tax at their draft budget in October.
71. The Welsh Government stated in their draft budget that their preference would be to use the OBR's forecasts for devolved taxes in future. UK and Welsh Government officials continue to explore potential options.

#### Wales Reserve

72. The Command Paper (footnote 1) set out that the UK Government will provide the Welsh Government with the ability to pay surplus tax revenues into a cash reserve to help manage the volatility in its budget resulting from its new tax powers.
73. The Welsh Government's new fiscal framework sets out further details for a new Wales Reserve, which will combine their cash reserve and access to the Budget Exchange facility.
74. The Wales Reserve will become operational alongside the devolution of SDLT and Landfill Tax in April 2018. There will be no annual limit for payments into the Wales Reserve, which will be able to hold up to £350m in aggregate. The Welsh Government will have an annual drawdown limit from their Reserve of £125m for resource, and £50m for capital.

## CHAPTER 8

### OTHER REPORTING REQUIREMENTS

75. In addition to the areas covered in previous chapters (steps taken towards implementation, steps yet to be taken and effect of provisions on the block grant), section 23 of the Wales Act 2014 requires annual reports on Part 2 of the Act to include:

- an assessment of the operation of the provisions of Part 2 that have been implemented;
- an assessment of the operation of any other powers to devolve taxes to the Assembly or to change the powers of the Welsh Ministers to borrow money, and of any other changes affecting the provisions inserted or amended by Part 2;
- a statement of the effect of Part 2 on the amount of any payments made by the Secretary of State under section 118 of the Government of Wales Act 2006 (payments into the Welsh Consolidated Fund); and
- any other matters concerning the sources of revenue for the Welsh Government that the maker of the report considers should be brought to the attention of Parliament or the Assembly.

76. This report is the third following the Act receiving Royal Assent in December 2014. It should be noted that, in accordance with section 29(2)(b) of the Act, all provisions of Part 2 came into force two months after enactment with the exception of the sections relating to the WRIT and borrowing by Welsh Ministers.

77. Section 17 of the Wales Act 2017 removed the requirement for a referendum before the implementation of WRIT. This section came into force two months after Royal Assent of the Act, on 31 March 2017. The Treasury will bring forward an Order to implement WRIT from 2019-20.

78. HM Treasury made regulations bringing into force section 20 (borrowing by the Welsh Ministers) from 1 January 2017. Section 18 of the Wales Act 2017 amended section 122A of the Government of Wales Act 2006 to double the Welsh Government's capital borrowing cap from £500 million to £1 billion. This section also came into force on 31 March 2017.

79. As set out in the fiscal framework, the annual limit on the amount of capital expenditure will also be increased. Alongside the introduction of WRIT, the annual limit will be set at 15% of the overall borrowing cap, which is equivalent to £150 million a year.

## **CONCLUSION**

80. Section 23 of the Wales Act 2014 stipulates that the Annual Report on the implementation and operation of Part 2 of that Act should be laid on or before the anniversary of the date on which Royal Assent was received (17 December 2014).
81. This year has seen further progress towards full implementation of the Wales Act 2014. The UK government is working closely with the Welsh Government to ensure the necessary arrangements are in place to manage the transition to devolved taxes from 1 April 2018.
82. The fiscal framework agreed between the UK and Welsh Governments sets out how the Welsh Government's block grant will be adjusted to take account of tax devolution. In addition, the Wales Act 2017 also made provision in relation the tax and borrowing powers of the Welsh Government. The removal of the referendum on income tax and the agreement of the appropriate block grant adjustment will enable the devolution of WRIT from 2019-20.
83. The next annual report on the implementation of Part 2 of the Wales Act 2014 will be published, in accordance with Section 23(3)(b) of the Act, before 17 December 2018.

**Annex A – Reporting Requirements in the Wales Act 2014 and where they are addressed in this report**

1. *a statement of the steps that have been taken, whether by the maker of the report or by others, since the making of the previous report (or, in the case of the first report, since the passing of this Act) towards implementation of the provisions of this Part,*

Chapter 2: Paragraphs 11-25  
Chapter 3: Paragraphs 36-44  
Chapter 4: Paragraphs 52-54  
Chapter 5: Paragraphs 58 & 59

2. *a statement of the steps that the maker of the report proposes should be taken, whether by the maker of the report or by others, towards the implementation of the provisions of this Part,*

