

Cofnod y Trafodion The Record of Proceedings

[Y Pwyllgor Cyllid](#)

[The Finance Committee](#)

15/10/2015

[Trawsgrifiadau'r Pwyllgor](#)
[Committee Transcripts](#)



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cynnwys Contents

- 4 Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions
- 4 Papurau i'w Nodi
Papers to Note
- 5 Bil Casglu a Rheoli Trethi (Cymru): Sesiwn Dystiolaeth 8
Tax Collection and Management (Wales) Bill: Evidence Session 8
- 28 Bil Casglu a Rheoli Trethi (Cymru): Sesiwn Dystiolaeth 9
Tax Collection and Management (Wales) Bill: Evidence Session 9
- 45 Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn
ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in
the committee. In addition, a transcription of the simultaneous interpretation
is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour
William Powell	Democratiaid Rhyddfrydol Cymru (yn dirprwyo ar ran Peter Black) Welsh Liberal Democrats (substitute for Peter Black)
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Nick Jones	Cyfarwyddwr Gwasanaethau Cyllid Gweithredol, Cyngor Bwrdeistref Sirol Rhondda Cynon Taf Service Director for Operational Finance, Rhondda Cynon Taf County Borough Council
Tara King	Cyfarwyddwr Cynorthwyol, yr Amgylchedd, Cyngor Dinas Caerdydd Assistant Director, Environment, City of Cardiff Council
Martin Peters	Swyddfa Archwilio Cymru Wales Audit Office
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Mari Thomas	Swyddog Polisi (Cyllid), Cymdeithas Llywodraeth Leol Cymru Policy Officer (Finance), Welsh Local Government Association
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

Gary Watkins Rheolwr Gwasanaethau Refeniw, Cyngor Dinas
Caerdydd
Revenue Services Manager, Cardiff City Council

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Dr Richard Bettley	Y Gwasanaeth Ymchwil Research Service
Leanne Hatcher	Clerc Clerk
Lakshmi Narain	Y Gwasanaeth Ymchwil Research Service
Tanwen Summers	Dirprwy Glerc Deputy Clerk
Joanest Varney- Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser

Dechreuodd y cyfarfod am 09:03.
The meeting began at 09:03.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** Welcome, everybody, to a meeting of the Assembly's Finance Committee. Can I remind you, if you've got a mobile device, if you'd put it on silent we'd be very grateful? You don't need to turn it off, but on silent would be great. I've had apologies from Ann Jones. She's not able to be with us. Peter Black is also absent, but Will Powell is substituting. Welcome, Will.

09:03

Papurau i'w Nodi
Papers to Note

[2] **Jocelyn Davies:** We've got two papers to note, which are the minutes of our meetings on 1 October and 7 October. Are Members agreed? Good. Lovely.

Bil Casglu a Rheoli Trethi (Cymru): Sesiwn Dystiolaeth 8
Tax Collection and Management (Wales) Bill: Evidence Session 8

[3] **Jocelyn Davies:** We'll go to item 3, which is our first substantive item on the agenda, which is the Tax Collection and Management (Wales) Bill. This is our eighth evidence session. We've got the Welsh Local Government Association with us this morning. You very helpfully sent us a paper in advance and we're grateful for that. Before we go into questions, Mari, would you like to introduce yourself and your colleagues for the record? I understand that you've got a short statement that you would like to make.

[4] **Ms Thomas:** Yes, just a very short one. I'm Mari Thomas and I'm the finance policy officer with the Welsh Local Government Association. On my right I've got Nick Jones. I don't know whether you want to introduce yourself.

[5] **Mr Jones:** I'm service director for operational finance at Rhondda Cynon Taf County Borough Council.

[6] **Ms Thomas:** Then on my left—

[7] **Mr Watkins:** Gary Watkins. I'm the revenue services manager in City of Cardiff Council.

[8] **Ms King:** I'm Tara King. I'm assistant director for environment in Cardiff council.

[9] **Jocelyn Davies:** Okay. Thank you. Mari, you've got a short statement for us.

[10] **Ms Thomas:** Just to say 'thank you', really, for giving us the opportunity to come and give evidence to you this morning. Generally, our view is that we welcome the devolution of taxes to Wales, and this Bill, because of the increase in the accountability that that will then give to the Welsh electorate. The WLGA are quite firmly of the view that decisions about services and how they are delivered, managed and funded should be made as close to the point of delivery as possible. So, that's really where we begin from on the thinking about what to say in evidence, really. The other point I think we'd like to make is that this is a great opportunity, really, to try and bring different policy areas and align the tax regime with other sort of policy areas to try and bring all of those together to avoid unintended

consequences and to just enhance everything going in the same direction, really.

[11] **Jocelyn Davies:** Okay. Lovely. Thank you. Obviously, the Bill will see significant changes for some taxpayers. To what degree have you, as local government, been consulted on the new Welsh tax system? Have you been involved, because we've heard evidence from other witnesses that they've been heavily involved, actually, in the way that this has developed?

[12] **Ms Thomas:** We've had some working groups with just local government and Welsh Government officials, and we've been quite heavily involved in those. We're also involved in the tax forum and the tax advisory group, and Gary sits on the tax forum. So, we have had opportunities to contribute to the discussions as they've been going on. Tara's been involved as well.

[13] **Ms King:** I've also been involved in the landfill operators' working groups as well, as Cardiff council is a landfill operator. So, we're discussing matters with both private sector businesses and local authority-operated sites in working groups there as well.

[14] **Jocelyn Davies:** This seems to be a slightly different approach than has been taken in the past in terms of developing legislation. Is this a better way of doing it?

[15] **Ms Thomas:** Yes. We'd prefer to be involved early on in discussions, really.

[16] **Jocelyn Davies:** Before ideas are formulated.

[17] **Ms Thomas:** Yes.

[18] **Jocelyn Davies:** Okay. You mentioned the opportunity to align things together—policy and tax collection. Do you see this as an opportunity for new approaches to tax collection?

[19] **Ms Thomas:** Yes and no. It does give that opportunity. I think one of the big concerns that it would be silly not to address, really, is the length of the border between Wales and England and how porous that is. So, I think each one has got to be taken on its own merits, really, and considered carefully in terms of what might happen if we differed greatly from England.

[20] **Jocelyn Davies:** So, being consistent would be helpful, at least at the beginning.

[21] **Ms Thomas:** I think so, just for clarity for the taxpayers themselves, really.

[22] **Mr Watkins:** If I could just add, I think being consistent is important to make sure that you don't sort of end up with either extra waste coming into Wales, where landfill sites are at a premium, or, potentially with property transactions, if we had too high a rate, it might sort of determine that development didn't happen in Wales. So, I think we've got to be careful that we don't have rates that work either way. But at the same time, I think there's an opportunity, if possible, to look at where we could maybe simplify taxes. There's an opportunity to maybe make Wales more attractive by simplifying the regulations and make it less bureaucratic. In that way, then, we might actually encourage more economic development into Wales.

[23] **Jocelyn Davies:** Okay. In relation to landfill, then, how many local authorities are currently involved in landfill waste, managing landfill sites and paying landfill tax?

[24] **Ms Thomas:** I'm going to hand this straight over to Tara.

[25] **Ms King:** There's a handful of local authorities that own and operate sites or own LAWDCs, which are local authority waste disposal companies. Cardiff and Newport, which are very local to here, and also RCT have a LAWDC. So, in that situation local authorities understand both from the point of view of paying and being tax collector and distributor of landfill tax credits, but, then, obviously, all local authorities are very familiar with paying landfill tax on municipal waste streams that they're responsible for and accountable for. I think the experience that we have had of it—of seeing it from when it was first inaugurated with HM Revenue and Customs, right through to this stage now, where, potentially, the Welsh Government are going to take over those taxation regulations—. So, there is a depth of experience in local authorities from that perspective, certainly in terms of being beholden to pay and be a customer, if you like, of that tax, and being one of the owners of paying.

