

Mark Drakeford AM/AC
Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol
Cabinet Secretary for Finance and Local Government



Llywodraeth Cymru
Welsh Government

Simon Thomas AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
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21 September 2017

Dear Simon,

I am writing to provide you with an update on recent progress in a number of areas in finance and taxation, together with a brief look at work which lies ahead.

Welsh Revenue Authority

The work to establish a new tax authority is complex with many components including tax, finance, digital, data, and legal. The programme team is working collaboratively with a broad set of stakeholders and several UK government departments to ensure processes and systems are in place for April 2018. This will enable the Welsh Revenue Authority (WRA) to deliver a bilingual digital tax service to its customers. Latest estimates show that the implementation of the WRA can be achieved within the figures previously published. Annual running costs will need to reflect the additional duties associated with collection of the second home supplement and the operational independence of the Authority.

Tomorrow, I will announce my appointment of the chief executive and the board of the WRA. Dyfed Alsop, the current WRA Implementation Director, will become the first WRA chief executive for a fixed term until August 2019. I made this decision following a pre-appointment interview conducted by the Permanent Secretary, Shan Morgan, the chair designate of WRA, Kathryn Bishop and an Independent Panel Member, John Whiting. The interview panel confirmed the fit between the requirements for the first WRA chief executive and Dyfed's skills and experience.

Kathryn Bishop will soon be formally appointed as the first chair of the WRA. In order to ensure the sufficient breadth, experience and knowledge on the board from its inception, I am appointing five non-executive members to join Kathryn. Following a full public appointments recruitment campaign and significant interest in the posts, the board members

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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.

are: Martin Warren, David Jones, Jocelyn Davies, Dyfed Edwards and Lakshmi Narain (biographies enclosed for information).

I attach great importance to the role of the WRA and the work of its board and look forward to their contribution to fiscal devolution over the coming years.

Preparations for Welsh rates of income tax

Preparations for the introduction of Welsh rates of income tax (WRIT), which will continue to be collected by HMRC, are progressing to schedule. The Financial Secretary to the Treasury, the Rt Hon Mel Stride MP, has acknowledged the importance of reflecting the Welsh context in the development work, and has committed to help deliver the following five priorities:

- 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 with the WRA, to enable the WRA to provide 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.

The Financial Secretary to the Treasury has confirmed he will keep the Finance Committee and National Assembly fully informed and engaged in the implementation process. He has identified Jim Harra, HMRC's Director General for Customer Strategy and Tax Design, as the responsible Additional Accounting Officer for WRIT, available to appear before the Finance Committee on request, and has agreed the National Audit Office will report to the Assembly annually on the performance of HMRC.

As you highlighted in your statement about the lessons from fiscal reform in Scotland, access to full, accurate and timely data will be essential as the Welsh Government and the National Assembly prepare for WRIT. The Financial Secretary to the Treasury has recognised this point and his officials are working with mine to ensure the arrangements are in place to make the necessary data available. Discussions are also underway to agree a clear understanding and definition of the options and costs of implementing WRIT, and HMRC's plans for compliance activity in relation to WRIT.

To help ensure matters essential to Wales are fully addressed in the preparations for WRIT, a joint working group on communications has been established by the Welsh Government and HMRC. There will be a strong focus on the Welsh language. As an initial step, I have agreed to the Financial Secretary's proposal that a 'C' prefix is used to identify Welsh taxpayers.

Innovate to Save

In February, the Welsh Government launched an Innovate to Save Fund, a partnership between the Invest to Save Fund, the innovation charity Nesta, Cardiff University and the Wales Council for Voluntary Action (WCVA).

This new £5m fund was set up to attract more innovative, and therefore potentially more risky, proposals which would benefit from the project development expertise of Nesta and research capability of the University. The WCVA provides to the initiative its experience of

the third sector in Wales. The approach being taken is, as far as I know, the first of its kind and it is attracting interest from a number of other governments.

A total of 50 bids were received by the closing date of 23 May. These were subjected to a rigorous selection exercise which resulted in eight projects being identified for financial and non financial support to research, develop and refine their proposals. Once this stage has been completed, the Welsh Government will be able to assess which of the projects will deliver in terms of improving services and creating cash releasing benefits. The successful projects will be able to apply for repayable financial support fully to implement their idea. I anticipate this stage being reached in early 2018.

