

Agenda – Finance Committee

Meeting Venue:	For further information contact:
Video Conference via Zoom	Bethan Davies
Meeting date: 9 November 2020	Committee Clerk
Meeting time: 14.30	0300 200 6372
	SeneddFinance@senedd.wales

In accordance with Standing Order 34.19, the Chair has determined that the public are excluded from the Committee's meeting in order to protect public health. This meeting will be broadcast live on www.senedd.tv

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

- 2 **Paper(s) to note**
(14.30) (Pages 1 – 4)
Minutes of the meeting held on 2 November 2020
 - 2.1 **PTN 1 – Letter from the Minister for Finance and Trefnydd: Update on the budget timetable for the Welsh Government's budget 2021–22 – 29 October 2020**
(Pages 5 – 6)
 - 2.2 **PTN 2 – Commission's response to the Finance Committee's report on the Senedd Commission Draft Budget 2021–22 – 4 November 2020**
(Pages 7 – 18)

- 3 **Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework – Evidence session 4**
(14.30–15.10) (Pages 19 – 34)
Professor Gerry Holtham, Hodge Professor of Regional Economy, Cardiff

Metropolitan University



Senedd Cymru
Welsh Parliament

Supporting papers:

Research brief

BREAK (15.10–15.20)

4 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework – Evidence session 5

(15.20–16.00)

(Pages 35 – 55)

Ruth Stanier, Director General, Customer Strategy and Tax Design, HM Revenue & Customs

Jackie McGeehan, Deputy Director of Income Tax Policy, HM Revenue & Customs

Supporting papers:

FIN(5)–21–20 P1 HM Revenue & Customs

Research brief

5 Motion under Standing Order 17.42 to resolve to exclude the public from items 6, 7, 8 and 10.

(16.00)

6 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework: Consideration of evidence

(16.00–16.15)

7 Second Supplementary Budget 2020–21: Consideration of draft report

(16.15–16.30)

Supporting papers:

FIN(5)–21–20 P2 Draft report

8 Public Services Ombudsman for Wales Estimate 2021–22:

Consideration of draft report

(16.30–16.45)

(Pages 56 – 74)

Supporting papers:

FIN(5)–21–20 P3 Draft report

BREAK (16.45–17.00)

Public

9 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework – Evidence session 6

(17.00–17.40)

(Pages 75 – 95)

Gareth Davies, Comptroller and Auditor General National Audit Office

Supporting papers:

FIN(5)–21–20 P4 Comptroller and Auditor General National Audit Office

Research brief

Private

10 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework: Consideration of evidence

(17.40–17.50)

Concise Minutes – Finance Committee

Meeting Venue:

This meeting can be viewed

Video Conference via Zoom

on [Senedd TV](#) at:

Meeting date: Monday, 2 November
2020

<http://senedd.tv/en/6557>

Meeting time: 14.20 – 17.30

Attendance

Category	Names
Assembly Members:	Llyr Gruffydd MS (Chair) Alun Davies MS Siân Gwenllian MS Mike Hedges MS Rhianon Passmore MS Nick Ramsay MS
Witnesses:	Adrian Crompton, Auditor General for Wales, Audit Wales, Lindsay Foyster, Audit Wales Nicola Evans, Wales Audit Office Rebecca Evans MS, Minister for Finance and Trefnydd Andrew Jeffreys, Welsh Government Matthew Denham-Jones, Welsh Government
Committee Staff:	Bethan Davies (Clerk) Leanne Hatcher (Second Clerk) Georgina Owen (Second Clerk)



1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the virtual meeting of the Finance Committee.

1.2 The Chair noted that Mark Reckless MS has left the Committee and thanked him for his contribution to the Committee's work.

2 Paper(s) to note

2.1 The papers were noted.

2.1 **PTN 1 – Letter from the Minister for Housing and Local Government: Local Government and Elections (Wales) Bill – 21 October 2020**

2.2 **PTN 2 – Letter from the Chair of the Equality, Local Government and Communities Committee to Audit Wales: Local Government and Elections (Wales) Bill – section 118 – 27 October 2020**

2.3 **PTN 3 – Letter from the Chair of the Legislation, Justice and Constitution Committee to the Llywydd: Scrutiny of Covid-19 regulations – 22 October 2020**

2.4 **PTN 4 – Letter from the Public Services Ombudsman for Wales to the Minister for Health and Social Services: NHS Complaints data – 27 October 2020**

3 Oversight of the Wales Audit Office – Scrutiny of the Estimate 2021–22 and Interim Report: Evidence session

3.1 The Committee took evidence from Adrian Crompton, Auditor General for Wales; Lindsay Foyster, Chair of the Wales Audit Office; and Nicola Evans, Head of Finance, Audit Wales on the Scrutiny of the Estimate 2021–22 and Interim Report.

4 Welsh Government Second Supplementary Budget 2020–21: Evidence session

4.1 The Committee took evidence from Rebecca Evans MS, Minister for Finance and Trefnydd; Andrew Jeffreys, Director Treasury; and Matthew Denham–Jones, Deputy Director Financial Controls on the Welsh Government Second Supplementary Budget 2020–21.

4.2 The Minister agreed to ask the Minister for Health and Social Services to write to the Committee with:

- a more detailed breakdown on the £800 million stabilisation package to help the Welsh NHS respond to the ongoing impacts of the COVID-19 pandemic, and
- a note on the ‘Test’ element of the Welsh Government’s ‘Test, Trace and Protect’ strategy, in particular, any likely changes to the ‘Test’ strategy and funding allocation in the near future.

5 UK Internal Market Bill: Evidence session

5.1 The Committee took evidence from Rebecca Evans MS, Minister for Finance and Trefnydd; Andrew Jeffreys, Director Treasury; and Matthew Denham–Jones, Deputy Director Financial Controls on the UK Internal Market Bill.

6 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting and for items 1 and 2 at the Committee meeting on 9 November

6. The Committee agreed to exclude the public from the remainder of the meeting.

7 UK Internal Market Bill: Consideration of evidence

7.1 The Committee considered the evidence received and agreed to report on the Legislative Consent Memorandum.

**8 Welsh Government Second Supplementary Budget 2020–21:
Consideration of evidence**

8.1 The Committee considered the evidence received.

**9 Oversight of the Wales Audit Office – Scrutiny of the Estimate 2021–22
and Interim Report: Consideration of evidence**

9.1 The Committee considered the evidence received.

Rebecca Evans AS/MS
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: RE/365/20

Llyr Gruffydd AS/MS
Chair of Finance Committee
Senedd Cymru
Cardiff Bay
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SeneddFinance@senedd.wales

29 October 2020

Dear Llyr,

I am writing to provide an update on the timetable for the 2021-22 Welsh Government Budget.

Yesterday the UK Government confirmed the Spending Review will take place on 25 November. This announcement comes only days after the UK Government confirmed it had decided to conduct a one-year Spending Review rather than the long-awaited multi-year review. This piecemeal approach to releasing information is very unhelpful and makes the task of planning for and managing our budget an extremely difficult one.

In confirming, before the summer recess, the Welsh Government's intention to publish the Budget on 8 December, it was subject to the timing of the UK Government's Spending Review. Unfortunately, in light of yesterday's announcement, we will not know our settlement for 2021-22 until 25 November. As a result, it is necessary to defer publication of the Welsh Government's Budget. With your agreement, I intend to publish the draft Budget on 21 December in recess. This timeframe will ensure that the time available for scrutiny is not compromised and that we provide funding certainty to our delivery partners and stakeholders before Christmas. In essence, this will mean adopting a similar timeline to last year's Budget and I will make a statement as soon as possible on the draft Budget in the first sitting week after Christmas. I would be very grateful for your cooperation in circumstances which are again influenced by factors beyond our control.