[26] **Jocelyn Davies:** I don't know if you've been following our committee's deliberations on this, but Natural Resources Wales didn't seem all that keen

to me to be the collector. In fact, they said they had no experience of collecting; they're regulators, obviously. They don't have systems, experience or skills. Why are you so reluctant to collect it—the landfill tax?

[27] **Ms King:** I'm not sure we are.

[28] **Jocelyn Davies:** Well, in the evidence that we took from you earlier in the year, it seemed that you thought, 'We couldn't possibly be ready in time.'

[29] **Ms Thomas:** It's a timing issue, I think.

[30] **Mr Watkins:** It was a timing thing. The initial consultation paper that came out to local government clashed with the time when local authorities were trying to balance their budgets and deal with the austerity from central Government, and it was a very, very tight turnaround time; it was just a couple of months, in which local authorities would have to come up with a target operating model to show that we could do it. I think the response that we put back was that, in the short timescales that we had, we didn't feel there would be enough time to actually come up with a model and get political support across Wales between local authorities to do it. Had we been given longer, it's something that I think we would be extremely good at doing, and I'm sure that we could come up with a model.

[31] **Jocelyn Davies:** Mike, you wanted to come in on this particular point.

[32] **Mike Hedges:** Two points on this, really: I mean, I assume the landfill sites pay rates, so you already know about them. A number of them are run by local authorities—you mentioned Cardiff and RCT, can I also throw in Swansea as another one that is run—? So, that's a quarter of the population of Wales living in areas where it's being collected by the local authorities. It does seem to me, and you might disagree with me, an additional layer is being put on. The local authority takes the waste, it measures it, it pays the tax and then, having collected it, instead of just netting it off against the money coming in from the Welsh Government, which is what happens with commercial rates, it will actually have somebody else to collect it. They collect it, and then there is a second collector. Don't you think that's adding an additional layer?

[33] **Ms King:** I do. If I could also bring in an example in terms of timescales, to support colleagues' earlier comments. When we took over the opportunity to do the private sector housing licensing for the whole of Wales

recently, that process started in 2013 with Welsh Government, and it's only now that we're actually in the licensing regime, because we needed to set out a business case and needed to ask all other local authorities as to which would be the most appropriate authority to operate the scheme. Having gone through that myself for Cardiff, I think it would be at least a six-month process, but, nonetheless, one that we could build on for either, you know, one of the authorities that have had that experience of collecting already—that particular tax—to be able to do that for Wales. I don't see it as being a particularly massive additionality to what we already do.

[34] **Mike Hedges:** Can I say—

[35] **Ms King:** I think they just needed a little bit more time to pull it together, and we could, possibly, still do that.

[36] **Mike Hedges:** I find your analogy complicated. Perhaps you could explain—there are tens of thousands of people renting out houses in Wales, there are 20 or 22 operators and about a quarter of them are local authorities, some of the rest are fairly big—

[37] **Jocelyn Davies:** I don't think this is a question. I think Mike is building your business case. [*Laughter.*]

[38] **Mike Hedges:** That is a big difference.

[39] **Ms King:** It is.

[40] **Mike Hedges:** Can I ask what's wrong with a model where each local authority collects it within its own area? It already knows where the landfill sites are; it would then just collect that landfill tax in exactly the same way as it collects the rates.

[41] **Ms King:** Nothing's wrong with that model, potentially.

[42] **Mr Jones:** One point worth noting is the only people with experience of collecting taxes in Wales at the moment are local authorities. There's a breadth and many, many years of experience of collecting council tax, business rates and other debts, which could be built upon, reducing the level of bureaucracy and the burden on Welsh taxpayers.

[43] **Jocelyn Davies:** Well, Mike, we've come to your questions anyway,

haven't we? Shall we go straight to yours?

[44] **Mike Hedges:** Yes. The Minister has announced the creation of a joint working group with the WLGA to share information and tax expertise with central and local government. How will this group operate? Do you know who's involved in it, and what do you expect to get out of it in the end? From what was just said by Mr Jones a few moments ago, knowledge and expertise on collecting tax seems to be very much in one place, even though another one has responsibility for it.

09:15

[45] **Ms Thomas:** What's happened so far in the process is that Welsh officials have met up with ourselves at WLGA and we've brought in experts, as we have this morning, to talk through the process in more detail. There were quite a few meetings running up to the Minister's statement on the preferred supplier in the initial stages and we'd expect that then to pick up again shortly to try and share expertise and to build on the possibilities of sharing information as well, but also to be looking at local authorities being more involved with the management and collection.

[46] **Mike Hedges:** Could I say that I thought this would have been an opportunity to simplify matters? Regarding a waste site, there are an awful lot of people involved at the moment. You've got Natural Resources Wales with some responsibility for enforcement around it, you have local authorities dealing with illegal tipping, which is something we may come on to later, and you also have the money being collected, sometimes by the local authority itself as the landfill operator, and then you have the next group collecting the landfill tax from the local authority and others. Don't you think there would be some logic in having just one body doing all of that?

[47] **Ms Thomas:** I'm not sure how, practically, that would work. Tara might know a bit more about the detail of that. Simplification is always a goal.

[48] **Ms King:** I think probably where you'd have a conflict there is with the regulatory body doing all of that, in terms of operating, collecting and regulating. I think they have to have a distinction between operations and regulation. Plus, I don't feel that that's where their skill sets are, for tax collection—that sits more within local government. I think the layer above it is the one that is a question.

[49] **Mike Hedges:** I was thinking about local authorities actually taking the whole thing over. But the point, of course, is that you do that, don't you? Take a restaurant. Environmental health, as you know better than I do, are the regulator, yet the local authority collects the commercial rates, and if the local authority owns it, they collect the rent as well. I'm not sure why you can't have this Chinese wall inside an organisation.

[50] **Ms King:** It's an interesting discussion, and before the Environment Agency was introduced, Welsh local government did regulate landfill sites. So, I think that's a wider discussion, potentially, with NRW. But I think the other issue there is that both NRW and local authorities deal with fly-tipping. Both still deal with that, dependent on the level of the case and the size of the case.

[51] **Mike Hedges:** I'll stop that there and perhaps I'll move on to discuss it with other people in another place.

[52] **Jocelyn Davies:** I bet. Will, shall we come to your questions?

[53] **William Powell:** Diolch, Cadeirydd. Good morning. Section 14 of the Bill allows Welsh Ministers to give the WRA directions 'of a general nature', to quote it. What should be the limits to these directions, in your view, to preserve the independence of the WRA, and should there be a clearer limit set out within the Bill?

[54] **Ms Thomas:** We were very clear in our earlier evidence and in our response to the consultations that, if there is a Welsh revenue authority, then that must be set up on the basis of the Nolan principles in terms of governance, to protect both the Welsh revenue authority and Ministers as well in terms of there being clarity about any conflict of interest and that kind of thing. So, we see the role, really, that Welsh Government Ministers would set regulations and then the Welsh revenue authority would be in charge of implementing it. Obviously there does need to be a very careful distinction between the two and on how much direction there needs to be.

[55] **William Powell:** Okay, thanks for that. In your written evidence, it's clear that your view is that the WRA should have a strong level of accountability to the National Assembly for Wales. How do you recommend that that should be achieved?

[56] **Ms King:** I think through normal scrutiny processes, to some extent. But also, it's important that, as it's established, there is that linkage back to the National Assembly, as well as to Ministers, to try and manage the scrutiny in that way.

[57] **Jocelyn Davies:** Nick, did you want to come in on this specific point?

[58] **Nick Ramsay:** Yes. It's interesting, what you've just said, because I think the proposal is that it will be answerable to the Ministers, but not necessarily to the Assembly as a whole. Do you think it would be better if the Assembly as an institution had a scrutiny role, rather than just the Minister? As it stands, we'll just be scrutinising the Minister who scrutinises the WRA.

