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Ysgrifennydd y Cabinet dros Gyllid
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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref MA-P/MD/1190/18

Simon Thomas
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
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10 May 2018

Dear Simon,

I enclose the Welsh Government's response to the Finance Committee's report about *The implementation of fiscal devolution in Wales*.

I found the report to be a helpful summary of what has been achieved and the immediate challenges. The Welsh Government is pleased to accept the three recommendations, which are in line with our existing plans.

I note the report also considers the arrangements for the independent forecasting of tax revenues and concludes the committee would welcome regular updates about the Welsh Government's plans. I will continue to do this.

I am grateful for the committee's continuing scrutiny of the fiscal devolution process.

Best wishes

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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 'The implementation of fiscal devolution in Wales'

1. The Welsh Government welcomes the report by the Finance Committee, which considers the progress made towards fiscal devolution shortly before the Welsh taxes (land transaction tax and landfill disposals tax) were introduced on 1 April 2018. This is the latest of four complementary reports, which review what has been accomplished to date and consider the challenges ahead, following those by the Welsh Ministers, the Secretary of State for Wales and the Wales Audit Office.
2. The Finance Committee's report and recommendations are consistent with those of the earlier reports. The recommendations focus on aspects of the next stages of implementation – the costs of transitioning to land transaction tax and landfill disposals tax; maintaining the skills and expertise of the Welsh Revenue Authority (WRA) and increasing awareness of Welsh rates of income tax (WRIT) among Welsh taxpayers. The Welsh Government agrees with the recommendations.
3. The Welsh Government thanks the Finance Committee for its contribution to the fiscal devolution process to date and looks forward to its scrutiny of the next phases of development. We are also grateful to the many other organisations and individuals who have helped us reach this point, since the work began in earnest with the launch of the Holtham Commission in 2008.

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

Recommendation 1:

The Committee notes that the estimated transition costs for devolved taxes of £1.8m are not finalised and recommends that the Welsh Government continue monitoring these costs and challenging any further increases.

Response: Accept

4. HMRC wrote to me in December to highlight the costs of transitioning from stamp duty land tax and landfill tax to land transaction tax and landfill disposals tax were likely to increase. My response underlined my disappointment about this and my expectation the next phase of work – implementing Welsh rates of income tax – would be towards the lower end of the £5m to £10m estimate provided by HMRC. With the agreement of HMRC, I have shared both letters with the Finance Committee.
5. I expressed my concern about the escalating costs of transition when I met HMRC's Additional Accounting Officer for WRIT in January and I made clear any further increase in costs would be robustly challenged.
6. The transition costs are being closely monitored by the Welsh Treasury. Reports about the costs are considered at the regular joint project and programme board meetings with HMRC. In addition, my officials have regular discussions with HMRC about the basis and validity of its forecasts. I anticipate HMRC will confirm the final costs in summer 2018.

Financial Implications

7. None.

Recommendation 2:

The Committee recommends that detailed proposals for succession planning and knowledge transfer within the Welsh Revenue Authority are developed and implemented as soon as possible.

Response: Accept

8. The creation and retention of corporate knowledge will be essential to enable the Welsh Revenue Authority (WRA) to maintain a high-performing and stable operation. The WRA has identified succession planning and knowledge transfer as priority areas to develop in its first year.
9. The WRA's organisational design seeks to draw on talent from across the civil service and beyond through programme loans for some of its posts. The WRA will continue to offer loan opportunities to draw in specialists and to benefit from a diverse range of experiences, while ensuring its structure remains flexible and responsive to any future changes in requirements.

Financial Implications

10. None. Any additional costs will be drawn from existing programme budgets.

Recommendation 3:

The Committee recommends that a public awareness campaign should be made a key priority when preparing for the introduction of Welsh Rate of Income Tax in April 2019.

Response: Accept

11. The introduction of Welsh rates of income tax (WRIT) will be an important step in fiscal devolution – and another milestone in Wales' devolution journey – directly relevant to around 1.3 million people living in Wales. WRIT will be introduced on 6 April 2019 and will be administered by HMRC, with the associated revenue receipts being credited to the Welsh Government alongside the block grant.
12. I am committed to an effective, coordinated and aligned approach to WRIT communications with HMRC. The Welsh Government is working with HMRC to ensure communications about WRIT provide clarity for individuals and businesses, and are timely and consistent.
13. In addition to HMRC's messaging via existing and established channels of communication, every taxpayer living in Wales will receive written confirmation about the changes in autumn 2018 from HMRC and the Welsh Government will lead a further awareness-raising campaign.

Financial Implications

14. HMRC's WRIT transition project, funded by the Welsh Government, incorporates communications and engagement to ensure taxpayers who live in Wales are accurately identified and informed about the changes. In December 2017, HMRC estimated the total cost of WRIT transition would be between £5m and £10m, significantly lower than the cost to the Scottish Government for the Scottish Rates of Income Tax project (£20m). HMRC is due to provide a more precise cost estimate in autumn 2018.

Mark Drakeford AM, Cabinet Secretary for Finance