I plan to issue a Written Statement to Members as soon as possible to update them on these developments.

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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.

I am copying this letter to the Chair of the Business Committee.

Yours sincerely,

Rebecca Evans.

Rebecca Evans AS/MS
Y Gweinidog Cyllid a'r Trefnydd
Minister for Finance and Trefnydd

Llyr Gruffydd MS
Chair of Finance Committee
Senedd Cymru
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4 November 2020

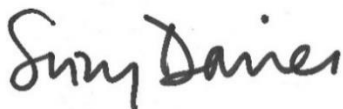
Dear Llyr

Thank you for your Committee's **Report on the Scrutiny of the Senedd Commission Draft Budget 2021-2022**, published on 21 October 2020. The Commission's response to the Finance Committee's recommendations is detailed in **Annex 1**.

I would like to thank the Committee for its scrutiny and I look forward to the debate on the Commission's budget motion next week.

I also welcome the Committee's conclusion. The Commission's approach is always to try to operate with openness, transparency and clarity, if there is any further information your Committee would like to have, please do not hesitate to let me know.

Yours sincerely



Suzy Davies

cc Senedd Commissioners, Manon Antoniazzi, Nia Morgan

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



Annex 1

Finance Committee Recommendations

Recommendation 1. The Committee recommends that additional information is provided on the costs and savings identified as a result of Covid-19, for the period up until the end of September. Additionally, the Committee would welcome a final update on the position at the end of this financial year.

Accepted.

An update on the financial implications of COVID-19 as at 30 September 2020 accompanies this letter. We will provide a final update for 2020-21 following the external audit for this financial year.

Recommendation 2. The Committee recommends that the Commission attends an evidence session with the Finance Committee in February 2021 to consider how long term projects have been prioritised and planned, including whether the new Sustainability plan and targets that are due to be in place from 2021 onwards will be implemented and how they are intended to influence decision making and funding.

Accepted.

We welcome the opportunity to share our long-term priorities and sustainability plans and targets with the Committee.

Recommendation 3. The Committee recommends that an annual report on the Voluntary Exit Scheme is provided to the Finance Committee in the Sixth Senedd and for the next financial year, to enable the Commission to demonstrate the value for money of this scheme.

Agreed in Principle.

A report on the Voluntary Exit Scheme accompanies this letter.

This report outlines the workforce benefits that have arisen from the VES. As noted in the report all posts, apart from one, have been reestablished/redistributed in the 18 months since the 2018-19 scheme.

The report evidences that benefits e.g. from changes to service area structures and from new skills introduced since the VES, have already been 'realised'. Any future benefits will solely arise from financial savings of staff being recruited at lower points within the salary structure. This annual benefit will diminish over time as staff progress up their pay band.

The Commission does not therefore intend to revisit the outcomes of this 2018-19 scheme as the October 2020 report provides a comprehensive summary of the overall outcomes and benefits.



Recommendation 4. The Committee recommends that, if a supplementary budget is required to reflect annual leave accrual, it should be accompanied by an assessment of any additional costs, alongside an update on sickness absence levels and the impact of the pandemic on staff welfare.

Agreed.

We will provide the Committee, as in previous years, with a copy of the Supplementary Budget Explanatory Memorandum before it is laid before the Senedd and incorporated into the Welsh Government budget.

At the same time, we will provide the Committee with commentary assessing whether there are any risks of additional costs being carried forward into 2021-22, alongside an update on sickness levels and the impact of the pandemic on staff welfare.

Recommendation 5. The Committee recommends that the Commission's communication plan clearly explains how priorities are set, how these will be measured and achieved, and how the plan seeks to raise the profile of work in Committees and the Senedd.

Agreed.

The Commission has supported a new communications and engagement strategy which focuses on the work of the committees. Whenever a committee launches an investigation into a policy area or service, the Citizen Engagement teams will work with them to find people with lived experience of those services.

By using that evidence of people with lived experience of services, we aim to show how the work of committees relates to the everyday lives of citizens. Further information is included in the Communications and engagement strategy outline provided in **Annex 2**.

Recommendation 6. The Committee recommends that the Commission pays particular attention to ensuring that engagement with those who are digitally excluded, difficult to reach, or unlikely to interact with the Senedd are at the forefront of its communication plan.

Agreed.

We have been developing our virtual engagement activities as face-to-face events have become more difficult during the current restrictions. A part of this we have also ensure



that we don't ignore those who are digitally excluded. Our online focus group work also includes phone sessions for those without secure broadband connections, or who would rather not engage in a virtual setting. Anecdotal evidence suggests this has real benefits, making it easier for people to find the time to take part, and eliminating the need to travel. We are also holding a series of virtual events in November considering the public's views on how we should emerge from the pandemic. It is early days, and we will be gathering evidence over the coming weeks to measure the success of these activities

Recommendation 7. The Committee recommends that the report on the Voluntary Exit Scheme should include additional details as to how the restructure of the Communications Directorate fits in with the aims of the scheme.

Agreed.

A report on the Voluntary Exit Scheme accompanies this letter and includes additional detail on the Communications Directorate..

Recommendation 8. The Committee recommends additional detail is provided to clarify the resources the Commission currently has available to support the Senedd in the EU transition period, the additional specialist resources referred to in evidence and how these resources will be accessed.

Agreed.

The Commission resources dedicated to support the Senedd in the EU Transition period are as follows:

- EU Transition Co-ordination – an additional responsibility allowance for a member of Commission staff who undertakes EU Transition co-ordination duties, in addition to his existing role (currently approved to end 31 December 2020). The EU Transition Coordinator maintains an overview of work strands being delivered relating to EU exit across the Senedd Commission, ensuring there is no overlap, and that gaps/delays are identified.
- The Brexit Academic Research Framework – this allows the Senedd to buy-in short-notice specialist expertise from a pool of academics and experts as needed. This expertise supplements the work of Senedd Research on highly specialist topics. To date, 25 pieces totalling 80 days work have been commissioned, examples of which include: the replacement of the EU Emissions Trading System; Future scenarios post-Brexit; the UK EEA-EFTA agreement and issues for Wales related to the UK-Japan agreement. The fund to support the Framework during 2020-21 and 2021-22 is £20,000 per annum with some potential for virement from the total £40,000 academic engagement fund in the 2021-22 draft budget if required.



- Business as usual - activity to support the Senedd during the EU transition period is also undertaken by other staff within the Commission as part of normal business. Activity is particularly focussed on the clerking teams supporting the EAAL and LJC Committees, the Senedd Research External and Constitutional Affairs team, Legal Services, and other part of the Commission, such as Translation and Reporting Service and Communications. Existing learning and development budgets will also be drawn on to provide expert and specialist training to staff working in these areas.



Annex 2 - COMMUNICATIONS AND ENGAGEMENT STRATEGY OUTLINE

Purpose and summary

1.The Commission's strategy for 2016-21 sets as a strategic goal "to engage with all the people of Wales and champion the Senedd" as well as to "communicate outwardly the work of the Commission"

2.Since taking up my post in September 2019, I've been working on a strategy to improve how we communicate and engage with the people of Wales in line with the Commission's strategic goals. In order to do that some changes are being made to the structure of the Communications and Engagement Directorate.