[59] **Mr Watkins:** I think, probably, 'yes'. The income, to start with, is comparatively low, in comparison to the block grant of £15 billion that you get, but it's a stepping stone, and I think it's quite clear that there could be additional new taxes that come in in the future. From a tax-collection point of view, I think Welsh Government need to be assured that the collection performance is best practice, that you're maximising the yield, that there are not any problems with avoidance or evasion of the tax, and that you take opportunities to join up taxation policies.

[60] Mr Hedges, you mentioned business rates and restaurants. You may not know, but there's no link with licensing. So, if you get a restaurant that doesn't pay their rates, we still have to grant them a licence to operate and sell alcohol and serve. We can't refuse a licence because they haven't paid their rates. I've been trying to lobby on this for a long time, so apologies for taking the opportunity now, but if you just changed the licensing legislation to say you have to be up to date with rates, you would increase your yield massively. That's a problem across the country, not just in Wales. I think with the new taxes, we need to be mindful of evasion and avoidance, work smarter and see where the problems are, and I think local government have got a big contribution to make in that. Tara is responsible for managing the landfill site, and I'm sure there are examples that she could quote in that area as well. So, I think Welsh Government should—

[61] **Jocelyn Davies:** You want to come in on this point?

[62] **Mike Hedges:** On this point—[*Inaudible.*] So apologies for that.

[63] **Alun Ffred Jones:** It's a seminar, isn't it, by Mike Hedges? [*Laughter.*]

[64] **Jocelyn Davies:** It's a seminar, yes.

[65] **Mike Hedges:** Surely, under licensing, you could object to the person under the fit-and-proper-person test.

[66] **Mr Watkins:** I agree with you, and I have. I've been told by lawyers that there is provision with licensing to object if there's a crime, and we've got what I would call deliberate fraud happening, because some businesses in Cardiff just set up new companies, with no intention to pay their rates. That is not a justifiable reason. The crime has to be that, maybe, they're selling alcohol to underage people or there are illicit drugs being sold on the premises. The crime—

[67] **Jocelyn Davies:** But you would have to have a conviction in a criminal court, I think is the advice that you—

[68] **Mr Watkins:** Yes, it has to relate—not the evasion of rates. So, if they changed the legislation, I would be very, very happy and, in Cardiff it would probably mean £1 million plus. Seriously; it's big money.

[69] **Jocelyn Davies:** Gary, I think we've heard about this from you before.

[70] **Mr Watkins:** You have, yes.

[71] **Jocelyn Davies:** I can't remember now whose question it was. Will, I think we were on yours.

[72] **William Powell:** I think that's good; we did my line of questioning.

[73] **Jocelyn Davies:** Nick, shall we come to yours, then?

[74] **Nick Ramsay:** Yes. Good morning. Section 25 of the Bill requires the Welsh revenue authority to produce a charter of standards and values to summarise how it will interact with taxpayers. Neither the Bill nor the explanatory memorandum prescribes the content of the charter. Do you think the charter's a good idea, and should it be more prescriptive in the Bill?

[75] **Ms Thomas:** We do think a charter's a good idea. We thought, possibly, that the Bill itself probably wasn't the right place to prescribe even just the contents of the charter—that it would make it more difficult and

more time-consuming, then, to make any changes that needed to be made; it wouldn't be flexible or, potentially, timely enough to bring those in, if the contents weren't what was needed in the longer term, really. So, I think with something like that, there needs to be that flexibility to be able to develop it as it goes along.

[76] **Nick Ramsay:** So, the Bill's got it about right, really, with the level of detail.

[77] **Mr Watkins:** Just to come in there, I think we see this as probably evolving over time, and I think, if you put too much in the primary legislation, that could then prevent flexibility going forward, and the initial charter that this actually sets and agrees may well need to change over time, and we think that the Welsh revenue authority should have the flexibility to be able to do that without referring back to primary legislation.

[78] **Nick Ramsay:** Okay. How should the charter be approved? We took evidence from, I think it was, HMRC, about their charter, and different organisations have different ideas about how charters should operate. Are you confident that this charter would have teeth and be worth having, or is there a danger it just gets left on the shelf, is referred to every so often, but nothing really happens from it?

[79] **Ms Thomas:** I suppose, in a way, that's down to how it gets implemented and how it gets used, I suppose. I think it's important that, if you're going to have one, you need it to have teeth and you need it to be referred to and not just be a document on the shelf.

[80] **Mr Watkins:** And it can become part of the governance of the organisation. There could be principles or standards within the charter that the WRA then report back to Welsh Government on every year, to set out that they're actually reaching the standards that are set out within the charter. So, it becomes part of the governance and it's embedded in the processes, so it does have teeth and it's actually meaningful. There's no point having a charter if you don't then reflect on how you're performing against the service standards that you've agreed upon.

[81] **Nick Ramsay:** Okay. Some of the evidence we've received has pointed out potential weaknesses of a digital-by-default approach to tax collection. Based on your experience with council tax, how do you believe the Welsh revenue authority can make provision for the needs of all taxpayers, whilst

still providing a cost-effective service?

[82] **Mr Jones:** I think it's worth pointing out that, on numerous occasions, I think, with meetings with officials in the past, there's been reference to council tax collection as a model that could be followed. But there is a distinct difference; council tax is a cyclical tax. It's billed every year; somebody's liable and we send a bill. The land transaction tax is different; it's a tax, but it's a different billing frequency—it may only be once or twice in somebody's lifetime—the bill is issued and paid, but it's paid, actually, at the point of the transaction taking place, and I think with the conveyancing solicitor settling the liability on behalf of the client. So, our view, I suppose, is that the people who would be engaging with WRA, and paying the land transaction tax, primarily will be professional organisations, companies, solicitors, who should be familiar with using digital technology, which is different to many of the taxpayers we deal with as council tax collection authorities. Many of them might be elderly, limited educational standards, and have difficulty engaging through that method.

[83] So, there's a different client group, audience, I think, who we feel would be able to work with the digital-by-default approach. There are already good models out there that are in operation that seem to work well; the Driver and Vehicle Licensing Agency's system, for example, is a system that most people are familiar with and seems to be reasonably customer-friendly. But, again, it's important that whatever is set up needs to be cost-effective and that those cost benefits translate to the customer.

[84] It's not going to be cheap to set up a digital-by-default system, which is going to be for a relatively small number of transactions per annum—50,000-odd. So, the cost-benefit analysis and the return on investment need to be carefully worked out before resources are spent on investing heavily in technology, which, from our own experience, isn't cheap.

[85] **Mr Watkins:** If I could just add there that, going forward, if the investment is right, the actual running costs each year could be significantly reduced. We're already investing in Cardiff in digitising services, and we have forms available on our Cardiff council website, where customers complete them online. We don't manually touch that form; it automatically updates into our back office systems for council tax and produces revised bills and things, so we're moving forward in that digitisation age. And, I think, with the Welsh revenue authority, we should certainly explore those opportunities. As Nick has said, you are dealing with a different client group—companies

that should be fairly confident using the internet—

09:30

[86] **Nick Ramsay:** It's an interesting point. So, digital by default actually works for certain taxes more than others, doesn't it?

[87] **Mr Watkins:** I think so, but there also needs to be an understanding of what we mean by 'digital by default'. In Cardiff council, we're taking digitisation as being full automation of the process. So, it's customer self-service, which is the cheapest form, but then it's making sure that the integration takes place electronically with the back-office systems so you're not re-keying and you're not duplicating the processing that customers have taken time to do online themselves. That's full digitisation. Other authorities offer online services, but that just produces workload in the back office where information is re-keyed. So, I think there's an opportunity here for Welsh Government, if you're looking at coming up with the most efficient processes, to go the full route.