Chapter 2: Paragraphs 26-29  
Chapter 3: Paragraphs 45-50

3. *an assessment of the operation of the provisions of this Part that have been implemented,*

see Chapter 8

4. *an assessment of the operation of any other powers to devolve taxes to the Assembly or to change the powers of the Welsh Ministers to borrow money, and of any other changes affecting the provisions inserted or amended by this Part,*

see Chapter 8

5. *a statement of the effect of this Part on the amount of any payments made by the Secretary of State under section 118 of GOWA 2006 (payments into the Welsh Consolidated Fund), and*

see Chapter 8

6. *any other matters concerning the sources of revenue for the Welsh Government that the maker of the report considers should be brought to the attention of Parliament or the Assembly.*

see Chapter 8

# Agenda Item 7

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

Document is Restricted

Simon Thomas AM  
Chair of Finance Committee  
National Assembly for Wales  
Tŷ Hywel  
Cardiff Bay  
CF99 1NA

14 December 2017

Dear Simon

I am writing to bring to the Committee's attention the Commission's proposed change to its approved 2017-18 budget through the Supplementary budget process. The Commission is proposing to

- increase the Annually Managed Expenditure (AME) budget by £0.700million

## The AME Budget

The Commission's AME budget is for the non-cash accounting adjustment in respect of the future financial liability of the Assembly Members' Pension Scheme and is an accounting adjustment rather than a cash requirement.

The actual value of AME cannot be calculated until after 31 March 2018. The Commission therefore seeks a professional estimate of the year end value during the financial year. Actuarial advice received indicates that the liability could increase to £1.744million<sup>1</sup> which exceeds the budget. Therefore, the Commission proposes to increase the AME Budget by £0.700million. This will not impact on service delivery as this budget is managed independently of the Resource Budget.

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<sup>1</sup> Annex 1 provides further information on the estimate provided by the actuary.






The effect on the overall Commission budget for 2017-18 will be as shown in the table below:

	Approved Budget £m	Proposed Supplementary Budget £m	Proposed Revised Budget £m
Resource Budget	52.545	0	52.545
AME Budget	1.200	0.700	1.900
	53.745	0.700	54.445

In accordance with Standing Order 20.32 the Commission will be laying an explanatory memorandum in January. A copy of this document is attached for your convenience. If you need further information, please let me know.

Yours sincerely



Suzy Davies

cc Manon Antoniazzi, Nia Morgan

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



Annex 1

Table 1

<b>Calculation of Pension Finance Cost</b>	<b>2017-18</b>	<b>2016-17</b>
Current service cost	£2.03m	£1.47m
+ interest cost	+ £1.335m	+ £1.37m
- interest on scheme assets	- £0.901m	- £1.040m
- employer contributions	- £0.720m	- £0.720m
<b>Pension finance cost</b>	<b>£1.744m</b>	<b>£1.078m</b>
<b>PUCM Rate used</b>	<b>44%</b>	<b>32.1%</b>
<b>Discount Rate (net of CPI)</b>	<b>0.3%</b>	<b>1.3%</b>

The increase in the current service cost is the main factor in the overall increase in the Pension finance cost.

The current service cost is calculated by applying the Projected Unit Credit Method (PUCM) standard contribution rate to the total payroll over the period.

This rate represents the present value of benefits accruing to active members over the year. This PUCM rate is influenced by the discount rate (net of CPI) at the start of the year.

The financial assumptions were proposed by the Government Actuary's Department (GAD) on 6 April 2017. The discount rate is required to be the current rate of return on corporate bonds AA-rated or higher of equivalent currency and term to the scheme liabilities.

At 31 March 2017, the annualised yield on the high quality corporate bonds (e.g. AA-rated) of appropriate currency and term was 2.65% a year. The actuary has noted that a CPI inflation of 2.35% a year has been used.



## Principal financial assumptions as at 31 March 2017

Assumption	31 March 2017 % a year	31 March 2016 % a year
Rate of return (discount rate)	2.65%	3.55%
Rate of return in excess of:		
Pension increases (CPI)	0.30%	1.30%

The discount rate net of CPI as at 31 March 2017, which is used to calculate the 2017–18 current service cost was 0.3%, which had reduced significantly from the equivalent rate at 31 March 2016, which was 1.3% . A decrease in the net discount rate leads to an increase in the PUCM rate and the current service cost, (because, to obtain a certain level of benefits in future, when the discount rate is lower, a higher cost is required today).

Low discount rate (net of CPI) = higher PUCM rate

High discount rate (net of CPI) = lower PUCM rate

$$\text{PUCM Rate} * \text{Total AM payroll for 2017-18} = \text{Current Service Cost 17-18}$$

This decrease in the discount rate has resulted in a higher PUCM rate, which is applied to the total AM payroll for 2017–18 to give the current service cost of £2.03m. This is significantly higher than the 2016–17 current service cost of £1.47m.

