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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Preparations for the implementation of fiscal devolution in Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



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

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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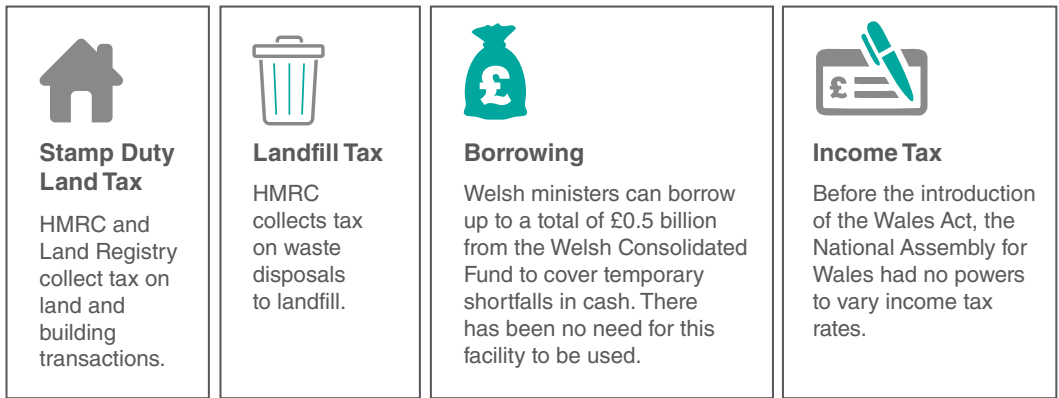
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Summary report

- 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. The Welsh Government has been considering the implications of this fiscal devolution since 2013 as part of its fiscal reform agenda.
- 2 The **Wales Act (2014)** devolved certain taxation and borrowing powers from the UK Government and Parliament to the Welsh Government and the 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.
- 3 The Wales Act 2014 was followed by the **Tax Collection and Management (Wales) Act 2016**, which was agreed unanimously by the National Assembly on 8 March 2016 and received Royal Assent in April 2016. The Act establishes the foundations for Wales' devolved tax regime, including the establishment of the Welsh Revenue Authority (WRA). This will be a new non-Ministerial Government Department. This means that whilst Welsh Ministers will set the policy framework and provide strategic direction, neither Ministers nor the Assembly will interfere in the day-to-day taxation decisions relating to the management and collection of devolved taxes.
- 4 The Welsh Government is also developing specific legislation for two new devolved taxes; the **Land Transaction Tax (LTT)** and **Landfill Disposals Tax (LDT)** to replace UK Stamp Duty Land Tax and UK Landfill Tax.
- 5 In September 2015, the Auditor General for Wales wrote to the Chair of the Finance Committee setting out his intention to issue a progress report on the state of the Welsh Government's preparations to implement fiscal devolution for Wales. This first review was undertaken in October 2016 and sought to answer the question 'Is the Welsh Government well placed to successfully implement fiscal devolution in Wales by 1 April 2018?'. **Appendix 1** provides more detail about the scope of our work and our audit methods.
- 6 This report looks first at the Welsh Government's approach in general to the overall fiscal devolution including the work of its Welsh Treasury functions; and secondly at specific work to date for establishing the WRA. The overall fiscal reform agenda is largely at the end of its planning phase and is now about to move forward into the delivery phase. Because the key work is still progressing, including the tax collection systems, the fiscal framework for adjustments to UK funding, and detailed forecasts required to underpin that fiscal framework, the arrangements around these areas will be covered in more detail in a second review the Auditor General intends to conduct in the autumn of 2017.

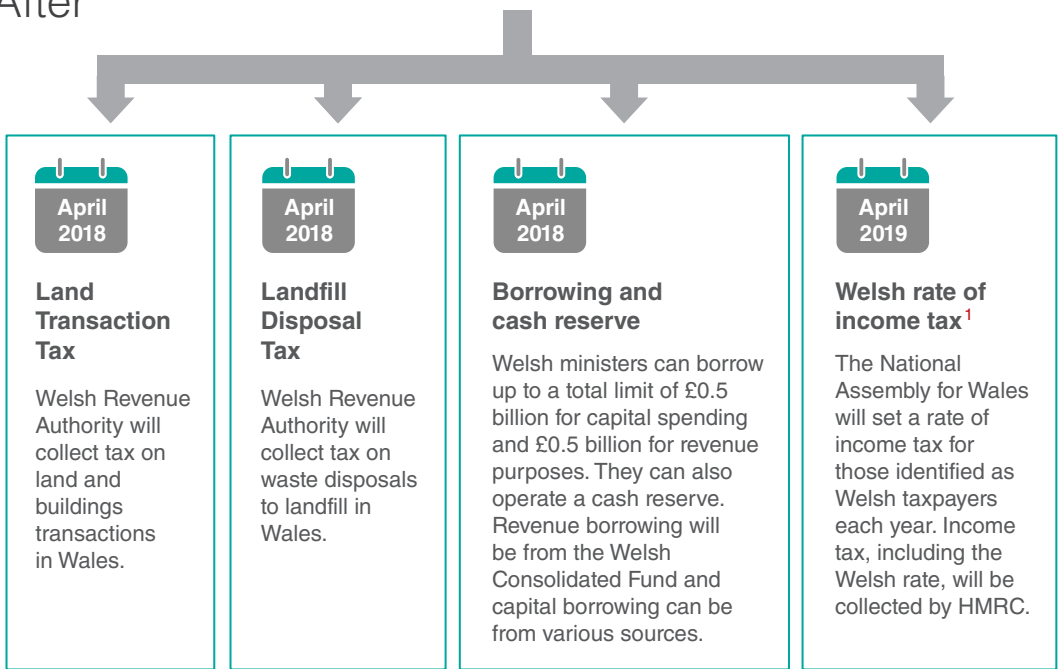
Exhibit 1 – Changes to the tax regime in Wales arising from the Wales Act 2014