[88] **Mr Jones:** Care needs to be taken as well. Using the phrase 'digital by default' sends shivers down my spine because that's the terminology that's been used for the past couple of years by the Department for Work and Pensions in the potential roll-out of universal credit. UK Ministers were insistent that it would be digital by default, but they've consistently backtracked on that position and they're now softening the approach to 'will be digital, as appropriate', because of the complexities of engaging with the client group that they will be dealing with. But we all know the well-documented problems that they've got into with setting up their IT systems. Again, there needs to be care.

[89] **Nick Ramsay:** It's not catchy, is it, 'digital by default'?

[90] **Mr Jones:** No. [*Laughter.*]

[91] **Jocelyn Davies:** No. Okay, Julie, shall we come to your questions?

[92] **Julie Morgan:** Yes, thank you. Do you believe that the delegation of functions to HMRC is the most cost-effective means of collection?

[93] **Ms Thomas:** In that it's building on what's already in place—and, therefore, in terms of the risks to collection rates and that kind of thing—it

probably is, in the first instance. I think, as we said earlier, we'd have liked maybe a bit longer to be able to explore authorities being able to take part in that. But assurance has been given that there will be a review within three years or so of it being in place. So, we are hoping to be in a better position then. But, yes, in terms of this initial stage, I think—

[94] **Julie Morgan:** So, starting off, you think it's the most cost-effective way of doing it.

[95] **Ms Thomas:** Given the other options, yes.

[96] **Julie Morgan:** Yes. And you all agree with that. Do you think it should be a legal requirement for any new taxes to recover the costs they incur in collection?

[97] **Mr Jones:** Any tax system set up should have minimised the cost of collection. It should be proportionate. There is already a model that Welsh Government have in place for collection of business rates in that local authorities act as, potentially, collection agents, collect that money, pay it into the pool and, depending on the resources required, you either become a net contributor or a net receiver of those resources. But, within the mechanism for us to collect business rates, there are allowances built into those contributions in the calculations for losses on collection and cost of collection. There's a fixed amount per property on our rating lists of £39.50, I think, per property, and a very small percentage of the rateable value—I think it's 0.08 per cent of the total rateable value of the authority—is built into our business rates administration subsidy, which subsidises for collection costs.

[98] **Julie Morgan:** That means you don't lose anything—

[99] **Mr Jones:** It depends—the authority then could make a decision as to whether it tops up that resource, whether it needs additional resources to collect the business rates income, or whether it can do it for that sum of money or less. But we get a fixed amount built into our admin subsidy for the collection costs. So, there is a model already in place.

[100] **Mr Watkins:** I think that's probably a good starting point. There may be some environmental reasons why you'd want to levy your tax to change behaviour. But, generally speaking, in these times of austerity, we're looking to generate extra income. So, it would seem a little bit foolish to me if you

actually had a higher cost of collection than the actual yield that you were collecting. I can remember years ago there used to be a dog licence. That was abolished because I think it was £5 or something like that and it was costing far more to collect it.

[101] So, as I think Nick has outlined, the principle of business rates is that Welsh Government gives each local authority a small proportion towards collection costs. The Welsh Government has then got certainty about what the cost of collection will be. We can also be fairly certain we're predicting the yield and how much is then distributable for the rest of Wales. So, with the new taxes, going forward, we should be making sure that the cost of collection is not too high. You really need to be making sure that it's the right proportion so that you get a significant yield coming in as well.

[102] **Mr Jones:** It's important as well that we try to benchmark with industry standards. Having looked at the explanatory memorandum and seen some of the projected operational costs of Revenue Scotland and for WRA, I had a quick look at—. We belong to the Chartered Institute of Public Finance and Accountancy benchmarking club, and I had a look at councils in England that have a similar sized operation for collecting council tax that Revenue Scotland has. The costs are, pro-rata for the size of the operation of 40 staff—. I think for Revenue Scotland, last year, there were 97,000 transactions, and the projected running costs in 2016-17 are just over £2 million. You have got similar sized organisations in England—councils—with similar operating costs, but they are billing and collecting from well over 100,000 properties and are generating over 1 million payment transactions and have running costs of the same volume. So, without seeing any further detail, it does seem that the operating costs for Revenue Scotland for the number of transactions that are being handled and the number of staff are disproportionate. Now, maybe that's my lack of understanding of the detail.

[103] **Jocelyn Davies:** Well, I think Revenue Scotland might take issue with your—. Yes, Chris.

[104] **Christine Chapman:** Could I just come back to Gary's point about—. He just triggered off some ideas there about dog licences and the costs of collecting these particular taxes. Isn't there a wider sort of picture as well? I mean, yes, obviously, there was a big cost in the dog licence, but it's the wider benefits of—. It's the impact it has on communities if there are too many dogs, et cetera.

[105] **Mr Watkins:** Exactly. That's why I said that there might well be other reasons why you want to levy a tax to change behaviour, and I'm thinking of environmental reasons as well. So, there might be other policy reasons why you do. But, generally speaking, for the majority of taxes, it's about generating income. As Nick has mentioned then, it's really important, when you're looking at the set-up costs, that we can't really afford a Rolls-Royce service on these things. Local authorities operate with Mini Metros, but we do really well. If you look at our collection rates, our collection rates are probably the exemplar. They are far higher rates than HMRC at much lower cost. And I think, you know, we've just got some concerns, only looking at some of the projections, that the costs seem significantly high and out of kilter with how a local government would approach it.

[106] **Mr Jones:** Going back to Mr Hedges's comments about additionality and layers of bureaucracy, there is opportunity. We've had difficulties, as we've said, in terms of the timescales, but there are opportunities to work on economies of scale here in that local authorities are already in place; there are already people in place who are experienced in, and used to, collecting taxes; there are systems already in place. With a limited amount of additional resource, perhaps those could be built upon, and taxpayers' money in Wales—. You know, the money being spent is reduced—on layers of local bureaucracy.

[107] **Julie Morgan:** I mean, I agree with what you say about that but don't you think that, once this is established and going, it is unlikely that it will be changed to another system then?

[108] **Mr Watkins:** There is a danger of that, yes.

[109] **Julie Morgan:** That's generally how things go, don't they?

[110] **Mr Watkins:** And I think that was our concern. We had about three months—local authorities—as part of the earlier consultation, to decide whether or not we had the opportunity to put forward a business case. As we've explained in our responses, that wasn't really enough time. Since then, we've had a further opportunity to reflect on that consultation. It's really, I think, a shame, because we have missed a golden opportunity, really. I think you are right: once you have set up, whilst there has been a commitment to say it would be reviewed after three years, I think, it might not ever be changed.

[111] **Nick Ramsay:** *[Inaudible.]*

[112] **Jocelyn Davies:** Tara, did you—. Sorry, Nick. Tara did you have a comment that you wanted to make?

[113] **Ms King:** Yes, I did. I think there's a possible danger, with the establishment of the authority, that it may be being viewed for the longer term in terms of potentially other taxation powers being devolved, and yet we're starting with a relatively small tax in terms of landfill. I think there is a real danger of frontloading the costs of operating the new authority versus the benefits that you'll gain from the tax. Plus, the tax is a depleting tax. The amount of landfill is going down in Wales; so, you're in danger of having exponential administration costs over benefit with the current proposal.

[114] **Jocelyn Davies:** Was that the point that you were going to make, Nick?