The overall pension finance cost for 2017–18 is likely to be in the region of £1.744m. The budget of £1.2m was set in November 2016; the discount rate that determines this cost is as at 31 March 2017, it is therefore difficult to estimate this cost with any significant degree of accuracy in November 2016.

The additional amount being requested is a non-cash amount and will be ring fenced for this purpose (AME) only.





# Assembly Commission Supplementary Budget 2017-18 **Explanatory Memorandum**

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December 2017



**National Assembly for Wales**  
Assembly Commission

**Pack Page 170**



The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales, agrees Welsh taxes and holds the Welsh Government to account.

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Assembly Commission  
Supplementary Budget 2017-18  
**Explanatory Memorandum**

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December 2017





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## 01. Background

The Commission's **2017-18 Budget** was included in the Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 16 November 2016, following scrutiny by the Assembly's Finance Committee.

The budget motion provided the Commission with £53.745 million of Resource Budget in relation to:

- £36.613 million for Assembly services; and
- £15.532 million for the Remuneration Board's Determination for Assembly Members.

A further £1.2 million was provided for non-cash accounting adjustments in respect of the Assembly Members' Pension Scheme, through the Annually Managed Expenditure budget.

This Explanatory Memorandum is laid in compliance with Standing Order 20.32, in support of changes to be proposed to the Commission's approved budget, via Supplementary Budget Motion.

### Explanatory memorandum

The effect of the Commission's supplementary budget will be to increase Annually Managed Expenditure in line with projections.

### Annually Managed Expenditure (AME)

The Commission's AME budget is for the non-cash accounting adjustment in respect of the future financial liability of the Assembly Members' Pension Scheme. The purpose of this adjustment is to ensure a true and fair view of the Scheme liability is recorded in the Commission's Statement of Financial Position; it does not reflect the monetary sums paid by the Commission into the Scheme. There is no associated cash requirement and making changes to it has no impact on the Commission Resource budget or service delivery.

The final value cannot be calculated until after 31 March, but estimates are requested from professional advisors during the year. Based on calculations reflecting known changes to the discount rate and other variables, which impact on the estimated liabilities of the scheme, the latest estimate is just under £1.8million.

This increase is as a result of a decrease in the discount rate. The discount rate net of CPI as at 31 March 2017, which is used to calculate the 2017-18 current service cost was 0.3%. This has reduced significantly from the equivalent rate at 31 March 2016, which was 1.3%. A decrease in the net discount rate leads to an increase in the current service cost, a main component of the pension finance cost.

The Commission is therefore proposing a supplementary AME budget of £1.9 million in order that there is sufficient contingency to manage any variation from the estimate in the final year-end figures.

### Budget impact

The Supplementary Budget Motion proposes the following:

- an increase to the AME budget of £0.7 million to £1.9 million.

## 02. Budget Ambit

This supplementary budget submission is laid in compliance with National Assembly Standing Order 20 to assist in the compilation of the Budget Motion required by Section 126 of the Government of Wales Act 2006. This submission seeks to amend the resource and annually managed expenditure requirements of the Assembly Commission for the year ending 31 March 2018.

The Supplementary Budget Motion authorises the net resources to be used for the services and purposes of Members and Assembly Services. The motion includes the maximum income (or accruing resources) that may be retained for use on those services and purposes instead of being paid into the Welsh Consolidated Fund, and the cash amount that will need to be issued from the Welsh Consolidated Fund to meet the anticipated net amounts falling due for payment by the Commission.

The amended 2017-18 Budget for the Assembly Commission, addressing the revised requirements, is set out in Table 1 below.

**Table 1**

**Revised  
£000**

Resources other than accruing resources for use by the National Assembly for Wales Commission on resource and capital costs associated with the administration and operation of Assembly Services to support the National Assembly for Wales ('the Assembly'); promotion of the Assembly including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board; any other payments relating to functions of the Assembly or functions of the National Assembly for Wales Commission. Resources other than accruing resources for use by the National Assembly for Wales Commission in respect of decisions of the Remuneration Board and expenditure in respect of Assembly Members' Pension provision.	54,445
Accruing resources for retention pursuant to section 120(2) of the Government of Wales Act 2006 and use by the National Assembly for Wales Commission:  from the disposal of fixed assets and other capital income for use on the purchase or acquisition of fixed assets; or  rental income; gifts; grant support; recharges and income from commercial sales and other services provided to the public or others for use on administrative costs of the Assembly.	300
Amount to be issued from the Welsh Consolidated Fund to meet the anticipated amounts falling due for payment in the year in respect of the above services and purposes less expected retainable receipts and recoverable VAT.	50,245

Table 2 below reconciles the net resource requirement to the cash drawing requirement from the Welsh Consolidated Fund.