Before



Wales Act 2014

After



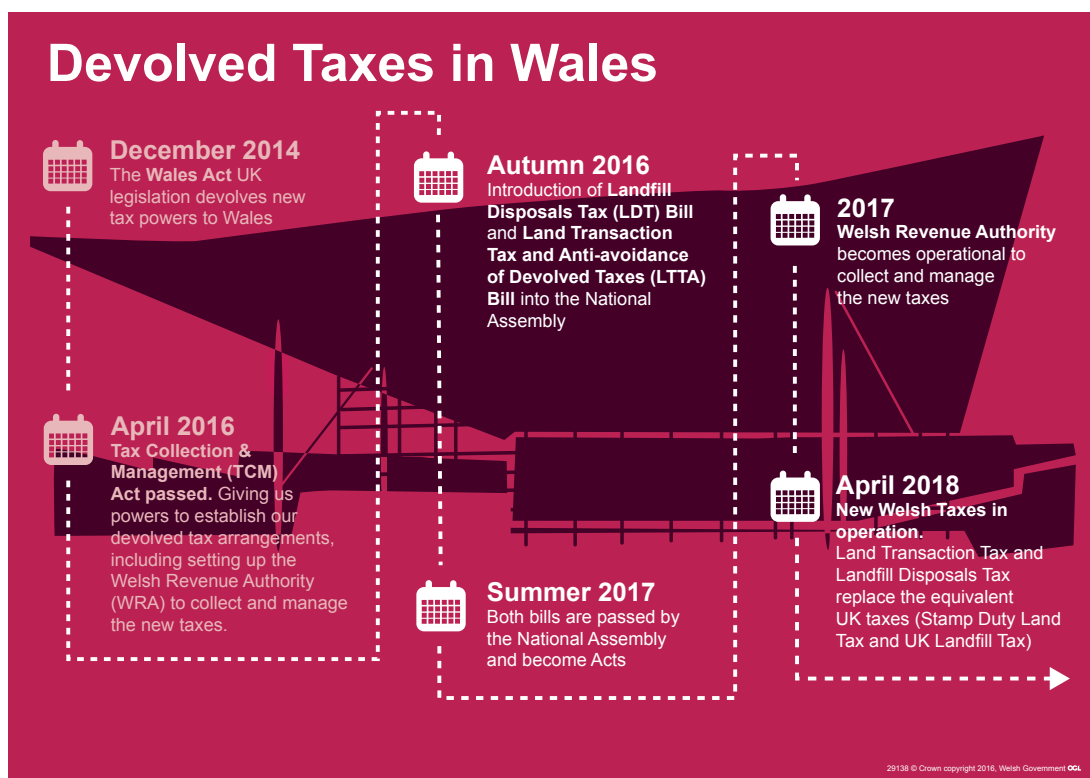
¹ A date for income tax devolution has not yet been set. April 2019 is the earliest possible date assuming Royal Assent for the Wales Bill in early 2017.