[115] **Mr Jones:** Yes, just that, in the exploratory meetings that we had with Welsh Government officials and somebody from HMRC, I think the view that I expressed was: if we were asked, as a local authority, to take on land transaction tax, for example—not looking on a bigger scale—there would probably be very limited additional resources required because it's just an add on. You know, the volume of transactions is relatively small. Gary and I have spoken. The value of land transaction tax in Wales is probably less than Cardiff collect in council tax and business rates, and probably marginally more than what we collect in council tax and business rates. But, you add on the other revenue streams that we have to collect: I know that RCT is collecting probably £200 million—plus a year in revenue. So, in terms of scale of operation, it is quite small. I think that some of the models that we fed back through to the WLGA to feed back are—. I don't think we're talking about 22 local authorities—or however many we'll end up with in a couple of years' time—collecting land tax, if the model changes, but you could model it on the same thing as the local government pension scheme, where there are eight authorities that are pension fund administrators. You could have a regional or sub-regional set-up, which would reduce operating costs.

[116] **Jocelyn Davies:** Okay.

[117] **Julie Morgan:** So, basically, you think that the setting up of the WRA is too heavy for the taxes that we've got already.

[118] **Mr Jones:** It appears to be.

[119] **Mr Watkins:** I would say that the role for the WRA should be more of a compliance and control role to ensure that whichever organisation is delegated with responsibility carries out that role professionally and properly. But, a much smaller unit, I would say, emphasising compliance and control.

[120] **Mr Jones:** Because most people will pay their land transaction tax. It's not like council tax and business rates where some people will default and then you have collection difficulties: most tax will be paid at the point of transaction. So, they should be compliance and tax avoidance/evasion issues, not real collection issues.

[121] **Julie Morgan:** Can I just go on to ask, then, about the cost of actually establishing the WRA? Because the regulatory impact assessment doesn't include an estimate for actually setting it up, only the equivalent costs of Revenue Scotland. Do you have concerns about that?

[122] **Ms Thomas:** Yes, I think we do. It sort of builds on the answer to the previous questions. I think a particular concern is because these are existing taxes that are being devolved, that funding will be taken off the Welsh block grant. So, anything that means that there's more cost involved, even if you manage to keep the yield the same, will mean that there will be less resource available to fund services at the end of the day. So, yes, we have concerns about the size and the range of the costs that are included within the explanatory memorandum, if that's indicative of where they're heading, really. I think, as Tara said, the scale of the taxes that are being devolved are relatively small. It is a major step forward, but it's still relatively small.

[123] **Mr Watkins:** I would just like to add in there that I was looking back at some of the evidence that had previously been given, and I was looking at a meeting in September, where it was talking about the potential for the WRA to potentially collect business rates. I wonder if maybe there is a wider agenda with the set-up costs. I was quite concerned about that because that would be completely opposite to the way that England's gone, where they're moving to local retention of business rates. I think all the evidence shows that local authorities do extremely well. There is a big funding problem for local government, and business rates could be one of the ways that it helps to improve the funding, going forward.

09:45

[124] So, I think the role of the WRA needs to be clarified very early on and that that will then determine the size and the structure of it. I think, at the moment, that's the debate that still needs to be had.

[125] **Jocelyn Davies:** Gary, you worry too much. Julie, have you finished your—?

[126] **Julie Morgan:** I think that's—

[127] **Jocelyn Davies:** Okay. Ffred, shall we come to yours?

[128] **Alun Ffred Jones:** Diolch yn fawr. Gwnaf i ofyn yn Gymraeg. A dweud y gwir, rwy'n meddwl bod y cwestiynau oedd gennyf wedi eu hateb, ond gwnaf i jest ofyn ynglŷn ag awdurdod cyllid Cymru. Rwy'n gwybod eich bod chi wedi mynegi pryderon ynglŷn â chostau sefydlu awdurdod cyllid Cymru ac, efallai, ei rôl i'r dyfodol, ond a oes yna beryg os ydych chi'n tangyllido awdurdod cyllid Cymru? Hynny ydy, os nad ydy o'n cael ei sefydlu mewn ffordd briodol, a oes yna beryglon wedyn o ran y ffordd bydd o'n cyflawni ei rôl i'r dyfodol, o'ch profiad chi gyda chasglu trethi? Hynny ydy, yn groes i'r hyn rydych chi wedi ei ddadlau, a oes yna beryg felly os nad ydy awdurdod cyllid Cymru'n cael ei gyllido'n iawn ar y dechrau?

Alun Ffred Jones: Thank you very much. I'll be asking my questions in Welsh. To be honest, I think that the questions I have before me have been answered, but I'll just ask regarding the WRA. I know that you've expressed concerns about the costs of establishing the WRA, and, perhaps, its future role, but is there a risk if you underfund the WRA? That is, if it's not established in an appropriate way, are there subsequent dangers in terms of the way that it will fulfil its role in future, based on your experience with tax collection? This is not in accordance with what you've argued, but is there a risk if the WRA is not funded properly at the beginning?

[129] **Ms Thomas:** Oes. Cariaf i ymlaen yn Saesneg.

Ms Thomas: Yes. I'll carry on in English.

[130] I think there are concerns, obviously, around—. There has to be a minimum cost as well. You need it to be able to do what it's there to do, and there are risks around inadequate funding, just as there are around an overinflated establishment. I'm sure Nick and Gary can add—

[131] **Mr Watkins:** Yes, I would echo that. I would say that it needs to be fit for purpose, so, once you've decided on the role, it's really important that it is properly funded. If it's underfunded, then you risk having a reduced yield and losses on collection. So, I think it's about getting the set-up right at the beginning and then the funding needs to follow.

[132] **Alan Ffred Jones:** Diolch.

[133] **Jocelyn Davies:** Chris, shall we come to your questions?

[134] **Christine Chapman:** I mean, obviously, you've got experience as local authorities of, you know, the council tax system. I just wonder what assessment do you make of the cost to taxpayers of complying with the council tax system and I just wonder whether there's any relevance to the WRA in the, sort of, practice you use there.

[135] **Mr Watkins:** Generally speaking, with council tax, there aren't, really, any costs to taxpayers, because local authorities meet the costs of all the transactions. I mean, in Cardiff, we promote direct debit for payments, and we've got 86,000 households in Cardiff that pay by direct debit, and that only costs us less than 2 pence a transaction, which is fantastic, but we also provide customers with post office payment cards, which cost nearly 50 pence a transaction. Lots of our customers, who collect pensions and benefits in post offices, really prefer that channel of payment as well. So, it's about coming up with choices, promoting the cheapest payment methods, but all of those costs come out of local authority budgets. Going forward with the new devolved taxes, I would suggest that whoever's responsible for collecting those taxes will probably bear the costs of the transactions. If you start placing those costs on to the customer, you're immediately giving them a reason not to want to pay, because they're going to object to those transaction costs. So, that's how we do it with council tax.

[136] **Christine Chapman:** Do you all agree with that view?

[137] **Mr Jones:** Yes, as I've said, I think, going back to your comments, there's still a service. You know, the people who are going to be paying the land transaction tax over are generally going to be conveyancing solicitors. So, they will be bearing the—. I can't imagine that they would want to be using post office giro payment cards. They're probably going to be paying online or they may want to pay by cheque.

[138] **Jocelyn Davies:** Yes, some do. We did hear this.

[139] **Mr Jones:** I think that the WRA, when setting up their operating model and looking at transaction methods and payment methods, need to be focusing on the lowest cost transaction methods, which are electronic, direct debit, debit card or, you know, direct transfers, as opposed to the more old-fashioned, traditional ways of paying.

[140] **Ms King:** I think we need to go back to what we're actually collecting here, as well, in terms of landfill tax. That collection takes place on weighbridges. Weighbridge operators have already embedded those costs within their systems and the transaction to the ultimate collector is simply around what at the moment is a manual form, which we would prefer to change, but databases can talk to databases. The same information is supplied to Natural Resources Wales for tonnage data, which is the direct link with payment. So, the transaction costs are already very low, and I don't think that we should be looking to apply any systems that are going to increase that on operators.

[141] **Jocelyn Davies:** Ffred, did you have a question?