<b>Table 2 Cash requirement</b>	<b>£000</b>
	<b>2017-18 Revised</b>
<b>Members' Revenue Requirement</b>	15,532
<b>Commission Revenue Requirement</b>	36,513
<b>Capital Requirement</b>	500
<b>Assembly Members' Pension Provision (AME)</b>	1,900
<b><i>Adjustments:</i></b>	
<b>Depreciation (Non cash)</b>	(2,600)
<b>Movements in provisions</b>	(1,900)
<b>Movement in debtors and creditors</b>	300
<b>Net cash requirement for issue from the Welsh Consolidated Fund</b>	<b>50,245</b>

Simon Thomas AM  
Chair of Finance Committee  
National Assembly for Wales  
Tŷ Hywel  
Cardiff Bay  
CF99 1NA

21 December 2017

Dear Simon

I am writing further to my letter of 11 November 2017 about your Committee's Report on the Scrutiny of the Assembly Commission Draft Budget 2018–2019.

### **Recommendation 5**

As requested, we are now providing you with information on the projected underspend in relation to money drawn down to fund the Remuneration Board Determination and to show how this underspend is being utilised by the Assembly Commission (details in the annex attached).

We would always consider the option of returning underspends on the overall Commission budget (as was done with a rates rebate in February 2014), if we did not consider we had sufficient investment opportunities available to the Commission to make efficient, effective use of the available funds.

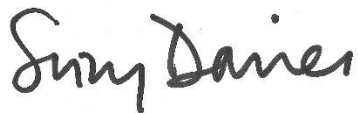
Due to high levels of demand and significant pressure on the Commission budget, that has not been the case during the 2017–18 financial year.



I'd also like to take this opportunity to update you on our progress in addressing two other recommendations made by your Committee. The Annex provides detail on progress on recommendations one and seven.

As ever, if there is any further information your Committee would like, please let me know.

Yours sincerely

A handwritten signature in black ink that reads "Suzy Davies". The signature is written in a cursive, flowing style.

Suzy Davies

cc Assembly Commissioners, Manon Antoniazzi, Nia Morgan

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



## Annex: Finance Committee Report on the Scrutiny of the Assembly Commission Draft Budget 2018–2019

### Recommendation 5

*The Committee recommends that the Commission provides an in-year update (before the end of each calendar year) on likely Remuneration Board underspend along with any significant changes to planned projects to be funded using these underspends.*

### Projected underspend and investment 2017–18

The projected underspend on the 2017–18 Remuneration Board budget is expected to be less than £1m. As highlighted in the 2018–19 budget document, projected determination and operational underspends are added to the opening investment and capital budgets to supplement the Commission’s investment fund.

Table 1 shows the anticipated investment fund for 2017–18 and 2018–19.

Table 1	£'000	£'000
	2017-18	2018-19
Opening Investment Fund	£850	-
Capital Budget	£500	£500
<b>Total Investment fund within the core Commission budget for priority/essential items</b>	<b>£1,350</b>	<b>£500</b>
Estimated funds becoming available from underspends within:		
Operational Budgets	£500	£800
Remuneration Board Determination Budget	£1,000	£600
<b>Total estimated funding released/available</b>	<b>£2,850</b>	<b>£1,900</b>



During the year, the entire budget, including anticipated underspends, is continuously monitored and forecasts are revised on a fortnightly basis. It became apparent early in the financial year that there would be an underspend on the amount allocated to meet the requirements of the Determination, it was also clear that there were significant, pressing demands on the resources allocated to the Commission in 2017–18, arising in particular from the:

- increase in the number of committees and extended business week;
- continuing challenges for security on the Assembly estate;
- Commission and Llywydd priorities including reform of the Assembly's size and electoral system, the establishment of a new youth parliament and a step up in our digital news and information services;
- other constitutional changes as a result of the Wales Act 2017 and Brexit; and
- pressures within our estate for both short and long term accommodation requirements.





During 2017–18 the combination of the Determination and operational underspends, the capital budget and the opening investment fund were used to fund the following prioritized items:

**Table 2**

Investment Fund expenditure		£'000
Impact of 2016-17 changes in staffing capacity		£1,000
Determination Expenditure		
Death in service AMSS*	£60	£177
Death in service AMSS*	£65	
Additional ministerial salaries*	£21	
AMSS redundancy payments*	£31	
Apprentice Levy		£110
EFM Priority Expenditure		
Phase 2 Electrical Distribution Boards	£29	£133
Senedd & Pierhead lift improvements	£34	
Ty Hywel water risk assessment remedials	£16	
Ty Hywel Lifts 1,2 & 3 rope replacements	£54	
Projects (Table 3)		£1,262
<b>Total investment expenditure</b>		<b>£2,682</b>
<b>Remaining Balance</b>		<b>£168</b>

\*The items marked were not foreseeable at the beginning of the financial year.