- 7 **We concluded that the Welsh Government is preparing well to take on its fiscal devolution responsibilities, including the establishment of the Welsh Revenue Authority by the April 2018 commencement date, although significant challenges remain in getting detailed plans in place and delivering key projects.** The main focus and challenges in the coming year are centred on agreeing the fiscal and legislative frameworks with key stakeholders including the UK Government; getting detailed plans for establishing the WRA in place; and very careful management of programme and project delivery. The following paragraphs provide a brief overview of our key findings.
- 8 **The fiscal reform agenda is well-structured, has been appropriately resourced, and is making generally good progress.** There is a robust structure for the governance of the fiscal reform agenda that has evolved appropriately over time to reflect changing circumstances. The work to deliver fiscal reform is adequately resourced at present, with appropriately skilled and experienced staff, but the resourcing and scope of future Welsh Treasury functions need to be continuously reviewed. The Welsh Government has made good progress to date in developing the legislative and fiscal frameworks for devolved tax arrangements. The Welsh Government is engaging extensively and effectively with a wide range of internal and external stakeholders.
- 9 **The Welsh Revenue Authority Implementation Programme is well structured and staffed, although the delivery of all projects will need very careful management in the coming months.** There is a clear governance and reporting structure to manage the establishment of the WRA and its functions. While the Welsh Government estimates that the costs of the resources to set up the WRA remain in line with their initial published estimates, a key challenge will be ensuring the right resources are in place at the right time. Despite some changes to initial timetables, the delivery of the Welsh Revenue Authority Implementation Programme (WRAIP) is progressing well, but detailed plans for delivery now need to be finalised and approved.

Key areas of focus through to April 2018

- 10 The Welsh Government has developed a well-defined critical timetable for the devolution of taxes to Wales which is summarised in [Exhibit 2](#) below.

Exhibit 2 – Summarised timetable for devolved taxes in Wales



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- 11 In order to meet the key milestones of this critical timetable, the Welsh Government, through the various programme and project boards, is currently finalising its detailed delivery plans. Our key recommendation is that this process should be completed as soon as possible to allow the programme boards and groups to move forward into the delivery phase in 2017.

- 12 The specific areas that these detailed delivery plans need to address are:
- a 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.
 - b 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.
 - c 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.
 - d 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.
 - e 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.
 - f 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.
 - g More detailed budgets now need to be developed to ensure the WRA is established on time, within cost and with the right skilled people.

Part 1

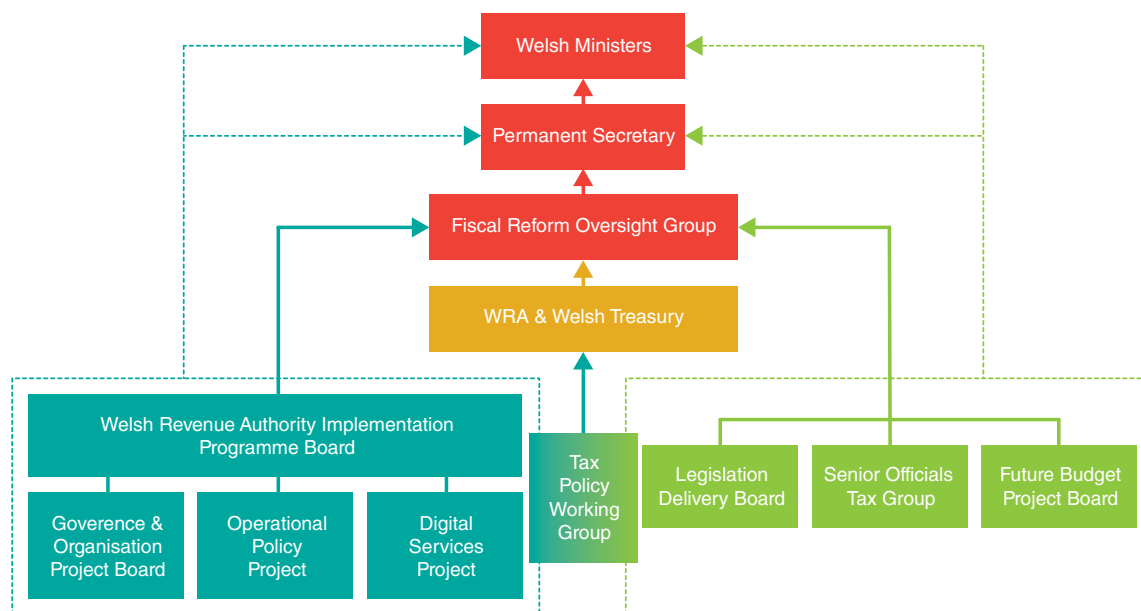
The fiscal reform agenda is well-structured, has been appropriately resourced, and is making generally good progress



There is a robust structure for the governance of the fiscal reform agenda that has evolved appropriately over time to reflect changing circumstances

- 1.1 The Welsh Government established a fiscal reform agenda in 2013 to implement the various requirements of the Wales Act 2014. This structure has developed as the detail, needs and circumstances of implementing the Act have become clearer. The structure at October 2016 of the fiscal reform agenda is shown in [Exhibit 3](#) and identifies two main parts to the fiscal reform agenda. We are aware that further changes are planned in the coming months as the fiscal reform agenda continues to evolve.
- 1.2 The WRAIP Board oversees projects aimed at the establishment and smooth running of the WRA. The Welsh Treasury, as part of the Welsh Government, oversees the Legislative Delivery Board, Senior Officials Tax Group and the Future Budget Project Board. The Future Budget Project is managed within the Finance Department, although it forms part of the fiscal reform agenda.