3.This paper outlines how those changes will impact the work of the Senedd and how it will change the work of the Commission. It will mean a much greater focus on social media as a means of speaking with and involving the public in our work.

Background

4. As the Senedd Commission's first Director of Communications and Engagement I've been tasked with making sure we deliver the strategic objective to Engage with the People of Wales and champion the Senedd. Much of the work we do is already making an impact towards this, but I want us to focus more relentlessly on telling the people of Wales what happens here, and involving them in our work.

5. Over the past four years the Commission has received three reports with a focus on engagement. They all outline similar challenges for our engagement and communications strategy; namely that social media should be at the heart of the Senedd's communications strategy and that citizens should be at the heart of everything we do.

6. The size of the task ahead is most starkly laid out by the 2018 Hansard Society Audit of Political Engagement which shows that citizens in Wales have the lowest score in the UK on "Interest in politics", "Knowledge of politics", and in their belief that "getting involved is effective".

7. The relative weakness of the media landscape in Wales is well documented, but not insurmountable. Through more targeted use of social media, we can tell the story of what the Senedd does in a way which reaches out and engages with citizens. In all news and media organisations with a strong social media presence, the key to engaging audiences is to have strong, engaging case studies as part of their reports; a way for the public to be interested in a story and engage with an article.



The Strategy

8. The strategy has four key drivers:

- a. The Citizen has to be placed at the core of everything the Senedd does.
- b. Digital communications must be placed at the centre of the Senedd's operations as a means of facilitating and democratising the engagement process.
- c. Communications must be streamlined and consistent - simple, engaging brand messages targeted at specific demographic groups.
- d. A 'Digital First' operation and culture; and to continuously improve upon digital competency, skill sets and delivery mechanisms.

The Citizen has to be placed at the core of everything the Senedd does.

9. Two years ago, Leighton Andrews said in his report that the Senedd should look at itself as a content producer. *"The aim should be to put people - rather than the organisation and its processes - at the heart of topical news stories and aim for an emotional connection."* This forms the basis of the new strategy.

10. We need to overcome the challenges posed by Wales' limited media infrastructure, rapid changes to the way people get and share news, and low levels of understanding of a (still) relatively new and changing constitution situation. This can be done by greatly enhancing and focusing on our social media output.

11. Through the work of the engagement team, committee inquiries often gather evidence by visiting all parts of Wales to hear the experience of people who are using particular services. This often involves compelling "real life" case studies of how services have helped or had a negative impact on their lives.

12. The information forms part of committees' deliberations, and is included in their reports published some weeks later, but might not be used in any other way. This needs to change.

13. We will use these evidence gathering sessions as a means of showing what the Senedd does to scrutinise the role of the Welsh Government and act as a voice for the public.



14. After filming interviews with those who give evidence, we will share their stories on our social media feeds as quickly as possible after the event. It will be edited and will have an accompanying article which can be targeted to different areas and to different demographics.

15. We have recently started using a new online engagement tool which makes it much easier for the public to contribute to the inquiries of committees. This will be embedded in our articles so that anyone who is interested in our case studies will be directed to the website and can give their views.

16. We will make it as easy as possible for citizens to participate in the work of the Senedd

Digital communications must be placed at the centre of the Senedd's operations as a means of facilitating and democratising the engagement process

17. The Communications team is currently working on a social media strategy for each channel (Facebook, Twitter, Instagram etc) so that we can tailor our output to the different demographics using different social media platforms.

18. Conversations with several Senedd Members reveals a real appetite for enhancing their social media profiles. Many Members make good use of platforms such as Facebook to engage and communicate with voters. **As we look ahead to the ongoing support we offer to Members in future, we will consider how greater training could be provided so that social media plays a more pivotal role in how MSs interact with the electorate.**

19. Building on the improvements which have already taken place we will ensure that Senedd TV is used more widely as a digital communication tool, including broadcasting events which take place at the Senedd

Communications must be streamlined and consistent - simple, engaging brand messages targeted at specific demographic groups

20. We will develop a clear "brand" for the Senedd, based on the idea of being "your voice"; a place where the concerns and issues important to the public are raised and discussed.

21. This will help us to build a bond with the public and nurture a relationship of trust.



22. We will develop a warmer, friendlier tone of voice for our social media platforms and website, whilst respecting the significance of our law-making and scrutinising work. We will be clear, concise and jargon-free.

23. By undertaking new market research we will be able to build a new suite of target audiences which will form the basis of our core messaging strategy.

24. The Senedd has not commissioned or gathered any audience insight for some time, and this makes it difficult for us to confidently recognise our audiences and target our messages accordingly. The media and digital landscape, consumer habits, and attitudes are changing rapidly. Therefore, we will work with a reputable external provider to gather current audience insight.



25. The current communications strategy (2016-20) has identified 4 audiences:

- **“Political professionals”**: employed to participate in the democratic system. The group can include elected representatives, political journalists, public sector officials and also public affairs or policy professionals who are employed to promote their clients’ or organisation’s political objectives.
- **“Political Activists”**: socially motivated to engage in the political process and forms an essential part of our customer base. They are informed and knowledgeable, hungry for information and opportunities to participate and influence the Senedd’s work. This group is not employed to participate in the democratic process, but is primarily made up of those who participate in political or social action. Existing data suggests that the proportion of the population that share these group characteristics is far smaller in Wales (4%)¹ in comparison with other parts of the UK (20% in Scotland) and UK averages (32%)².
- **“Political Observers”**: tend to access political news and information on a weekly basis and sometimes or rarely talk about politics with their friends, family and work colleagues. They may have some interest in specific political issues but tend not to take part in more formal, high level political activity such as contact their elected representative, attend meetings or rallies.
- **“The Politically Apathetic”**: this group is considered to have little or no interest in political issues, declare low levels of interest in political news and they never discuss politics with friends, relatives or fellow workers.

26. The new strategy will focus on the **“Political Observers”** and **“Political Apathetic”** which is likely to include the majority of voters.

27. In order to target those audiences most efficiently and successfully we will need to understand what they think of the Senedd.

28. With a busy 18 months ahead with major campaigns to deliver e.g. Name Change, Votes at 16 and the 2021 Welsh General Election, our communication efforts will need to



be as effective as possible. **We will base our efforts on evidence through robust data and current insights.**

29. This project would directly feed into the Commission's goal to *Engage with all the people of Wales and Champion the Senedd*. **We will build the profile of the Senedd, its work and its evolution into a parliament ahead of the 2021 Welsh General Election.**

30. The research will also support the development work around the new website and our efforts around social media, giving us additional insights to develop new approaches to content creation and audience engagement.

A 'Digital First' operation and culture; and to continuously improve upon digital competency, skill sets and delivery mechanisms.

31. In order to implement all these changes we will be creating a new team within the Communications Directorate whose sole focus will be on improving our social media strategy.

32. This will lead to the creation of new roles including a Head of Social Media and a Social Media Manager. They will work closely with the Engagement team as well as the News team to ensure that the evidence gathered by Senedd Committees can be used to inform, involve and engage with the public.

33. The team will not only lead on our social media output but also ensure that other teams across the organisation will increase their focus on social media as a way of engaging and communicating with the public.

34. The team could also be supported by a member of the Translation service to ensure that all our output can be published bilingually as quickly as possible.

35. The Covid pandemic has made face-to-face engagement activities impossible. At the same time it has enabled us to enhance our virtual provisions. Anecdotal evidence suggests this has real benefits, making it easier for people to find the time to take part, and eliminating the need to travel.