**Table 3**

2017-18 Project Expenditure:		£'000
Library Management System		£32
Finance System (phase 2)		£22
MySenedd, including:		£156
-Website and Content Management	£35	
-Information Management	£22	
-Record of Proceedings	£52	
-Table Office	£32	
Ground Floor works including ICT and broadcasting equipment		£513
CCTV		£362
Assembly Reform		£100
Future accommodation planning		£23
Weeping Window (Poppies)		£44
Youth Parliament		£10
<b>Total Project budgeted expenditure* (Table 2)</b>		<b>£1,262</b>

\*Year-to-date actual expenditure is £962k.

Our annual report and accounts document for 2017-18 will also provide full details of our expenditure during this financial year.



## Recommendation 1

*The budget requested for Assembly Commission Services for 2018–19 is 3.1 per cent, which is above both inflation and increases in the Welsh Block Grant. Given the continued and expected cuts across the public service in Wales and based on the indicative figures provided in the draft Budget documentation, the Committee recommends that in the remaining years of this Assembly, the Commission's budget should not be in excess of any changes to the Welsh Block Grant.*

The Welsh Government has provided the Commission with indicative figures for the increase in the Welsh Block Grant (DEL Revenue and capital net of repayable financial transaction capital funding). It is estimated to increase by 1.76% between 2018–19 and 2019–20.

The Welsh Government estimates that total DEL figures (less financial transaction funding) will be as follows: £15.803million in 2018–19 and £16.081million in 2019–20, an increase of 1.76%.

We have commenced work on our 2019–20 budget strategy and will be mindful of the Committee's recommendation that the Commission operational budget will not increase in excess of the increase to the Welsh Block Grant.

## Recommendation 7.

*The Committee remains concerned as to the transparency associated with budgeting for forecasted underspends, however, it is recognised that there is a new Chief Executive and Clerk to the Assembly and the 2018/19 budget will be her first as Accounting Officer, as such the Committee recommends that serious consideration is given to how the budget is determined.*

The Investment and Resourcing Board (IRB), at its 7 December meeting, considered a paper on the presentation of the 2019–20 Commission Budget. IRB recommended that the Commission consider alternative budget presentations for 2019–20, rather than continuing with the existing presentation.



Our aim in presenting a revised model would be to address the concerns around transparency raised by the Finance Committee, whilst maintaining flexibility and minimising risk to the Commission budget.

The Commission will review alternative budget presentations in the Spring of 2018. Two of the alternatives to be considered are as follows:

- a ring-fenced budget for the Remuneration Board's determination, set at 100%, with unused amounts being returned to the Welsh Consolidated Fund via a supplementary budget
- a reduced amount, e.g. a 98% budget, set for the funding of the Remuneration Board's determination, with a corresponding increase seen in the Commission's operational budget.

**Assembly Commission**

**December 2017**



## Public Services Ombudsman for Wales (PSOW)

### 2<sup>nd</sup> Supplementary Budget 2017-18

#### Explanatory Memorandum to the Chair of the Finance Committee

### Background

The PSOW's 2017-18 budget was included in the Annual Budget Motion required under Standing Order 20.26 and laid on 20<sup>th</sup> December 2016. Changes were made to the budget in the 1<sup>st</sup> Supplementary Budget that was laid on 27<sup>th</sup> June 2017. The following proposed change to that budget is set out below:

### Income

Additional income has been agreed in respect of a seconded member of staff and will be used to backfill the post. There is no net impact on resource or cash.

2 <sup>nd</sup> Supplementary Budget 2017-18	Resource	Cash
	£000s	£000s
Salaries and related costs	15	15
Income	-15	-15
<b>Net resource/cash requirement</b>	<b>-</b>	<b>-</b>