Exhibit 3 – Fiscal Reform Agenda - Governance, reporting and accountability



- 1.3 A Welsh Treasury Implementation Programme was originally established in November 2013 to manage and deliver the changes to the fiscal powers mandated by the Wales Act 2014. Following an independent assurance review in November 2015 the Welsh Treasury Implementation Programme was closed and a formal programme structure was mobilised around the establishment of the Welsh Revenue Authority. This provided an early separation between the future work of the Welsh Treasury (legislation, tax policy, Budget, borrowing etc.) and the future Welsh Revenue Authority.
- 1.4 The work of both the Welsh Revenue Authority Implementation Programme and the Welsh Treasury is overseen by the Fiscal Reform Oversight Group (the Oversight Group) which considers and advises on the wider impact of fiscal reform in Wales. The Oversight Group aims to ensure a coherent approach to planning and delivery, provides strategic assurance on future change decisions, and monitors progress by the WRAIP and the Welsh Treasury. The diagram at [Exhibit 3](#) illustrates this.
- 1.5 The Oversight Group receives high-level progress reports from the WRA Implementation Director and the Director, Welsh Treasury and monitors actions arising from the previous assurance reviews. The formal boards and groups meet regularly, have defined terms of reference and receive standard progress reports from the individual projects at each meeting, including the review and mitigation of key risks. Day-to-day operations and delivery are then managed by the various projects using the Welsh Government's established programme and project management procedures.
- 1.6 The Oversight Group benefits from the involvement of senior Welsh Government officials, and is chaired by the Deputy Permanent Secretary for Economy, Skills and Natural Resources. In addition, a broader perspective is brought by an external member of the Oversight Group who has experience of delivering change programmes outside the Welsh Government. More generally, there is a culture of welcoming challenge and external engagement, with external representation on all programme boards and a wide-ranging engagement strategy.
- 1.7 The consensus from our interviews with Welsh Government staff and external stakeholders is that the current governance arrangements are working well and are enabling fiscal reforms to be implemented in a timely and effective way. From our work, we would agree that the governance structures for the overall fiscal reform agenda are clearly articulated, well understood and have evolved appropriately to meet changing needs.

The work to deliver fiscal reform is adequately resourced at present, with appropriately skilled and experienced staff, but the resourcing and scope of future Welsh Treasury functions need to be continuously reviewed

- 1.8 The WRAIP, the Welsh Treasury and each of the formally constituted projects have appointed senior responsible officers, all of whom have a background and extensive experience in that particular area. While the WRA Implementation Director is a full time role, the majority of project officers are not and manage their time across a number of functions within the Welsh Government. At the individual project level, appropriate skills have been actively sought by advertising posts internally and assessing the suitability of candidates on a competitive basis, rather than simply allocating such roles to available staff.
- 1.9 To date, the Welsh Government's work on fiscal reform has been absorbed within its existing budgets for staff costs and other central services. The Welsh Government has published cost estimates for setting up and operating the WRA but has not separately identified the costs for the Welsh Treasury functions that are directly attributable to the fiscal reform agenda.
- 1.10 However, as the fiscal reform agenda moves into the delivery phase, there will need to be greater clarity on the costs of ensuring the WRA is adequately resourced and has suitable leadership to operate at arms length from the Welsh Government ahead of 1 April 2018. This is discussed in more detail in [Part 2](#). Alongside this, the challenge for the Welsh Government is to ensure that it is continuously reviewing the scope, capacity of existing staff, and resources to deliver the Welsh Treasury functions up to and beyond 1 April 2018.

The Welsh Government has made good progress to date in developing the legislative and fiscal frameworks for devolved tax arrangements

1.11 The Welsh Government is developing the legislative framework to establish the devolved tax arrangements set out in the UK's Wales Act 2014.

1.12 There are three pieces of additional Welsh primary legislation:

Tax Collection and Management (Wales) Act

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 Welsh Revenue Authority.

Introduced to the National Assembly for Wales in July 2015. Royal Assent received in April 2016.

Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill

This will allow the WRA to collect taxes on land and buildings transactions, such as buying a house, and provides the WRA with the powers to take forward anti-avoidance action.

Introduced to the National Assembly for Wales in September 2016. Royal Assent expected by summer 2017.

Landfill Disposal Tax Bill

This will allow the WRA to collect the taxes on disposing of waste to landfill, and to enforce compliance with this legislation.

Planned to be introduced to the National Assembly for Wales in autumn 2016. Royal Assent expected by summer 2017.