[142] **Alun Ffred Jones:** Os caf i **Alun Ffred Jones:** It's a question for gwestiynu Mr Watkins— Mr Watkins.

[143] **Jocelyn Davies:** Gary, you need to put your headphones on.

[144] **Alun Ffred Jones:** Mi **Alun Ffred Jones:** You said that ddywedoch chi fod 86,000 o bobl yn 86,000 people are paying their talu'r dreth gyngor trwy *direct debit*. council tax through direct debit. Can Beth ydy hynny fel canran o'r rhai you tell me what that is as a sy'n talu i'r cyngor? percentage of those who pay council tax?

[145] **Mr Watkins:** I'll continue in English. There are 150,000 properties in Cardiff, of which nearly 30,000 receive council tax reduction. So, it's 86,000 out of 120,000, which is about 70 per cent, I think, roughly.

[146] **Jocelyn Davies:** Okay.

[147] **Alun Ffred Jones:** Diolch yn fawr.

[148] **Jocelyn Davies:** But, obviously, that's a figure that you've built up over time where you've encouraged people to pay it.

[149] **Mr Jones:** Similarly, in Rhondda Cynon Taf we've not got not quite as high a level of direct debit take-up as Gary's experienced in Cardiff, but we've got approaching 70 per cent of people who have a liability paying by direct debit. That's been a long exercise of promotion and take-up and trying to encourage people to pay by cheaper methods. We're about to launch another awareness-raising process over the next six months to push people into electronic billing. We have a self-service system and we're looking to push as many customers as possible—and council employees themselves, actually—to take up e-billing, which would reduce our costs. You know, if we've got 5,000 employees living within the boundaries of Rhondda Cynon Taf, we could send an electronic bill that would reduce paper copies, envelopes and postage costs considerably.

[150] **Jocelyn Davies:** Mike.

[151] **Mike Hedges:** I think you're absolutely right, but I think that there are unintended consequences. Most people have most things by electronic billing now. If you and water send me electronic bills, I'd have no means of opening a bank account, because I'd have no manual bill to provide. So, you do have that unintended consequence. If everybody had electronic bills, you can't open a bank account.

[152] **Alun Ffred Jones:** I told you this was a seminar. [*Laughter.*]

[153] **Jocelyn Davies:** Often a recent utility bill is the requirement for identification. Even something like collecting a parcel from the sorting office; you need a recent utility bill or something.

[154] **Mr Watkins:** Most people are able to print off a bill, so we would produce a bill electronically and in PDF format, which could be printed off. I'm not working in the banking industry, but I presume because utilities are the ones that have pushed the boundaries on electronic billing, more than local government, that the banks would accept them, but I don't know.

[155] **Mike Hedges:** They don't. You've got to have—. Because if you have an electronic bill, you can edit it.

[156] **Jocelyn Davies:** We've noticed now that Mike's not even trying to pose a question. [*Laughter.*] He's just expressing facts now. Anyway, we'll leave it there. There could be consequences.

[157] **Mike Hedges:** Unintended consequences.

[158] **Jocelyn Davies:** There may be consequences but it's not a practicality that cannot be overcome. Chris, shall we come back to you?

[159] **Christine Chapman:** Just a final question. In the explanatory memorandum to the Bill, it says that most of the Bill's provisions for investigatory powers and enforcement are consistent with those currently imposed by HMRC. To what degree should the Bill consider alternative powers to those given to HMRC?

[160] **Ms King:** Well, from my perspective, I'd like to see it be able to be a bit more flexible than HMRC, and in particular to deal more with environmental crime, such as retrospective taxation on non-compliant, inert, exempt landfill sites or other cases of fly-tipping, to act as a deterrent to those who are currently doing those activities. At the moment the deterrents are too small. The final bills are often left with local authorities, and the fines at court, if they ever get to court, are very small sums compared to what they've taken in terms of receipting the waste, and there need to be more significant, hefty fiscal threats to deter people from doing it in the first place. I think there's a case in RCT where there's an inert site that is on farming land. He's already taken his money and it's very difficult to retrieve any of that through POCA or any other mechanism, but, tonne by tonne, it could attract landfill tax, and that tax would be apportioned to the landowner.

[161] **Jocelyn Davies:** This, I imagine, is quite lucrative, to illegally set up a landfill site.

[162] **Ms King:** Yes, it's very lucrative.

[163] **Jocelyn Davies:** Then, if the fine after a successful prosecution—. When you say 'POCA', do you mean the Proceeds of Crime Act 2002? It's very difficult to get at, but if you could tax that, at least that would be an extra deterrent, as well as resulting in the revenue.

[164] **Ms King:** Yes, because you've got the physical material to tax, weigh and measure—certainly through remediation and estimation, et cetera. I

think that is an opportunity for Wales, to try and deal with that situation.

[165] **Mr Watkins:** The other thing to add there, because I was talking to Tara yesterday—and I'm not an expert—is that I understand that, sometimes, the cost of fly-tipping to a local authority far exceeds any fine that's levied.

[166] **Ms King:** It does, yes.

[167] **Mr Watkins:** So, there's an opportunity first to put the fine at a deterrent level, to make people think twice, but secondly, better reimbursement, then, to local authorities, which actually have to deal with the cost of fly-tipping as well.

[168] **Jocelyn Davies:** Yes, the actual costs involved, because otherwise it falls on your taxpayers.

[169] **Mr Watkins:** Yes.

[170] **Ms King:** Yes. So, it's around the definition of 'landfill' and the tax currently. If you're not defined as a landfill, then the tax doesn't apply. So, if they've got an exemption, or it's just a hole in the ground on their site that they've excavated, then it's not taxable under the current law.

[171] **Jocelyn Davies:** Just because of the definition.

[172] **Ms King:** Yes. So, it's an opportunity to change that and embed that deterrent.

[173] **Jocelyn Davies:** Okay; to improve the revenue and to tackle waste.

[174] **Christine Chapman:** Are there any other thoughts on that? Are there any other things that should be in there?

[175] **Ms King:** I had something about national non-domestic rates, but I think we've done that one, haven't we?

[176] **Jocelyn Davies:** Okay. Any other questions from the committee, then? Thank you very much. I've enjoyed the conversation that you've had with Mike Hedges very much. *[Laughter.]* We'll send you the transcript, and we'd be very grateful if you'd just check it in case anything needs correcting. Let us know, and then we'll be able to do that.

[177] Okay. I suggest we have a break now for five minutes, and then we'll have the auditor general.

*Gohiriwyd y cyfarfod rhwng 09:57 a 10:06.
The meeting adjourned between 09:57 and 10:06.*

**Bil Casglu a Rheoli Trethi (Cymru): Sesiwn Dystiolaeth 9
Tax Collection and Management (Wales) Bill: Evidence Session 9**

[178] **Jocelyn Davies:** Welcome back everybody to the Assembly's Finance Committee. We're now on item 4, which is the Tax Collection and Management (Wales) Bill. This is our ninth evidence session. We have with us this morning the Auditor General for Wales and the Wales Audit Office. You've already sent us a paper and we're very grateful for that. Would you like to introduce yourself and your colleagues for the Record, and then we'll go straight into questions, if that's okay?

[179] **Mr Thomas:** Yes, certainly. Mike, do you want to start?

[180] **Mr Usher:** Mike Usher, I'm sector lead for health and central government, and I'm the auditor general's observer on the Welsh Government's tax implementation programme board.

[181] **Jocelyn Davies:** Thank you.

[182] **Mr Thomas:** I'm Huw Thomas, auditor general.

[183] **Mr Peters:** Martin Peters, law and ethics manager at the Wales Audit Office.

[184] **Jocelyn Davies:** Lovely; thank you. Can you describe how you plan to prepare the progress reports on the Welsh Government's preparation for fiscal devolution?