36. The Engagement team has redirected staff and resources towards improving our digital services, such as virtual tours and schools engagement work. We are also holding a series of virtual events in November considering the public's views on how we should emerge



from the pandemic. It is early days, and we will be gathering evidence over the coming weeks to measure the success of these activities.

37. While developing and improving our virtual resources, we are also mindful not to leave behind those who are digitally excluded. As we prepare focus group work for Committees as well as our own research work, we have held sessions over the phone as well as online so that we can hear from as many citizens as possible.



Document is Restricted

HMRC's Administration of Welsh Rates of Income Tax

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1. Introduction

- 1.1 The Wales Act 2014 amended the Government of Wales Act 2006 to enable the Welsh Parliament to set a Welsh basic, higher and additional rate of income tax to apply to the non-savings and non-dividend income of Welsh taxpayers. This power came into effect for the 2019-20 tax year.

- 1.2 HM Revenue and Customs (HMRC) administers Welsh Rates of Income Tax (WRIT) through existing Pay As You Earn and Self Assessment processes. HMRC works closely with the Welsh Government to ensure the successful administration of WRIT, and this document sets out some of the measures that have been taken as part of the implementation and business as usual operation of WRIT.

2. Governance of WRIT

- 2.1 To ensure the smooth administration of WRIT, HMRC agreed a governance approach with the Welsh Government. This is underpinned by the close working relationship between HMRC and the Welsh Government, which ensures that the Welsh Government is kept fully informed, and able to challenge HMRC on its performance in administering WRIT.
- 2.2 HMRC has appointed an Additional Accounting Officer (AAO) with overall responsibility for WRIT, who is accountable for the performance of HMRC in establishing and operating WRIT. The current AAO is Ruth Stanier, Director General of Customer Strategy & Tax Design.
- 2.3 The AAO has responsibility for all matters of governance, decision making and financial management in relation to WRIT, and is available to give evidence to Welsh Parliament committees when required.

Agreements between HMRC and the Welsh Government

- 2.4 Ahead of the implementation of WRIT, HMRC and the Welsh Government agreed a Service Level Agreement (SLA)¹ for the 2019-20 tax year, which sets out the requirements, timescales and performance measures for the day-to-day operation of WRIT. This ensures a consistent quality of service to Welsh taxpayers and allows HMRC and the Welsh Government to meet their respective responsibilities in respect of operating WRIT. The SLA is reviewed annually.
- 2.5 HMRC will produce the first WRIT Annual Report in September 2020, which will report on the requirements set out in the SLA, and give assurance that these have been met. The Committee will be provided with a copy of this report.
- 2.6 The SLA is subsidiary to the Memorandum of Understanding (MoU)², which provides the framework for inter-government work at ministerial and official level to oversee the establishment and operation of WRIT. This document is

¹ HMRC and the Welsh Government's SLA for the operation of WRIT: <https://www.gov.uk/government/publications/service-level-agreement-for-operation-of-welsh-rates-of-income-tax-by-hmrc>

² HMRC and the Welsh Government's MoU for the operation of WRIT: <https://gov.wales/welsh-rate-income-tax-memorandum-understanding-html>

currently being reviewed by HMRC and the Welsh Government to ensure it remains up to date.

The WRIT Project

- 2.7 The implementation of WRIT was managed through HMRC's WRIT Project. WRIT was successfully implemented to operate from the start of the 2019-20 tax year. Some aspects of delivery, for instance changes to Self Assessment systems and the Annual Tax Summary, were not required until later. The Self Assessment changes have since been implemented as scheduled and the Annual Tax Summary is currently in development.
- 2.8 A Programme Board of senior officials provided oversight of all HMRC's Welsh tax devolution work, whilst the WRIT Project Board managed the implementation of WRIT. Both the Project and Programme Boards included representatives from the Welsh Government to ensure they had the opportunity to scrutinise the implementation of WRIT.
- 2.9 A Critical Friend Review was carried out in February 2020 to assess the Project's effectiveness in relation to project governance, delivery capability and planning, readiness for full implementation into business as usual, and value for money. The overall findings of the review were positive. The review also made several recommendations, which were discussed by the Project Board and addressed.

Business as Usual Governance

- 2.10 A new governance structure was put in place ahead of the transition of WRIT from the project into business as usual. As most of the implementation is complete, the WRIT Project Board was succeeded by the WRIT Board, the first meeting of which was held in February 2020. The Board meets on a quarterly basis to oversee the administration of WRIT and ensure that HMRC is fulfilling the requirements set out in the SLA. The Welsh Government is represented on the Board, and shares chairing responsibilities with HMRC.
- 2.11 HMRC and the Welsh Government have both nominated a Single Point of Contact (SPoC) for WRIT, to oversee its day-to-day management. The SPoCs meet on a regular basis, and regular meetings also take place between the signatories to the SLA and between the chairs of the WRIT Board.
- 2.12 This close working between HMRC and the Welsh Government ensures the smooth operation of WRIT, and that any issues can be identified and dealt with quickly. In the event of any disputes between HMRC and the Welsh Government, there is a disputes resolution process in place to ensure these are escalated appropriately and resolved swiftly.

NAO Audits

- 2.13 As well as our own internal governance process, HMRC also relies on the National Audit Office (NAO) to assess our administration of WRIT.
- 2.14 The most recent audit by the NAO was published in January 2020, and considered HMRC's administration of WRIT in 2018-19³. The NAO made positive findings in a number of areas, including governance, recharging, and identification and assurance. The NAO did not make any recommendations in its report, however HMRC has considered it carefully to ensure we continue to effectively administer WRIT.
- 2.15 The NAO conducts these audits annually, and the audit of HMRC's administration of WRIT in 2019-20 will be published later this financial year.

Looking Ahead

- 2.16 The business as usual governance approach currently in place will continue to operate. HMRC is committed to maintaining its close working relationship with the Welsh Government, to ensure that the governance of WRIT remains effective.

3. Identification and Assurance of Welsh Taxpayers

- 3.1 In order to effectively administer WRIT, HMRC must identify and maintain an accurate and robust record of the Welsh taxpayer population⁴. HMRC therefore conducts a range of activities to identify Welsh taxpayers, and provide assurance that this identification is correct.

Initial Identification

- 3.2 Ahead of the introduction of WRIT in 2019-20, HMRC undertook a third party data clash exercise, which matched HMRC address records with third party data. This included the electoral roll, data held by credit reference agencies, and employer records. It enabled HMRC to test whether our identification of Welsh taxpayers was corroborated by other address records.
- 3.3 The results of this exercise provided evidence to suggest that HMRC's identification of Welsh taxpayers was correct in 98-99% of cases. This gives HMRC confidence that we have correctly identified the vast majority of Welsh taxpayers. The data clash was unable to corroborate the other 1-2% of cases, but these are not necessarily incorrect addresses. There is no reason to believe that the third party data used for this corroboration is more likely to be correct than HMRC's data.

³ The NAO's audit of HMRC's administration of WRIT in 2018-19: <https://www.nao.org.uk/report/the-administration-of-the-welsh-rate-of-income-tax-2018-19/>

⁴ A summary of who is defined as a Welsh taxpayer: <https://www.gov.uk/welsh-income-tax/who-pays-the-Welsh-rates>

- 3.4 HMRC also identified postcodes that straddle the England and Wales border. Using ordnance survey data, we were able to identify whether all properties in these postcodes were in England or Wales.
- 3.5 HMRC communicated with Welsh taxpayers ahead of the introduction of WRIT to inform them of the upcoming changes to the tax system. In November 2018 a bilingual letter was sent to 2.01 million HMRC customers identified as being resident in Wales. As well as providing information about the introduction of WRIT, this letter also informed them of the need to notify HMRC of any address changes.
- 3.6 A range of communications activity supported this letter, targeting employers, software providers, pension providers, tax professionals, and others.
- 3.7 HMRC has extensive guidance in place to establish Welsh taxpayer status, including guidance on cross-border issues.