1.13 The Welsh Government started planning in 2013 for the devolution of these taxes and the legislation required. Following extensive engagement with stakeholders, including the Scottish Government, Wales has adopted a different approach to the timing of its legislation. In Scotland the legislation for the devolved taxes was considered first, and the Revenue Scotland and Tax Powers Act received Royal Assent in September 2014, after the devolved taxes legislation. By considering the Tax Collection and Management (Wales) Act before the devolved taxes bills, Welsh Government officials have had the benefit of providing a longer period of over 24 months (compared to six months in Scotland) to implement the WRA and its functions.

1.14 The Welsh Government considers that their legislative approach should both reduce the number of amendments to the primary legislation, and minimise the need for subsequent secondary legislation. Amongst other things, secondary legislation will be needed to provide the WRA with statutory criminal powers, and to allow Welsh ministers to vary tax rates and bands at short notice, with subsequent approval of any permanent variations by the National Assembly.

1.15 Given that the bills for the specific taxes are progressing through the legislative process, the challenge for the Welsh Government will be to ensure the impact of any amendments to these bills are reflected in the detailed project plans and processes.

1.16 The devolved taxes regime will also operate within a fiscal framework, as well as the legislative framework outlined above. The Welsh Government is currently discussing this fiscal framework with HM Treasury and expects to complete this work in January 2017, in conjunction with the passage through Parliament of the Wales Bill proposing the devolution of further powers and responsibilities to Wales. We understand that discussions between the Welsh Government and HM Treasury have been positive. The sharing of data analyses and jointly agreed briefings on fiscal impact to both Welsh and UK ministers has helped to avoid disagreements on the likely fiscal impact of the different changes. The fiscal framework being discussed will cover the following aspects:



The block grant adjustment

The UK Government provides a block grant of funding to the National Assembly, which in turn funds the Welsh Government. There will be an agreed method for calculating the reduction in this block grant in 2018-19 to reflect the anticipated revenues from taxes collected in Wales. The method for calculating the reduction of the block grant in subsequent years is still subject to negotiation between the UK and Welsh Governments. This increases the inherent risk to the Welsh Government's overall annual funding, because while the block grant is a known fixed amount, tax revenues are inherently uncertain and may be higher or lower than forecast.



Borrowing powers

Welsh ministers will have the authority to borrow for the first time – up to a total limit of £500 million for capital projects and up to £500 million for revenue purposes. The revenue borrowing will cover any shortfall arising from tax revenues being lower than forecasts or coming in more slowly than expected.



A cash reserve

A cash reserve will allow the Welsh Government to carry forward surplus tax receipts beyond the end of the year of receipt, making it easier to manage tax revenues that exceed forecasts or come in more quickly than expected. The new reserve may also replace the existing budget exchange arrangements for carrying forward unspent budgets from one year to the next.



Compensating adjustments

To compensate in the event that fiscal decisions in one country directly impact on revenues or public expenditure elsewhere in the UK.



Revenue forecasts

Having a robust forecasting system in place will be crucial in setting the Welsh Government's budget each year (although the borrowing powers and cash reserve should mitigate the cash consequences of any variances).

- 1.17 The ongoing negotiations on the fiscal framework are supported by the Fiscal Strategy team in the Welsh Treasury, working closely with teams responsible for fiscal forecasting and budgeting. Working relationships have also been established with other informed sources on fiscal devolution, including the Wales Governance Centre at Cardiff University.
- 1.18 Welsh Ministers are currently considering options for an independent fiscal body within Wales to provide independent assurance and oversight on tax revenue forecasts separate from those published by the Welsh Government. This could be a similar arrangement to the Office of Budgetary Responsibility for the UK, and the Scottish Fiscal Commission for Scotland, but will need to be proportionate to the scale of work involved in Wales.
- 1.19 It will be critical for the Welsh Government to have timely access to reliable data and well-founded forecasting tools for devolved tax revenues for it to effectively plan its budget and cost potential changes to tax rates and bands. The Welsh Treasury is developing forecasting methods for both devolved taxes using detailed and anonymised historic data obtained from HMRC and similar approaches as those used by the Scottish Government and HM Treasury. A quality assurance process will also begin in early 2017 to help ensure that the forecasting methodology is robust. Nevertheless, taxes based on property sales like LTT are difficult to forecast accurately because of the reliance on predictions of residential and commercial property prices and the annual volumes of sales and leases, both of which are highly volatile and susceptible to wider economic trends. Similarly, forecasting taxes like LDT is made more difficult due to limited landfill tax data currently available for Wales, and declining numbers of landfill operators as sites close, waste recycling rates continue to improve across Wales and other waste disposal methods such as incinerators are developed.
- 1.20 The Welsh Government will need forecasts or forecast assumptions regarding devolved tax revenues to inform its 2018-19 budget submission to the National Assembly in autumn 2017. The Welsh Government is currently reviewing its budgeting process to address the recommendations of the National Assembly's Finance Committee, which had asked for more time for the Assembly to scrutinise the budget before approval.
- 1.21 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.