The type of projects being supported include: social prescribing and time banking; looked after children; the sharing of transport assets in north Wales; and care arrangements for the vulnerable. The Welsh Government is working with a diverse mix of organisations, including the homelessness charity Llamau, the Wales Ambulance Service Trust, Leonard Cheshire Disability, Gwynedd Council and The Innovation Trust.

Independent scrutiny of tax revenue forecasts

Bangor University Business School is due to report soon on its independent scrutiny of the Welsh Government's tax revenue forecasts, for inclusion in the 2018-19 Budget. I will publish the report alongside the draft Budget on 3 October to inform the Assembly's consideration.

I have also been considering the longer term options for the independent production of tax revenue forecasts. At this stage of fiscal devolution I do not believe it is proportionate to create a new independent forecasting body in Wales when there is expertise within established UK bodies. My present preference is for the Office for Budget Responsibility (OBR) to undertake the independent forecasting responsibilities for Wales. This would require a change to the OBR's existing operations, including the need, as I see it, for a presence in Wales. I will continue discussions with the UK government on the practical implications but, to date, they have been receptive to the OBR taking on this wider responsibility.

Secondary legislation

A programme of secondary legislation is underway to enable the introduction of the Welsh taxes. ~~Further to the changes made in Standing Order 27.8A,~~ I confirm below the statutory instruments that I intend to lay in advance of 1 April 2018:

- Permitted Disclosures Under the Tax Collection and Management (Wales) Act 2016 Regulations [October 2017] - affirmative procedure
- The Tax Collection and Management Act Administration Regulations [October 2017] - negative procedure
- The Tax Collection and Management Act Reimbursement Arrangements [January 2018] - negative procedure
- The Tax Collection and Management Act: The Welsh Revenue Authority (Powers to Investigate Criminal Offences) Regulations [January 2018] - affirmative procedure
- Tax Collection and Management Act Proceeds of Crime Act (POCA) 2002 - Application of powers to the WRA [January 2018] - negative procedure
- Tax Collection and Management Act Regulation of Investigatory Powers Act Regulations [January 2018] - negative procedure

- The Land Transaction Tax (Administration) (Wales) Regulations [January 2018] - negative procedure
- The Land Transaction Tax (Transitional Provisions) (Wales) Regulations [January 2018] - affirmative procedure
- The Land Transaction Tax (Specified Amount of Relevant Rent) (Wales) Regulations [January 2018] - affirmative procedure
- The Land Transaction Tax (Tax Bands and Tax Rates)(Wales) Regulations [January 2018] - affirmative procedure
- The Landfill Disposals Tax (Administration) (Wales) Regulations 2017 [December 2017] - affirmative procedure
- The Landfill Disposals Tax (Records) (Wales) Regulations 2017 [December 2017] - negative procedure
- The Landfill Disposals Tax (Tax Rates) (Wales) Regulations 2017 [January 2018] - affirmative procedure
- Six orders to commence the provisions of the three Acts.

I would particularly welcome the committee's views on the rates and bands for Land Transaction Tax and Landfill Disposals Tax; the Landfill Disposals Tax administration regulations, particularly customer insolvency credit and loss on ignition testing provisions; and the regulations on investigatory powers.

Landfill Disposals Tax Communities Scheme

On 8 September, the Welsh Government published the invitation to tender for the appointment of a distributive body which will be responsible for administering the Landfill Disposals Tax Communities Scheme¹. The intention is to appoint the body in December and for them to work with officials in readiness for the Scheme to be published by 1 April 2018.

I look forward to working with the Finance Committee in the coming year during this exciting time for devolution as we establish the Welsh Government's first non-Ministerial government department and introduce the first Welsh taxes of the modern era.

Best wishes,

Mark.

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¹ https://www.sell2wales.gov.wales/search/show/search_view.aspx?ID=SEP214142

Kathryn Bishop
Chair

Kathryn Bishop is an Associate Fellow of the Saïd Business School at the University of Oxford, where she directs and teaches on leadership programmes for professional service firms and other multi-national corporations. She has over 30 years experience working with organisations undergoing major change, in both the public and the private sector. Her background includes IT and HR and she has worked as a line director and manager, a project manager and as a consultant. She has also taken on a number of non-executive directorships.