Ongoing Activity

- 3.8 HMRC carries out a number of scans to support the ongoing identification of Welsh taxpayers. This includes scans of blank and invalid postcodes in records where we identify indicators in the remainder of the address that it is Welsh. Records identified in these scans are updated to ensure they have the correct postcode and residency status.
- 3.9 HMRC also uses data provided by the Office of National Statistics to reflect new properties being built and subdivision of existing properties on our systems.
- 3.10 We continue to use the extensive existing channels of communication with taxpayers to reinforce key WRIT messages, including channels such as online social media and the Personal Tax Account. These communications have focused on the need for customers to update their address details with HMRC when they move.

Looking Ahead

- 3.11 The identification of Welsh taxpayers, and assurance that this identification is correct, is an ongoing process. HMRC will continue to carry out a range of activities to support this, and we will work closely with the Welsh Government to further refine our approach. We are currently discussing with the Welsh Government when the next third party data clash should be carried out.

4. Compliance Approach

- 4.1 HMRC continues to assess risk and undertake compliance activity into the tax affairs of Welsh taxpayers in the same manner we have always done, as part

of the administration of the UK income tax system as a whole. HMRC applies risk-based compliance activity to the collection of WRIT in the same way as is applied to the collection of income tax from taxpayers in the rest of the UK. The cost of this activity is not recharged to the Welsh Government.

- 4.2 HMRC also considers any compliance risk specific to WRIT. Risk attributable to Welsh taxpayers is dependent on the divergence of WRIT from the rest of the UK. This risk, and any activity carried out by HMRC as a result, is summarised in the WRIT Compliance Plan, which is produced annually. The first WRIT Compliance Plan was provided to the Welsh Government in July 2020.

Current Risk and Activity

- 4.3 WRIT remains level with UK rates, so there is currently no risk of behavioural change in Welsh taxpayers. However, for all individuals, whether in Self Assessment or Pay As You Earn, HMRC monitors cross-border migration trends and validates the accuracy of reported moves and the completeness of its address data.
- 4.4 For wealthy individuals, HMRC uses the existing Customer Compliance Manager model and other interactions with wealthy customers to raise awareness, educate customers of their WRIT obligations and assess compliance risk related to misrepresentation of Welsh taxpayer status or understatement of income liable to WRIT.

Employer Compliance

- 4.5 HMRC has also worked to ensure that employers fulfil their responsibilities. In June 2019, we identified that 10.4% of employers were not correctly applying the 'C' codes issued to them by HMRC, which denote customers as Welsh taxpayers.
- 4.6 This was in part due to issues with the payroll software used by some employers, and HMRC worked with employers and software providers to resolve these.
- 4.7 HMRC continues to monitor this, conducting regular scans and re-issuing codes to employers. We also communicate with employers, highlighting the importance of correctly applying the codes issued by HMRC.
- 4.8 The most recent scan, carried out in June 2020, showed that the percentage of employers failing to correctly apply the 'C' codes had reduced to 2.9%. This demonstrates continued improvement, and shows that the vast majority of employers are correctly applying the 'C' codes issued to them by HMRC.

- 4.9 The failure of employers to correctly apply the ‘C’ codes issued by HMRC does not impact the identification of Welsh taxpayers by HMRC. Where tax codes are not applied correctly by employers, end of year reconciliation ensures that customers pay the right amount of tax and that this is allocated to the correct government.

Looking Ahead

- 4.10 HMRC will continue to monitor the risk of non-compliant behaviour by Welsh taxpayers, and to support employers in applying ‘C’ codes correctly.
- 4.11 The compliance activity undertaken for Welsh taxpayers as part of the broader administration of the UK tax system will also be used to inform HMRC’s approach for future years. If this activity shows any trends in behavioural change, this will be considered in future periods.

5. Management of Costs and Recharging

- 5.1 The Fiscal Framework agreed between the UK and Welsh Governments in 2016 sets out the funding arrangements for the implementation of the Wales Act 2014⁵. Under this agreement, the Welsh Government is required to reimburse the UK government for net additional costs wholly and necessarily incurred as a result of the administration of Welsh income tax powers.

The Principles of Recharging

- 5.2 It is HMRC’s responsibility to ensure that the recharge to the Welsh Government is fair and accurate, and we have agreed an approach with the Welsh Government to ensure they have the opportunity to scrutinise this. The Operation of Welsh Rates of Income Tax Rechargeable Costs Framework, annexed to the SLA, describes this process.
- 5.3 HMRC recharges the Welsh Government using the net additional costs principle. This means we recharge costs of elements that relate specifically to the administration of WRIT, and not every cost related to the administration of the income tax system for Welsh taxpayers. This ensures that the costs recharged are all additional costs incurred by HMRC as a result of WRIT, and there is no cost benefit to HMRC.

Implementation Costs

- 5.4 The WRIT Project Board, with oversight from the Welsh Programme Board, was responsible for approving the costs of implementing WRIT, and the project team also scrutinised and challenged these costs. Implementation

⁵ Fiscal Framework between the UK and Welsh Governments:
<https://gov.wales/sites/default/files/publications/2018-11/agreement-on-welsh-government-fiscal-framework.pdf>

costs include the IT, business and staff costs relating to the introduction of WRIT.

- 5.5 HMRC's current estimate of the cost of implementing WRIT is £8-9 million, which covers the initial implementation of WRIT and not the implementation of any future changes to WRIT. Our initial estimate was £5-10 million, and we subsequently revised this to reflect our improved assessment of this cost. In October 2018, we provided a revised estimate to the Cabinet Secretary for Finance of £7.5-9.5 million, and in December 2019 we further revised this to the current estimate. The costs will be finalised following the delivery of the Annual Tax Summary.

Forecasting

- 5.6 An initial forecast of the annual cost of administering WRIT is provided to the Welsh Government at the end of quarter 3. This is an indication only as it does not include any bespoke requests, subsequent tasks identified, or cessation of existing tasks during the course of the following year. Changes that will affect future years will be reflected in the next annual forecast. This forecast is then iterated as plans for the next year become clearer.
- 5.7 This forecast is then compared to the actuals in each month and quarter, and revised as necessary.

Recharging of Ongoing BAU Costs

- 5.8 HMRC produces a report for the Welsh Government each month, detailing the previous month's costs and comparing these to the forecast. Any discrepancies between the forecast and the actuals is explained, and HMRC and the Welsh Government hold monthly meetings to discuss these reports. This enables the Welsh Government to scrutinise and challenge the recharge.
- 5.9 These monthly reports feed into a quarterly report, which is presented to the WRIT Board. The quarterly invoices are raised only once the WRIT Board has confirmed it is content that the recharge is fair and accurate.
- 5.10 Additional governance is in place to provide assurance over larger costs before they are incurred. One-off costs up to £50k require approval by the HMRC SPoC for WRIT, whilst costs over this amount require approval by a Change Control Board and a Deputy Director.
- 5.11 Change Control Boards provide the Welsh Government with the opportunity to challenge HMRC on proposed expenditure and the amounts requested. Restricting this process to amounts over £50k ensures that the process is not unnecessarily onerous for smaller amounts. Amounts under £50k are still subject to scrutiny in the monthly meetings and by the WRIT Board.