The Welsh Government is engaging extensively and effectively with a wide range of internal and external stakeholders

- 1.22 Engagement with internal and external stakeholders to date has been extensive, detailed and well-managed. The Welsh Government carried out an initial stakeholder analysis exercise which identified a large number of internal and external stakeholders. A high-level Stakeholder Engagement Strategy was then designed to outline key messages and activities, and this is underpinned by specific Engagement or Communication Plans for each project, workstream and campaign within the fiscal reform agenda.
- 1.23 Engagement with stakeholders is centrally managed across the fiscal reform agenda. To date, over 350 interested or affected parties have been identified on a central database, which is accompanied by records of all engagement activities undertaken. These tools are used to centrally monitor and inform all engagement activity.
- 1.24 Key external stakeholders have been identified from this database, and consultation has been prioritised towards these bodies. Members of the Tax Advisory Group (which provides strategic advice to Welsh Ministers on tax policy and administration) and the Tax Forum (which enables the Welsh Government to engage with relevant professions and organisations) have been extensively consulted since 2014 to shape initial tax policy and legislative requirements in Wales. Other key parties that continue to be regularly consulted include HM Revenue & Customs, HM Treasury, Natural Resources Wales, the Law Society, the Valuation Office Agency and the Scottish Government.
- 1.25 There is also robust central management over stakeholder engagement within the Welsh Government itself to review the dissemination of key messages, and to minimise duplication of effort or clashes in policy. Key groups regularly consider stakeholder engagement as part of their work. These include the monthly communications and engagement meetings; and the Senior Officers Tax Group that will support a decision-making process for future Welsh tax policy decisions. The Fiscal Reform Oversight Group also continues to receive and review regular reports and plans for future engagement activities.

- 1.26 As part of overall stakeholder engagement, there are various discrete engagement activities undertaken as part of the WRAIP. A number of external stakeholders or end users have been widely consulted throughout the programme to date, and some key examples of this activity are detailed below:
- a Digital Services Project: This project has consulted widely with groups of proposed end users and practitioners, compiling over 700 individual ‘user stories’ to establish requirements for the system to be used for online filing of Land Transaction Tax and Landfill Disposals Tax returns. These stories have helped in the creation of a ‘minimum viable product’ specification which sets out the basic requirements for any online service to Welsh taxpayers, and will be used as the basis for negotiation with potential suppliers.
 - b HM Revenue & Customs (HMRC): HMRC have established a ‘Transition Board’ to formalise future relationships and structures with the WRA and enable a smooth transition in April 2018. The first meeting of this Board was in October 2016. The exact scope and terms of reference of this Board have yet to be agreed between HMRC and the Welsh Government.

To date, information has been shared between HMRC and the Welsh Government. Usage levels of the Stamp Duty Land Tax online system have been shared by HMRC to allow the Digital Services project to identify likely peaks and troughs of demand, and incorporate these into software system design.
 - c Natural Resources Wales (NRW): Fortnightly meetings have been held between NRW and the Welsh Government to determine future needs and requirements of both bodies under the Landfill Disposals Tax regime. NRW have been consulted on the drafting of key legislation such as the Tax Collection and Management (Wales) Act and the forthcoming Landfill Disposals Tax Bill. A Memorandum of Understanding has also been drafted to formalise the relationship between the two bodies.

NRW have also shared existing waste data returns with the Welsh Government to allow them to forecast future levels of collection of Landfill Disposals Tax.
- 1.27 Detailed and close engagement will be required as the overall fiscal reform agenda moves through the delivery phase and approaches the implementation date of 1 April 2018. A further key challenge will be to raise awareness of these tax changes in Wales among the wider public. A communications plan is being drafted and includes specific devolved tax related questions within the National Survey to allow the Welsh Government to monitor public awareness of the changes before they are implemented.

Part 2

The Welsh Revenue Authority Implementation Programme is well structured and staffed, although the delivery of all projects will need very careful management in the coming months



There is a clear governance and reporting structure to manage the establishment of the Welsh Revenue Authority and its functions