## Public Services Ombudsman for Wales

<b>Supplementary Budget 2017/18</b>	<b>2<sup>nd</sup> Suppl Budget 2017/18</b>	<b>1st Suppl Budget 2017/18</b>	<b>Change</b>
	£'000	£'000	
<b>Capital DEL</b>	25	25	0
<b>Fiscal Revenue DEL</b>			
Salaries and related costs	2,965	2,950	15
LGPS related costs	0	0	0
	<b>2,965</b>	<b>2,950</b>	<b>15</b>
Premises	416	416	0
Computer systems and support	191	191	0
Office costs	130	130	0
Advisory and legal fees	294	294	0
Communications	78	78	0
Training and recruitment	30	30	0
Travel and subsistence	31	31	0
Audit fee	20	20	0
<b>Sub total</b>	<b>4,155</b>	<b>4,140</b>	<b>15</b>
Income	-32	-17	-15
<b>Total Fiscal Revenue DEL</b>	<b>4,123</b>	<b>4,123</b>	<b>0</b>
<b>Non cash DEL</b>			
Depreciation	80	80	0
<b>Revenue DEL (B+C)</b>	<b>4,203</b>	<b>4,203</b>	<b>0</b>
<b>Total DEL (A+B+C)</b>	<b>4,228</b>	<b>4,228</b>	<b>0</b>
<b>Annually Managed Expenditure (AME)</b>			
Movement on LGPS	0	0	0
Provisions movement	20	20	0
<b>Total AME</b>	<b>20</b>	<b>20</b>	<b>0</b>
<b>Total Managed Expenditure</b>			
A+B+C+D	<b>4,248</b>	<b>4,248</b>	<b>0</b>
<b>Resources Required</b>	<b>4,248</b>	<b>4,248</b>	<b>0</b>
Depreciation	-80	-80	0
Change in Provisions	-20	-20	0
Utilisation of Provisions - LGPS	0	0	0
Utilisation of Provisions - legal costs	42	42	0
Other movements in Working Capital	20	20	0
<b>Net Cash Requirement</b>	<b>4,210</b>	<b>4,210</b>	<b>0</b>

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# Agenda Item 11

Mark Drakeford AM/AC

Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance



Llywodraeth Cymru  
Welsh Government

Simon Thomas AM  
Chair  
Finance Committee  
National Assembly for Wales

19 December 2017

Dear Simon,

I would like to thank the Committee for its report, *Inquiry into the financial estimates accompanying legislation* and welcome the opportunity to respond to the recommendations. The full response is attached to this letter.

The Welsh Government recognises the importance of continuing to develop and improve our approach to assessing and presenting the financial implications of legislation. Since the end of the Fourth Assembly, a number of changes have been made to the guidance on developing Regulatory Impact Assessments (RIAs) for Assembly Bills. It was pleasing to note the Committee's report recognised the improvements made to the presentation of RIAs during the Fifth Assembly.

There are a number of common areas in the recommendations made in the report and the Welsh Government's own thinking on how RIAs can be improved going forward. Of the 16 recommendations in this report, we have been able to accept 15 of these in whole or in principle. The advice given to teams working on Assembly Bills will be revised accordingly.

Again, I thank the Committee for this helpful report and for their continued scrutiny of the financial estimates accompanying legislation.

Yours sincerely,

**Mark Drakeford AM/AC**

Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.



# Written Response by the Welsh Government to the report of the Finance Committee entitled INQUIRY into the financial estimates accompanying legislation

20 December 2017

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**Detailed responses to the report's recommendations are set out below:**

## **Recommendation 1**

The Committee recommends that the Welsh Government should ensure that a summary of financial information be included in RIAs for each of the Bills it introduces, and that a distinction be made as to whether costs are capital or revenue.

### **Response: Accept**

The Welsh Government developed an RIA summary table during summer 2016 and this has been used in the Explanatory Memorandum for each Assembly Bill introduced during the Fifth Assembly. We will continue to use this summary table for future Bills and will differentiate between capital and revenue costs in the table narrative where appropriate.

**Financial Implications:** There are no new financial implications for responding to this recommendation.

## **Recommendation 2**

The Committee recommends that the Welsh Government should ensure that RIAs are explicit in their division between cash costs and savings and monetised costs.

### **Response: Accept**

In line with the existing guidance, the Welsh Government will continue to quantify and monetise all costs and benefits as far as is practicable. We will ensure that RIAs are clearer when differentiating between cash costs and cost-savings and those costs and benefits which have been monetised.

**Financial Implications:** There are no new financial implications for responding to this recommendation.

## **Recommendation 3**

The Committee recommends that the Welsh Government continue to cost cultural change and ensure that this is assessed and considered as far as is possible in RIAs. This should include broadening its RIAs to ensure they account for the aspirations of the legislation and not just the processes required to implement the change.

### **Response: Accept in principle**

The Welsh Government will continue to consider and cost cultural change as far as is possible in RIAs. The evidence provided to the inquiry by various stakeholders reinforced how difficult it can be sometimes to monetise culture change and the aspirations of legislation. We will seek an appropriate balance between the need to provide the Assembly and stakeholders with a quantified assessment of these costs and the risk of presenting a spurious exactitude in the assessment.

**Financial Implications:** Any new financial implications will be met from existing departmental budgets.

#### **Recommendation 4**

The Committee recommends that the Welsh Government should confirm whether it intends to use the Well-being of Future Generations Act as a framework for preparing RIAs, including measuring impact over a longer term.