Looking Ahead

- 5.12 HMRC will continue to recharge the Welsh Government for costs wholly and necessarily incurred as a result of WRIT. We will work closely with them to ensure they have the information they need to approve the costs, and will provide estimates and forecasts of future costs.
- 5.13 We recently provided the Welsh Government with a high-level estimate of the costs for 2021-22, and will soon provide an initial forecast.

6. The WRIT Outturn

- 6.1 The first WRIT outturn, covering the 2019-20 tax year, is due to be published in summer 2021. HMRC's first provisional estimate of this figure is due to be published this year⁶.
- 6.2 The proposed methodology for calculating the outturn was approved by the WRIT Board in August 2020. HMRC worked closely with Welsh Government analysts during the development of this methodology to ensure it was fully explained.
- 6.3 The WRIT outturn will be audited by the NAO and published in HMRC's Annual Reports and Accounts, alongside the provisional estimate of the 2020-21 figure. We also expect to release a separate statistical publication. An extract of the accounts, including the outturn figure, will be provided to the Committee.

7. Summary

- 7.1 HMRC is committed to the successful administration of WRIT, and we are confident that the approach set out above enables us to work effectively towards this. The successful implementation of WRIT demonstrates this, and we are committed to ensuring that this success continues throughout the business as usual running.
- 7.2 We will prioritise working collaboratively and constructively with the Welsh Government, and ensure they remain able to scrutinise and challenge HMRC's administration of WRIT.

⁶ The forecast of the WRIT outturn is the responsibility of the Office for Budget Responsibility.

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

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Agenda Item 8

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

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Briefing Note

Submission to the Finance Committee's inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework

My role in relation to the Welsh rates of income tax

1 As an officer of the House of Commons, my primary responsibility is to examine and report to UK Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. I am also the statutory auditor of HM Revenue & Customs (HMRC) and many other UK public bodies. My responsibilities in relation to the Welsh Rates of Income Tax (WRIT) are limited to those set out in the Wales Act 2014. These are to prepare a report each year on the following matters:¹

- a. the adequacy of any of HMRC's rules and procedures put in place, in consequence of the Welsh rate provisions, for the purpose of ensuring the proper assessment and collection of income tax charged at rates determined under those provisions,
- b. whether the rules and procedures described in paragraph (a) are being complied with,
- c. the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Welsh rate resolution, and
- d. the accuracy and fairness of the amounts which are reimbursed to HMRC as administrative expenses incurred as a result of the charging of income tax.

2 My predecessor published the National Audit Office's first report on WRIT in January 2019. I published the second annual report in January 2020, covering progress made by HMRC in implementing WRIT in 2018-19. I anticipate publishing my next report in January 2021 covering the 2019-20 reporting period, including the introduction of WRIT in April 2019. In **Appendix Two** of this submission I have listed the reports that the Committee may find useful to their inquiry.

3 This briefing note is framed around my statutory responsibilities for reporting on the administration of WRIT, though I have also commented on other relevant areas that fall within

¹ Wales Act 2014, 116K

my remit and have been covered by work undertaken by the National Audit Office. I have not drawn upon emerging findings from my 2019-20 audit of the administration of WRIT, the work for which is currently ongoing. I would welcome the opportunity to update the Committee on the findings of my next report once it is published.

Taxation

How successful has the administration of Welsh taxes and the Welsh Rates of Income Tax been?

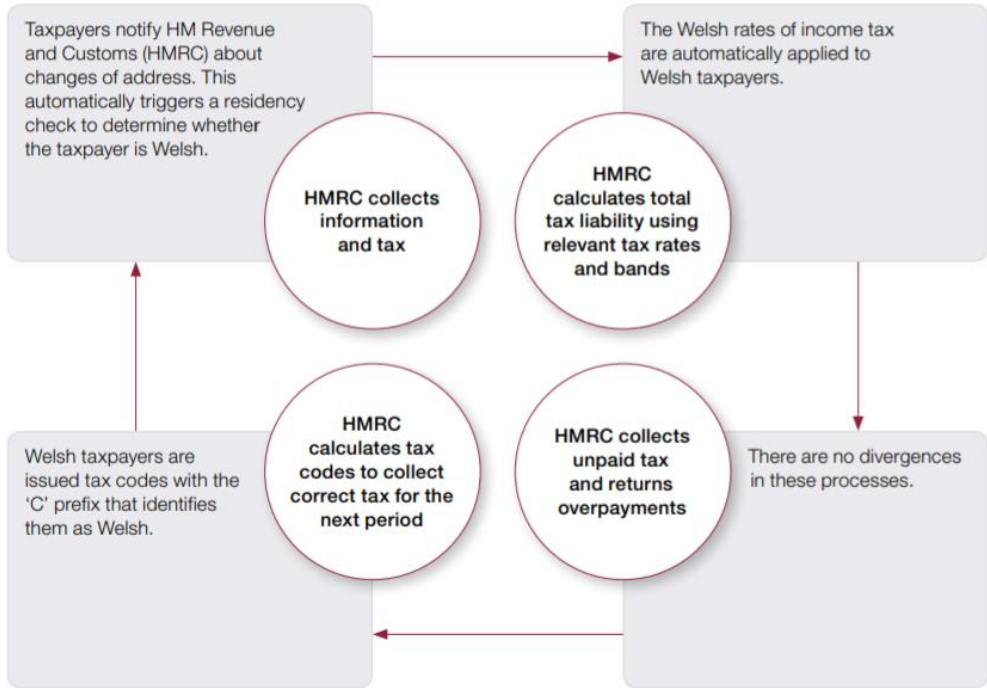
4 My reports on WRIT consider the adequacy of any of HMRC's rules and procedures put in place to manage the tax system for WRIT and whether such rules and procedures are being complied with. The administration of WRIT broadly follows UK-wide processes and I report on these more widely on an annual basis as part of my statutory audit of HMRC. Given that the Welsh rates of income tax remain the same as the rest of the United Kingdom (with the exception of Scotland), divergence from the UK-wide regime is limited and the most significant part of HMRC's administration of WRIT is identifying and maintaining an accurate record of the Welsh taxpayer population. In relation to those parts of HMRC's administration that are specific to WRIT, I have not identified any significant concerns, although I have summarised relevant findings from my reports for the Committee in the next few sections of this submission.

5 The diagram below is taken from my 2018-19 WRIT report, which the Committee may find helpful in understanding the administration of WRIT and how it diverges from the rest of the UK:

Figure 1

Divergences in the income tax system

The business rules are configured to process income tax using the rates and thresholds applicable to a taxpayers' residency status



Source: National Audit Office analysis of HM Revenue & Customs processes

HMRC's project to implement Welsh Rates of Income Tax

6 Both the 2017-18 report published by my predecessor and my report covering 2018-19 have looked at HMRC's project for implementing WRIT. The project was initiated in April 2017, with the Welsh Income Tax Devolution Project Board being established as the decision-making body responsible for the delivery of WRIT. The Welsh Government has representation on the project board and each sub-board or group.