- 2.1 The WRAIP is responsible for establishing the WRA in line with the current internal timetable of November 2017. As shown in [Exhibit 3](#), the governance arrangements and structure of the WRAIP are clear and split into several project boards to take forward specific aspects of the WRA's implementation.
- 2.2 The WRA will be Wales's first non-ministerial department. It will be part of the Welsh Government and will be headed by senior civil servants, as well as a Non-Executive Board and Chair. However, whilst Welsh ministers will set the policy framework and provide strategic direction, neither ministers nor the Assembly will interfere in day-to-day taxation decisions relating to the management and collection of devolved taxes. There will be a 'minister responsible' who has strategic responsibility for the continued existence of the non-ministerial department; the overall policy and statutory framework within which it operates; wider tax policy; and represents the non-ministerial department in the National Assembly. The responsible minister will also ensure that the WRA receives an appropriate budget to undertake its functions, through the usual budgetary process.
- 2.3 Because this is the first non-ministerial department in Wales, a key challenge for the WRA will be to ensure that its statutory basis, governance and accountability frameworks are clearly defined and understood by all of its key stakeholders from the outset.
- 2.4 The WRAIP Board has well defined terms of reference which cover the structure and composition of the Board; Board members' roles and responsibilities; and the scope of WRAIP. Membership of the WRAIP Board includes both senior Welsh Government officials and representatives from external organisations who provide experience, knowledge and insight. The WRAIP is led by the WRA Implementation Director who took up post in August 2016. The Implementation Director, on loan for three years from HMRC/Valuation Office Agency (VOA), brings extensive experience in tax from working in HM Treasury, HMRC and latterly on the Board of the VOA.
- 2.5 At the time of our review, the WRAIP Board oversees three projects, which in turn have clearly defined remits and are led by senior staff. These projects cover:
 - a Governance and Organisation: to provide the elements for effective governance and organisation and all required corporate functions, for example, recruitment strategy, accommodation needs, governance and finance arrangements.
 - b Operational policy: to develop all operational policy for the Welsh Revenue Authority to administer devolved taxes, for example outward facing tax guidance, internal procedures and staff guidance, and elements of secondary legislation.

- c Digital Services: to provide a business process and a solution that is capable of administering, collecting and providing data about the devolved taxes within an agreed timetable and to budget.
- 2.6 The WRAIP Board monitors progress at its programme board meetings, receiving clear and concise highlight reports that provide updates on the WRAIP and each individual project. The reports include immediate milestones, successes, and risk identification and management. The delivery of key milestones and outcomes for the WRAIP and individual projects is then assessed against three classifications:
- a Red: Major Issues present affecting delivery of outcomes at this time. Significant Management attention required.
 - b Amber: May not reach next key milestones/outcome to time/cost/quality unless a major issue is resolved.
 - c Green: On schedule and achieving milestones within timescales with no major issues.
- 2.7 At its October 2016 meeting, the Governance and Organisation project was assessed as Green and the Digital Services project was assessed as Amber. The Operational Policy project was still mobilising and so was not classified. The overall progress of the WRAIP was therefore assessed by the WRAIP Board as being Amber due to the financial uncertainties given the annual nature of public sector budgeting and the wider economic environment at that date. In particular, the longer-term budget has not been agreed and the possible cost for the provision of digital services for the WRA is not yet confirmed. We would agree that the WRAIP Board's overall assessment of Amber is reasonable. A number of the key decisions that are due to be made shortly will also have a significant impact, including a decision on the WRA's office location within Wales.
- 2.8 Looking ahead beyond 1 April 2018, the longer-term functions of the WRA are being considered and scoped so that capacity can be built into the new organisation from the outset. The new Chair will play a pivotal role in these considerations and their appointment in early 2017 is therefore a critical milestone for the WRAIP.

While the Welsh Government estimates that the costs of the resources to set up the Welsh Revenue Authority remain in line with their initial published estimates, a key challenge will be ensuring the right resources are in place at the right time

- 2.9 To date, the Welsh Government has identified the roles and responsibilities required to deliver the WRAIP and, on a timely basis, have recruited people with the requisite skills and experience who are driving the programme forward. Looking ahead there are plans in place for a phased recruitment of WRA staff based on identified need. These plans do remain flexible, and are due to be reviewed and revised during November 2016 by the WRA Implementation Director; and in early 2017 on appointment of the first Chair of the WRA. It will be critical that not only are the right skills and experience in place, but that they are in place at the right stage of the WRA's implementation.
- 2.10 As noted in [Part 1](#), the costs to date of the overall fiscal reform agenda and the WRAIP have been absorbed within existing Welsh Government departmental budgets and day-to-day running costs. The revised Explanatory Memorandum published to accompany the Tax Collection and Management (Wales) Act in February 2016 included a Regulatory Impact Assessment outlining the best initial estimates for the set-up and subsequent annual operating costs for the WRA. These initial estimates included a range of between £4.9 million and £6.4 million for the estimated WRA set-up costs for the three-year period 2016-17 to 2018-19. The estimated annual operating costs of the WRA from 2018-19 onwards were estimated as being between £2.8 million and £4 million.
- 2.11 The Cabinet Secretary for Finance and Local Government has confirmed the expected set-up and operating costs for the WRA to be within the ranges previously published by the former Finance Minister. This remains the case at October 2016. These ranges are high level estimates at this point and the Welsh Government believes they will remain within the overall totals for the cost ranges.
- 2.12 The draft Welsh Government budget for 2017-18 specifically identifies for the first time an amount of £2 million related to the implementation of the WRA, which will be funded from existing budgets and reserves. There is also a further £0.5 million available from other sources, giving a total budget in 2017-18 of £2.5 million. We understand that the Cabinet Secretary for Finance and Local Government will be providing further detail on WRA implementation costs to the National Assembly in the coming months.
- 2.13 To date, the Welsh Government has ensured that the appropriate resources are in place for implementing the WRA. Following the appointment of the WRA Implementation Director and key decisions being taken, more detailed budgets now need to be developed to ensure the WRA is established on time, within cost and with the right skilled people.