[185] **Mr Thomas:** Yes, certainly. The notion behind the progress reports really is mirroring the experience that we've derived from talking to Audit Scotland and the National Audit Office. They have found it useful to not only as we do have people working with the Welsh Government in preparation, and the Scottish Government, obviously, in Scotland, but also to give progress reports on how things are going. We're going to be learning from

some of the messages that Audit Scotland picked up. Just a short time before they went live in Scotland, there were warnings about the pace at which staff had been recruited to Revenue Scotland; the issues about IT systems and whether they would be up and ready in time. So, we're going to be looking at that in terms of making sure that we're hitting the ground running in Wales.

[186] Currently, I intend to produce a first report on preparedness in autumn 2016, and then do a follow-up report in the following autumn, prior to the go-live in April 2018. I hope that, by then, there will be enough warning about things that need to be done; the pace of preparation and so on. The aim, obviously, is a smooth and seamless transition, and what we can do will help with that. You will see a reference to that when you consider the estimates from us.

[187] **Jocelyn Davies:** Right; okay. Do you think that the Welsh Government should be producing their own progress reports, or should they just leave it to you?

[188] **Mr Thomas:** I think we do need to work with the Welsh Government. I don't regard my reports as coming from left field as surprises. Clearly, we'll be talking to them in preparation. So, a lot of informal advice will have been given, but I think it's appropriate that the Assembly receives a formal report on what is happening, and I see my report as contributing to that.

[189] **Jocelyn Davies:** Thank you. And what about the Welsh revenue authority? Do you think the governance arrangements are appropriate? I know you've made a few comments in your submission.

[190] **Mr Thomas:** Yes. I think that there are some issues that I'm slightly concerned about. There is an oddity, in that various bits of legislation do tend to be drafted differently, depending on—well, in my experience at Westminster—who the Parliamentary Counsel was, even if you were tackling the same issue. I do think that there is an issue about the nomination of employee members to the board. I find it odd that it's not the same as WAO have had. I understand the argument is, 'Well, they're new staff and therefore they won't know who the other employee members are, therefore the idea of election isn't appropriate', but you could draw up a Bill that says: 'Look, in the first instance, the chief executive will appoint...'—that'll be over a period of, say, two or three years—'on re-appointment, it will be by election and by procedures set out by the board'. Really, the same pattern as we've got with the WAO.

[191] I do think a quorum is needed. As you know, we have an odd quorum in that the absence of one non-executive director makes our board inquorate, and I do think that it's odd to see that kind of rigid quorum set in one bit of legislation and the idea that the board sets their own quorum in another one. So, I do feel there is a need to have a majority of NEDs present, but I think it doesn't need to be as watertight as ourselves.

[192] **Jocelyn Davies:** Because the same principles should apply to this board as applies to yours.

[193] **Mr Thomas:** Absolutely.

[194] **Jocelyn Davies:** There's no difference in terms of principles.

[195] **Mr Thomas:** No. Once you agree the principles, apply them on a uniform basis.

[196] And the other bit, which I do think is important, is that I do think there is a need to make sure that there are certain items that are reserved for the board of the Welsh revenue authority to carry out itself, and not just give freedom to delegate everything.

[197] **Jocelyn Davies:** Yes, right, fine. Mike, shall we come to your questions?

[198] **Mike Hedges:** Well, the first one has been answered. The second one I perhaps will move on to, which has been partially answered. Having a majority of non-executives is the norm, isn't it? That's what health boards are set up with, and that's what you've been set up with. Learning from your experience on this—and you've talked about the difficulty when one non-exec was not present, when the board would not be quorate—surely, setting a quorum in two parts, one a majority of non-execs, and then an absolute number, would mean that you can balance up the absence of one non-exec with the absence of an executive member in order that you get a balanced number, as long as you set the quorum low enough to allow that to occur. Otherwise, do you think there's a problem that, if one non-executive member is ill for six months, you can go six months without a meeting?

[199] **Mr Thomas:** I think all quorum rules have a certain need to be thought through in a fairly sensible way. Currently, I can only reflect that the rigidity that we have requires that we ask one of the employee members not to take

part as a voting member and just to stay to one side. And that, I think, is unduly complex. I do agree that the quorum needs to be set on a low basis, but—. Perhaps we have very keen members, but we always seem to have a full complement of employee members on our board. And I think there is an issue in terms of making sure that, when you set the board, you decide what the quorum is. I suppose it's complicated in my case, with WAO, because, as we discovered when we ran into this difficulty, there had been a thought that, as auditor general, I was at one side. I remember somebody explaining to me that there would be no problem with a quorum because there were the NEDs, there were the employee members, and then there was the auditor general. In fact, they've realised the legislation hadn't been drawn in that way. Here, we have three employee members. So, I think that you can set a quorum without creating the problems that the WAO has.

[200] **Jocelyn Davies:** In your experience—because, of course, you were without one of your non-executive members recently, and we had to recruit—how long were you without one of your non-executive members?

10:15

[201] **Mr Thomas:** It isn't the question that there's one away; it's just that you need to allow for not having a full house every time.

[202] **Jocelyn Davies:** Yes, but, in your case, because 1) you had a vacancy—

[203] **Mr Thomas:** We ended up, indeed, with a vacancy and we needed to wait for the recruitment process to take place. That affected, I think, four meetings of the board.

[204] **Jocelyn Davies:** Okay. Mike, back to you.

[205] **Mike Hedges:** I'm finished.

[206] **Jocelyn Davies:** Okay then. Nick, shall we come to your questions?

[207] **Nick Ramsay:** Yes. Morning. As some directions issued by Welsh Ministers to the Welsh revenue authority under section 14 may not be published, you've recommended that these be copied to the auditor general. Is there a risk that these directions could be used by Welsh Government to interfere with the independence of the organisation?

[208] **Mr Thomas:** The revenue authority is going to be set up by the Government. It's perfectly reasonable for the Government to give it directions. Of course, there may be some directions that, as the legislation sets out, are not disclosed to the public. But I can use my own powers when I start an audit to request sight of those. But, at the same time, I think it makes it much easier if any direction is automatically copied to the auditor general.

[209] **Jocelyn Davies:** Even if that's on a confidential basis? Because there might be a good reason why—

[210] **Mr Thomas:** Absolutely.

[211] **Jocelyn Davies:** —you wouldn't want it in the public domain, even if it's—. Right, okay.

[212] **Nick Ramsay:** You've recommended there should be a deadline for producing the initial charter. Do you believe that the charter should be revised at specific intervals?

[213] **Mr Thomas:** From time to time. [*Laughter.*]

[214] **Nick Ramsay:** I've had a go about that wording.

[215] **Mr Thomas:** I think that the point is that there is a charter—I'm not disputing that point. And you need to be able to revise it. But why set out a requirement that it should be revised at specific intervals? From time to time, you may need to revisit the charter.

[216] **Jocelyn Davies:** I guess the reporting about meeting the charter's requirements ought to be something that could be done annually. But, revising the charter may be something that it's okay to do from time to time.

[217] **Mr Thomas:** You're going to need the charter, obviously, before the collection of taxes. That's, I think, fairly evident. You also need to allow taxpayers sufficient time to get used to the charter. So, perhaps there is the need to ensure that that is specified in legislation. But then, beyond that, I wouldn't want to have a tick-box exercise that said, 'Have you reviewed it this year? Tick.' I think it is a question of saying, from time to time, you look at the charter—

[218] **Nick Ramsay:** Do you think HMRC's charter has worked?

[219] **Mr Thomas:** I think that the charter is there; the taxpayer is aware of the charter. [*Laughter.*]

[220] **Nick Ramsay:** Well, the moon is there, but that doesn't mean we go there. [*Laughter.*] Well, some people would.

[221] **Jocelyn Davies:** I guess this is slightly different because the charter, in this case, will be a requirement in the legislation and it will be there right at the start. What do you imagine, then, will come from having a charter or not having a charter? If you have one, what does that do?