7 The Welsh rates of tax took effect on 6 April 2019 and I noted in my 2018-19 report that HMRC implemented the project on time to enable this date to be met. Several tasks are still to be completed by HMRC during 2019-20, including the development of digital solutions for Welsh self-assessment taxpayers to enable them to identify themselves as Welsh when they submit their return online. Further development of processes for administering tax relief for pension contributions for Welsh taxpayers is also planned. I will assess the progress HMRC has made in these areas in my 2019-20 report. A timeline of HMRC's progress in implementing the project can be found in **Appendix One** of this briefing note.

Identifying the Welsh taxpayer population

8 Identifying the Welsh taxpayer population is the main challenge for HMRC in implementing the Welsh rates of income tax. As noted in my 2018-19 report, to ensure taxpayers are correctly notified of their Welsh status and the right amount of tax is collected from individuals and allocated to the appropriate government, it is essential that address information is correct.

9 In 2018, HMRC implemented a taxpayer identification strategy which set out three main steps to the initial identification of the Welsh taxpayer population:

- Identify all Welsh addresses and compile a master record of Welsh postcodes using Office for National Statistics (ONS) data and, where necessary, mapping information.
- Cleanse the addresses contained in existing taxpayer records to ensure that they are in a consistent format to facilitate automated processing of residency.
- Update taxpayer records with the appropriate flag when an address is identified as having a Welsh postcode.

10 In 2018-19 HMRC undertook a number of activities to support this strategy. HMRC compared the list of 91,000 live Welsh postcodes from the ONS data, with its Pay As You Earn (PAYE) and Self-Assessment taxpayer records to identify an initial population of Welsh taxpayers. This initial exercise identified 2.7 million potential Welsh taxpayers based solely on address data. All identified taxpayers are flagged on HMRC's systems, so they will automatically pay tax at the Welsh rate if they incur a tax liability. Two million notification letters were also issued to Welsh taxpayers who have a live record on the National Insurance and PAYE Service (NPS), which is HMRC's system for National Insurance and PAYE accounts.

11 To cleanse the address data held, HMRC conducted several system scans and identified approximately 36,000 records where postcodes were either missing or incorrect. HMRC has

used the findings of the initial address cleansing to enhance the effectiveness of the system scans in the future. As a result of this, for example, further scans identified a another 19,000 records were identified as potential Welsh taxpayers, although 15,000 of these were subsequently identified as not currently being in employment or in receipt of a pension.

12 In December 2018, HMRC commissioned a comparison of the data held in its master record of addresses to those of an independent third-party. This process provides HMRC with assurance that its address data are consistent with third-party data sources. Initially, in order to assess the overall level of accuracy of HMRC's address data, all records with a Welsh address were matched to the Royal Mail's Postcode Address File (PAF). Of the 2.7 million Welsh taxpayer records identified, 96.4% of the population were found to have addresses which were consistent with the PAF. Of those that were matched to the PAF, 99.9% were found to have an accurate postcode. HMRC's records were also matched to other independent data sources such as the electoral roll and credit reference agency listings in order to corroborate the address data held in HMRC's systems.

Use of the 'C' tax code

13 HMRC issues tax code notices to all employers to apply the 'C' tax code for all Welsh taxpayers who have been identified. HMRC ran a scan in June 2019 to compare the information held on HMRC systems with employer data. HMRC identified that it had correctly issued the 'C' codes to employers, however, the June scan revealed that 174,000 individuals had the incorrect tax code attributed to them by their employer or pension provider. HMRC worked with the employers most affected by this issue through regular meetings, employer bulletins and phone calls to ensure the correct tax codes were being applied on the employers' systems. In September 2019, HMRC repeated the scan, which found that 57,000 employees had the incorrect tax code. HMRC is continuing work in this area and this is something I will revisit in my next report.

14 Where employers are operating an incorrect tax code, there is a risk that the wrong amount of tax is deducted through PAYE. At the end of the tax year, HMRC will use the Welsh tax code held in their records to calculate the tax and will determine whether or not the correct amount of tax has been deducted through the PAYE reconciliation process.

Compliance activities

15 HMRC applies a risk-based approach to compliance activity for the collection of Welsh income tax in the same way it is applied to the collection of income tax from taxpayers in the rest of the UK. HMRC considers compliance risk annually through its UK-wide Strategic Picture of Risk (SPR) assessment; a specific assessment has not historically been prepared for Wales. I noted in my 2018-19 report that HMRC recognises that the compliance risks arising from the Welsh rates of income tax could change in future should the income tax rate in Wales diverge from the rest of the UK (excluding Scotland). In the future, I expect HMRC to perform a specific risk assessment for Wales and consult with the Welsh Government in accordance with the Memorandum of Understanding, which sets out arrangements between HMRC and the Welsh Government for setting up and operating WRIT.

16 The UK-wide compliance risks that HMRC considers are of most relevance to WRIT are:

- registered individuals or businesses deliberately omitting, concealing or misrepresenting information in order to reduce their tax liabilities;

- the hidden economy, where an entire source of income is not declared or where a declared source of income is deliberately understated; and
- individuals undertaking tax avoidance, exploiting the tax rules to gain a tax advantage that Parliament never intended.

17 In my 2018-19 report I noted that HMRC has taken the following steps to support the administration of devolved income tax:

- making changes to the Self-Assessment online system which require individuals to declare their residency status on their return;
- building address change functionality into taxpayers' personal tax accounts, helping to ensure that the address database is kept up to date; and
- continuing to work with large employers to help prevent, identify and respond to identified issues.

What could possible future tax changes look like and what scope is there for a different approach to taxation in Wales?

18 While it is beyond the scope of my statutory reporting obligations to comment on what possible future tax changes could look like, I would draw the Committee's attention to the experience in Scotland where HMRC is also responsible for administering the income tax system. Similar to my responsibilities in relation to Wales, I have statutory responsibilities under the Scotland Act 2016 to produce an annual report on the administration of Scottish income tax.

19 In 2017-18, income tax rules in Scotland differed from the rest of the UK for the first time: Scottish taxpayers paid the higher rate of tax (40%) as soon as they earned £43,000 – as opposed to £45,000 in the rest of the UK. For the 2018-19 tax year, the Scottish income tax rules diverged further from those in the rest of the UK. The Scottish Government introduced two new income tax bands for non-savings, non-dividend income, the starter rate and intermediate rate bands.

20 In my 2018-19 report on the administration of Scottish income tax, I looked at the increasing divergence in tax rates between Scotland and the rest of the United Kingdom. I noted that increasing divergence gives rise to a potential risk that taxpayers could manipulate their residency status due to the incentives of reducing their tax liability. This could include failure to notify HMRC of a change of address or the deliberate manipulation of address information. HMRC considers the risk of these behaviours taking place to be very low compared with the overall risk of non-compliance affecting taxpayers across the UK, such as efforts to avoid or reduce liabilities altogether.

21 In relation to Wales, the border between England and Wales is longer in distance and more complex with reference to cross-border residences, than the border between England and Scotland. In my 2018-19 report I noted that in October 2018, HMRC undertook an exercise to review cross-border properties separately. HMRC recognises that individuals living around the Welsh–English border may be more likely to challenge their residency status, with nearly 100 postcodes including some 1,100 properties straddling the border. In 34 cases, the border ran through individual properties and, for these, HMRC used a technique called centroid

determination to ascertain whether properties were mainly in Wales or England.² HMRC has said it will continue to monitor cross-border postcodes and check for any new houses which may be built or new postcodes assigned.

22 My predecessor, in his 2017-18 report on WRIT, considered the learning that HMRC had taken from its experience of implementing and administering the Scottish income tax system. HMRC identified a number of lessons covering project requirements, project management, finance and communications. I also understand there is regular communication between the Welsh and Scottish governments in relation to the administration of devolved taxation. This is an area of inquiry I intend to return to.