Despite some changes to initial timetables, the delivery of the Welsh Revenue Authority Implementation Programme is progressing well, but detailed plans for delivery now need to be finalised and approved

2.14 The three projects of the WRAIP – Governance and Organisation, Operational Policy, and Digital Services – are in the process of finalising their detailed plans for the delivery phase in 2017-18. As shown in [Exhibit 4](#), a number of key milestones and deliverables have already been successfully met, including starting the recruitment of the WRA Chair for an appointment in early 2017, and an agreed set of minimum requirements for the WRA’s online tax collection system following widespread consultation with end users.

Exhibit 4 – Key milestones and deliverables for the WRAIP

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

Source: Welsh Government

- 2.15 There has been some rescheduling within the individual projects, whilst the WRA Implementation Director has conducted a review of the scope of the projects within the overall WRAIP. These have been reported via the reports of programme and project highlights to the WRAIP Board. Also a decision on the location of the WRA was originally planned to be taken some 12 months before occupation (anticipated by October 2017 to enable full testing of systems and location) but is now not likely to be announced before the end of 2016. The mobilisation of the Operational Policy project board began in spring 2016 with the appointment of a project lead but only recently held its first meeting in September 2016.
- 2.16 Detailed project work plans have been drafted for the Governance and Organisation project and Digital Services project, but the WRAIP Board has not yet formally ratified them. The Operational Policy project team are currently drafting the detailed project work plan, and although this is later than originally planned, there is no evidence to date that this project will not deliver to time on its objectives. It is the Implementation Director's intention that these plans will be integrated into a WRAIP plan once he has concluded his review of the scope of the projects within the programme, although they are reliant to some degree on other key decisions yet to be made, such as the location of the WRA office itself. A regular review of these plans will be needed as the programme evolves over the next 15 months.
- 2.17 A significant part of the WRAIP is the digital services project which is developing the online tax collections systems for the WRA. The digital services project is using the AGILE² software development methodology to manage its delivery. While a supplier is yet to be identified for this project, the Welsh Government plans to use the 'G-Cloud' framework contract located on the UK Government's Digital Marketplace, an online database of centrally-approved ICT suppliers. The Welsh Government plans to award a contract to the successful supplier for the first phase of development by the end of 2016, and the whole digital services project is scheduled for completion by October 2017. While this is an ambitious timetable for completion, it does allow a six month contingency period before the 1 April 2018 implementation date.
- 2.18 Any potential delays to the agreement of the detailed project plans risk slippage in the timetable for delivering the overall WRAIP and the projects, in particular the digital services project where there are tight time constraints. It also risks increasing the overall costs of the implementation of the WRA if additional resources are then needed to meet the required timetable. A key area of focus for the WRAIP is therefore to formally approve these project plans as soon as possible and keep them under regular review. Each project needs to move quickly into delivering its objectives with very careful governance, management and monitoring as it progresses over the coming months.

2 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.

Appendices

Appendix 1 - Methods



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We reviewed a range of information during our audit including:

- Various legislation and draft legislation including the Wales Act 2014, Tax Collection & Management (Wales) Act and the Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Bill
- Publicly available information on fiscal devolution relating to both Wales and Scotland
- 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, the National Audit Office and the New Zealand Auditor General
- Published documents from the Welsh Government and Welsh ministers

We received an introductory presentation from the Welsh Government which covered:

- Presenting progress to the audit team to set the scene
- Identifying how the project is developing
- How the project is being delivered
- The key risks
- The next stages for the individual projects/group and the overall Welsh Government fiscal reform agenda

We attended a stakeholder event on 29 September 2016 organised by the Finance Committee of the National Assembly for Wales that considered the Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Bill

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

- The Welsh Government including the Deputy Permanent Secretary, the Director, Welsh Treasury and the WRA Implementation Director
- HM Revenue & Customs
- Natural Resources Wales
- External members of the Fiscal Reform Oversight Group and WRAIP Board

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