#### **Response: Accept**

The HM Treasury Green Book and Standing Order requirements will continue to provide the framework for preparing Welsh Government RIAs. A project is under way within Welsh Government to bring the various policy impact assessments together using the framework provided by the Well-being of Future Generations (Wales) Act 2015. This is in response to a recommendation made in the Public Policy Institute for Wales (PPIW) report, Reducing complexity and adding value: A strategic approach to impact assessment in the Welsh Government. While the PPIW report did touch upon RIAs they were not the main focus of the report and consequently, RIAs fall outside of the scope of the current project. The policy impact assessments will, however, inform the analysis presented in the RIA.

In terms of the appraisal period used in RIAs, the Welsh Government believes that the current approach and guidance is proportionate and provides sufficient flexibility to consider and select the correct appraisal period on a Bill by Bill basis. The Welsh Government recognises that where legislation has a long-term focus then it is necessary to consider impacts over a longer period than usual.

**Financial Implications:** The current project is being taken forward within existing budgets.

#### **Recommendation 5**

The Committee recommends that the Welsh Government thoroughly consider the financial implications for all stakeholders in Regulatory Impact Assessments, including ensuring the financial implications for the private sector are fully considered.

#### **Response: Accept**

Each Welsh Government RIA presents a proportionate assessment of the likely costs and benefits of legislation. Central to this is the careful consideration of the impact (including financial) of the legislation on all stakeholders. There is a particular focus when developing RIAs on how proposed legislation will affect the private sector and whether there will be any impact on the competitiveness of Welsh businesses.

**Financial Implications:** There are no new financial implications for responding to this recommendation.

#### **Recommendation 6**

The Committee recommends that the Welsh Government improve its quality assurance processes by ensuring more thorough internal scrutiny of RIAs before they are laid.

**Response: Accept**

As discussed during the evidence sessions, the Welsh Government believes that the current approach whereby responsibility for the production of a robust and accurate RIA rests with the relevant Minister and policy department is the correct one. However, we accept there is scope to improve the current processes to ensure that any errors or gaps in an analysis are identified before a Bill is laid in the Assembly. We will consider the current procedures within each policy department and develop a standardised approach.

**Financial Implications:** This will be considered as part of the work looking at current processes.

**Recommendation 7**

The Committee recommends that where there are changes to RIAs after Stage 2, that the Member in charge should provide the Finance Committee and the relevant scrutiny committee with a summary of these changes, including the financial implications.

**Response: Accept**

The Welsh Government will inform the Finance Committee and the relevant scrutiny committee of any significant changes to the RIA (including financial implications) when a revised Explanatory Memorandum is published after Stage 2.

**Financial Implications:** The financial implications for responding to this recommendation will be met from existing departmental resources.

**Recommendation 8**

The Committee recommends that the Welsh Government should provide draft RIAs as part of the consultation it undertakes in developing legislative proposals, and that it should review its wider strategy and advice to Bill teams regarding engagement with stakeholders to emphasise that this should be undertaken as early as possible.

**Response: Accept**

The Welsh Government recognises that effective stakeholder engagement is essential in order to develop robust RIAs. The review of RIAs undertaken at the end of the Fourth Assembly identified this as an area where improvements could be made and further advice has been given to Bill teams about the importance of stakeholder engagement. The revised *Legislation Handbook on Assembly Bills* (published August 2017) sets out a more clearly defined, staged approach to developing an RIA, one part of which is the inclusion of a draft RIA as part of a consultation. Any additional and/or alternative evidence received during the consultation exercise will be used to inform the final RIA.

**Financial Implications:** The financial implications for responding to this recommendation will be met from existing departmental resources.

**Recommendation 9**

The Committee recommends the Welsh Government ensures that relevant stakeholders are engaged with the process when it creates costings and that stakeholders are able to comment and input on those costings and confirm whether they're in agreement.

**Response: Accept in principle**

As above, the Welsh Government will continue to engage with the relevant stakeholders when assessing the likely impacts of legislation. The inclusion of a draft RIA as part of consultations on proposed Bills will give stakeholders the opportunity to comment and input on the analysis.

Each RIA represents the Welsh Government's assessment of the likely costs of the legislation and there may be instances in which the Welsh Government and stakeholders disagree about the scope and or scale of those impacts. Where this is known to be the case, the Welsh Government will set this out in the RIA. The RIA remains, however, a statement made and owned by the Welsh Government and the final responsibility for stakeholder views has to rest with stakeholders themselves.

**Financial Implications:** There are no new financial implications for responding to this recommendation.

### **Recommendation 10**

The Committee recommends that the summary information included in RIAs contain explicit reference to how any costs identified in the RIA will be funded and by whom.