Kathryn has worked in and for Wales in the last 15 years, firstly as a Non-Executive Director at the Welsh Government, and latterly as the Civil Service Commissioner for Wales, responsible for regulating all appointments into the Civil Service. She has also held a number of non-executive directorships within Government, including at the UK Border Agency, part of the Home Office, and the UK Intellectual Property Office.

Jocelyn Davies
Non Executive Board Member

Jocelyn Davies currently takes an active role with various bodies which include: the Advisory Panel to the Children's Commissioner for Wales, Chair of her Audit and Risk Assurance Committee (ARAC), Future Generations Commissioner's ARAC and is a Trustee and Vice Chair to the Care and Repair Cymru Board. Jocelyn is also a member of the Ministerial Taskforce for the Valleys and is a trustee of Plaid Cymru's Credit Union.

During her time as an Assembly Member for the National Assembly for Wales (1999-2016), Jocelyn served on many committees including: the Public Accounts Committee and its predecessor Audit Committee. She was also appointed as a Deputy Minister in the Plaid Cymru/Labour One Wales coalition Government of 2007-2011 and held responsibility for housing and regeneration. She later chaired the Assembly's Finance Committee until 2016.

Dyfed Edwards
Non Executive Board Member

Dyfed Edwards has a wide knowledge of education in Wales; a former teacher and governor of both primary and secondary schools, he has also held the position of Portfolio Leader for Education in Gwynedd.

Dyfed is a former Leader of Gwynedd Council and was Vice President of the Welsh Local Government Association, as well as serving as a representative on the Welsh Government/WLGA Finance Sub-Group. Dyfed was spokesperson on various topics during this period.

Dyfed has served as a member of the Welsh Government Expert Group on Housing an Ageing Population and the Welsh Speaking Communities Task and Finish Group. He has also served on various organisations in Gwynedd and gained experience in the SME sector including involvement in business start-up.

David Jones
Non Executive Board Member

David Jones is a successful technology entrepreneur who now spends most of his time working within the Public Sector in a range of consultancy, advisory and non-executive posts – all focused on the role that digital can play in making public services better, cheaper and safer.

A frequent contributor across the broadcast media, discussing subjects from cyber security to Government Digital Strategy, David holds a number of non-executive posts, including Qualifications Wales and sits on the Welsh Government ICT Sector Panel.

Lakshmi Narain
Non Executive Board Member

Lakshmi Narain currently Chair's the South Wales Branch for the Chartered Institute of Taxation (CIOT) and is an active member of the Wales Strategy Board for the Institute of Chartered Accountants in England and Wales (ICAEW). Through this participation, Lakshmi has been involved in the development and reform of numerous taxes.

Lakshmi has a major interest in tax, as evident from his varied experience in lecturing, membership of the Editorial Board of the Tax Journal and engagement in a tax technical capacity with a number of professional services practices; as well as Editor and Contributor to a number of tax publications for professionals. Lakshmi was the Special Adviser to the Finance Committee during its examination of the Tax Collection and Management (Wales) Act 2016 and the Land Transaction Tax and Anti-avoidance Devolved Taxes (Wales) Act 2017.

Lakshmi is a Fellow of the Chartered Institute of Taxation (CIOT) and the Institute of Chartered Accountants in England and Wales (ICAEW).

Martin Warren
Non Executive Board Member

Martin Warren currently serves on the Tax Advisory Board Cabinet Secretary for Finance and Local Government, and is a member of the Business Wales Strategic Board. He holds a number of Trustee positions, most notably of the charity Young Enterprise and is the current Chair of the Risk and Audit Committee.

Martin has been involved in Young Enterprise since 1995; joining the Welsh Board, before later becoming Chair. He was responsible for the reorganisation and reinvigoration of the volunteer base within Wales, stabilising the financial position and guiding Wales into the now merged Young Enterprise for England & Wales.

Martin, a Chartered Accountant, is currently ICAEW Director for Wales and most recently worked as Director of Finance at Cardiff Metropolitan University. He has also chaired, been a member of and trustee of various committees.