The Fiscal Framework

Consider the fiscal framework processes and how funding is allocated to the Welsh block grant.

Examine the application of the Barnett Formula and the criteria for excluding specific funding from the formula.

23 I would draw your attention to my predecessor's investigation into devolved funding, published in March 2019, which focused on how decisions on funding are reached and the different mechanisms and formulas that result in funding allocations. The investigation covered:

- The way the UK government allocates funding to the devolved administrations and the adjustments that are required, particularly in light of devolution of tax and revenue-raising powers;
- the different UK government funding streams available to the devolved administrations and the mechanisms for calculating and allocating funding; and
- the implications of changes in UK government spending plans and how these impact on the funding allocated to the devolved administrations.

24 The Barnett formula ensures that the devolved administrations receive a share of the changes in planned UK government spending on functions that are devolved in Scotland, Wales and Northern Ireland. The formula has no legislative basis. Devolved administrations receive additional funding when new, additional funding is provided to UK government departments for comparable services or functions. The report found that it can be unclear whether consequential amounts of funding are due to the devolved administrations for funding allocated to new services or functions, for example in relation to changes resulting from funding allocated to EU exit-related activities.

25 The report also highlighted that HM Treasury may allocate direct, special or ad hoc funding (sometimes referred to as 'non-Barnett additions') without consequential amounts of funding for other nations. Examples of such funding highlighted in the report were the £410 million allocated to Northern Ireland in 2018-19 as part of the agreement reached between the Conservative Party and the Democratic Unionist Party, and funding allocated to the devolved administrations for city deals or growth deals in their localities.

26 Specifically, in relation to Wales, the report noted that from the 2018-19 financial year, a

² Centroid determination is a mathematical concept whereby the central point of a figure is plotted. HMRC plotted this point on cross-border properties. The side of the border the centroid fell within was used to ascertain which side of the border the property fell within

new, needs-based factor was introduced into the Barnett formula specifically for Wales. This was introduced in response to the findings and recommendations of an independent commission, which reported that Wales needed additional funding in recognition of its more dispersed population and greater prevalence of poverty. It is intended to ensure that block grant funding for the Welsh Government does not fall below 115% of equivalent funding per head in England. This means that the Barnett formula calculation for Wales has one additional component (the needs-based factor), which is applied, along with comparability and population factors, when calculating the block grant funding for Wales.

27 Thank you for the opportunity to contribute to your inquiry and I look forward to working with the Committee as I continue my work on WRIT.

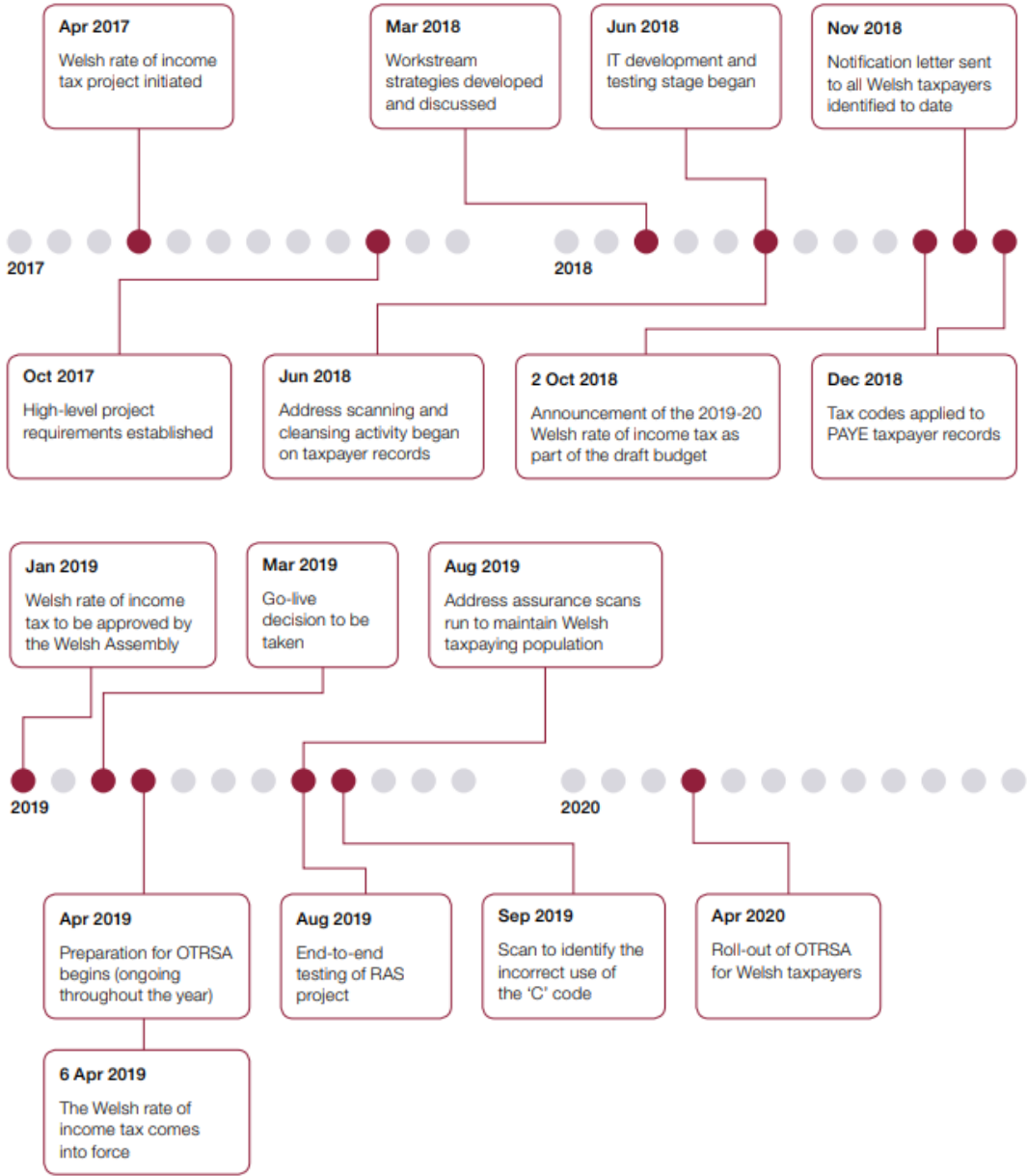
Gareth Davies

Comptroller and Auditor General

Appendix One

Welsh rates of income tax project milestones

The project was initiated and planned in 2017-18. HM Revenue & Customs (HMRC) has implemented those plans in 2018-19 and is continuing to roll out additional elements to the project in 2019-20



Notes

1. The Relief at Source (RAS) changes made by HMRC bring the Welsh project in line with Scotland.
2. The Online Tax Return Self Assessment (OTRSA) scheme is due to be fully operational by April 2020.
3. National Audit Office analysis of HM Revenue & Customs Information included in report by the Comptroller and Auditor General, Administration of Welsh income tax 2018-19, January 2020

Appendix Two

Reports relevant to the Committee's inquiry

Relevant previous NAO reports on devolved income tax

2018-19 reports

[Administration of Scottish income tax 2018-19](#)

[Administration of Welsh income tax 2018-19](#)

2017-18 reports

[The administration of Scottish income tax 2017-18](#)

[The administration of the Welsh rate of income tax 2017-18](#)

Other reports

[Investigation into devolved funding](#)

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