#### **Response: Reject**

RIAs are a value for money analysis and already set out upon whom additional costs are expected to fall as a result of legislation. To extend the analysis to consider how those costs will be funded moves beyond the design and intended purpose of the assessment.

Matters of affordability and funding are of course important considerations for the Welsh Government and the Assembly. Such matters will be considered during the development of the legislation and in the Financial Resolution for each Bill.

**Financial Implications:** None.

### **Recommendation 11**

The Committee recommends that the Welsh Government should build evaluation periods into its assessment of the costs of legislation to allow for review and evaluation of transitional funding.

#### **Response: Accept in principle**

The Welsh Government is unclear as to the meaning of this recommendation. In light of the evidence presented in the Committee report, the Welsh Government has interpreted this recommendation as referring to implementation processes within Welsh Government rather than the way in which RIAs are developed. Where the implementation of legislation includes an interim review of the funding arrangements, the administrative costs associated with that interim review will be captured in the RIA.

**Financial Implications:** The financial implications for responding to this recommendation will be met from existing departmental resources.

### **Recommendation 12**

The Committee recommends that the Welsh Government notify it where subordinate legislation laid before the Assembly significantly alters the costs of the associated primary legislation.

**Response: Accept in principle**

Where the Welsh Government lays subordinate legislation to commence or implement recently enacted primary legislation and the RIA for the subordinate legislation identifies costs which are significantly different to those presented in the RIA for the primary legislation, this will be identified in the RIA accompanying the subordinate legislation. The main reasons for the cost differences will also be outlined.

Where subordinate legislation is amended outside of the appraisal period considered in the original RIA, the Welsh Government does not intend to re-visit the RIA for the primary legislation. The RIA for the amending subordinate legislation will, however, consider the additional costs and benefits of the amendments against a baseline 'Do Nothing' option.

**Financial Implications:** There are no new financial implications for responding to this recommendation.

**Recommendation 13**

The Committee recommends that the Welsh Government commit to providing as full a picture of the costs of subordinate legislation as possible when proposing primary legislation.

**Response: Accept**

The revised guidance in the *Legislation Handbook on Assembly Bills* already makes it clear that the RIA for a Bill should, as far as is practicable, include the costs and benefits of any associated subordinate legislation.

**Financial Implications:** There are no new financial implications for responding to this recommendation.

**Recommendation 14**

The Committee recommends that the Welsh Government consider options to monitor and evaluate the financial implications of legislation in order to:

- Ensure that relevant public bodies are not routinely incurring more cost or less benefit than was anticipated in the relevant RIA.
- Assure itself of the accuracy of its processes for creating RIAs and to use this information to improve its estimating techniques (where appropriate).

**Response: Accept**

The Welsh Government accepts the need for the continuous improvement of its approach to creating RIAs and will consider the options for monitoring and evaluating the financial implications of legislation. We will engage with the key stakeholders as part of this process.

**Financial Implications:** This will be included as part of the consideration of alternative options.

### **Recommendation 15**

The Committee recommends that the Welsh Government ensure costs are a consideration of future post-implementation reviews and that the Economic Appraisal Team is involved in policy team evaluation of legislation in order to ensure costs are considered.

### **Response: Accept**

The Welsh Government recognises the importance of considering costs in future post-implementation reviews. The *Legislation Handbook on Assembly Bills* identifies a number of 'aims' around the post-implementation review of legislation, including to:

*'consider the estimated costs, savings, benefits and dis-benefits – any significant differences between the forecast costs, savings, benefits and dis-benefits included in the RIA and the outturn costs, savings, benefits and dis-benefits should be investigated and explained.'*

As was acknowledged in the evidence given to the Committee inquiry, costs are not necessarily recorded against specific pieces of legislation and so determining the costs after legislation has been implemented is often as difficult as when developing the RIA. Nevertheless, we will look to include costs in future reviews where this is feasible.

The Economic Appraisal team may not always be the most appropriate to lead on evaluation. However, there are other analysts based within policy departments and those in Knowledge and Analytical Services (KAS) who are able to advise policy teams as required.

**Financial Implications:** The cost of evaluating legislation is met from existing departmental budgets.

### **Recommendation 16**

The Committee recommends that future RIAs set-out a clear process for post-implementation review of the financial estimates, including when and what will be assessed.

### **Response: Accept**

This is linked to recommendation 15. Where the Welsh Government has determined that it will be feasible to include a consideration of costs within a post-implementation review, we will set this out in the relevant section of the Explanatory Memorandum.

**Financial Implications:** Any new financial implications will be met from existing departmental budgets.

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