[222] **Mr Thomas:** It sets out the standards of behaviour you want the revenue authority to display to the taxpayer. It sets out the kind of expectations the taxpayer will have. I think that that is important. We're needing to ensure that there's a fairly smooth transition of tax collection. I think that having a charter in advance is a means of reassuring taxpayers of this. There will be changes, obviously, in the taxes collected as time moves on. At those points, you may want to go back and look at the charter. But I don't think I'd argue that there needs to be a prescribed timetable for review.

[223] **Jocelyn Davies:** So, in your view, the charter could set the culture of the organisation.

[224] **Mr Thomas:** I think it's essential that it is part of the guiding principles that the revenue authority will be operating under.

[225] **Nick Ramsay:** Surely, there'll have to be some kind of obligation for a regular review. 'Time to time' is not strong enough, is it?

[226] **Mr Thomas:** Well, then you need to start defining 'regular'. 'From time to time' means there is a power there. It is for the revenue authority and the Government of the day to look at. It enables, perhaps, an Assembly committee to move that it's time to re-look at the charter. You wouldn't want to be bound by saying, 'Well, we can only look at it every three years', or anything like that. So, 'regular', 'from time to time': it's the issue of definition.

[227] **Nick Ramsay:** That's interesting what you just said, because, currently, it's for the Welsh Government to deal with the WRA. But you think it would be

helpful if the Assembly as a whole—or a committee—had a reviewing process in place.

[228] **Mr Thomas:** Well, I don't argue that there's a need to change what is set out in legislation in terms of drawing up the charter, but I think that it would be, if Members were receiving a number of complaints or correspondence. I think that there needs to be a provision by which the Government and WRA can be asked to review its charter, and I don't think it would be helpful to simply say: 'Ah well, you know, you can't look at it again in the lifetime of a particular Assembly. It needs to be the next one.' I think there does need to be that ability to have a from-time-to-time review.

[229] **Nick Ramsay:** Okay. Will the tax charter be considered by yourself when carrying out any of your functions?

[230] **Mr Thomas:** Mike, do you want to comment there?

[231] **Mr Usher:** In terms of forming an audit opinion on the financial statements of the Welsh revenue authority, that's really around the truth and fairness of the statements. It's not so much looking at the culture, tone and behaviours with which the revenue authority is discharging its functions but our ability to look in terms of the trust statement, which is looking much more about the actual collection of taxes. We can look there at the economy, efficiency and effectiveness with which that is done, and that does take us into that territory—not just that the function is done, but the way in which it is done, and the way that the WRA engages with taxpayers and things. So, there's the potential for us to do that, certainly.

[232] **Jocelyn Davies:** Martin, have you got anything to add?

[233] **Mr Peters:** Yes, I think it would be a helpful thing for us to refer to if we wanted to undertake a study of, say, quality of service. It would provide something of a benchmark there to support that.

[234] **Jocelyn Davies:** Okay?

[235] **Nick Ramsay:** Yes, thanks.

[236] **Jocelyn Davies:** Will, shall we come to your questions?

[237] **William Powell:** Thank you, Chair. Turning to accounting and reporting

arrangements for the Welsh revenue authority, section 26 of the Bill requires the corporate plan to set out general outcomes, although you recommend that this should be changed to key performance measures. Could you please provide us with some examples of specific performance measures, and also how you as auditor general will use them and the corporate plan together when carrying out your functions?

[238] **Mr Thomas:** Mike.

[239] **Mr Usher:** Certainly. I think the measures need to be outcome-focused, but simply talking about outcomes is a bit nebulous. So, to have some key performance measures, the sorts of things—and it wouldn't be for us to prescribe the measures—we'd expect to see would be something that is capturing the timeliness of responses to taxpayers' queries. It could be fairly sophisticated: responses on simple queries; responses on more complex queries; accuracy of information processing, as it's very important that they get it right first time; handling of complaints; handling of appeals. We expect to see something around those kinds of areas, which takes us back to those customer service points and that sense of how it engages in its business.

[240] **William Powell:** Do you see that there are examples of good practice out there in terms of organisations that are already in place?

[241] **Mr Usher:** Well, I guess the obvious comparator will be to look to HMRC in terms of how it captures its performance on those kinds of outcomes, what sort of measures it uses, how those are reported and with what sort of frequency, and what is done in light of those measures—you know, what do they do to improve? Do they have targets? Are those stretch targets? There are lots of things that could be done there. HMRC would be the obvious comparator for the WRA and the Welsh Government to have a look at in the first instance.

[242] **William Powell:** That's helpful, thank you. You recommend that the annual report should be prepared no later than 31 August each year so that it's available alongside the annual accounts and the annual tax statement. How would this arrangement actively assist with the oversight of the Welsh revenue authority?

[243] **Mr Thomas:** I think it's important that we do have production of an annual report by a specific date. The revenue authority will be subject to the Treasury's broader financial reporting memorandum, and that requires that

there is an annual report—though it may not be called an annual report—sitting alongside the accounts. I will need to audit that because that's the basis under which I give an opinion. If we have a separate document too far apart from that, which may start to include some financial figures, I'll need to audit again that particular document.

[244] Currently, if I take the example of the health boards, for example, I sign off their annual accounts. There's usually the narrative in that, which talks about the governance, and I audit and sign that off. Even if, say, a month later, they start producing, as they do, a slightly more glossy version about what they have been doing as a report to their various communities, and so on, and they start including financial information, I have to audit that to check that it still coincides with the accounts that I've signed off. That actually causes a degree of work because, particularly when you get to glossy documents, people like presenting the figures in a different way—in bar charts, and so on—and we need to check the figures are, indeed, accurate. So, I'm pushing for an annual report to be as close as possible to the annual accounts and, ideally, at the same time.

[245] **William Powell:** Okay, that's helpful. Thank you.

[246] **Jocelyn Davies:** Okay. Ffred, shall we come to your questions?

[247] **Alun Ffred Jones:** Diolch. Mae'r **Alun Ffred Jones:** Thank you. The cwestiwn cyntaf wedi'i ateb, rwy'n first question has been answered, I credu, ond mae eich tystiolaeth think, but your written evidence ysgrifenedig yn awgrymu y dylid suggests that the sections, separate aralleirio cymalau, ar wahân i adran to section 30, should be reworded, 30, mewn perthynas â darpariaethau with regard to audit provisions. Can archwilio. A allwch chi egluro pam you explain why those changes need bod angen gwneud y newidiadau to be made? hynny?

[248] **Mr Thomas:** Martin.

[249] **Mr Peters:** Section 30.

[250] **Jocelyn Davies:** Yes, section 30. This is on the audit. Have you got a copy of the Bill there? You do.

[251] **Mr Peters:** Yes. There are a couple of issues here. One was that the

opinion requirement wasn't quite in alignment with the requirement that's placed on other accounts. There is some wording missing in that it says,

[252] 'that the expenditure to which the accounts relate has been incurred lawfully'.

[253] We would normally also expect that to go a little further and to say, 'and in accordance with the authority that governs it.' So, this is—

[254] **Jocelyn Davies:** So, is this to be absolutely clear? Is that what you're saying? You just need the legislation to be more precise in the case of a dispute.

[255] **Mr Peters:** Yes.

[256] **Mr Thomas:** This goes back to the need to maintain a degree of consistency in how we define what is required of auditors general. My comments, really, talk about mirroring the Comptroller and Auditor General's arrangements so that we have the same degree of authority and there isn't a risk of a gap. Basically, what I've argued is that there are a number of clauses where we just need to tighten them up a little bit—like the one that Martin's illustrated, so it's 'lawfully, and in accordance with the authority that governs it'—and make sure that that is exactly the same as my audit arrangements in respect of the Welsh Government, so that the two are being looked at together.

[257] We do have difficulty in one or two pieces of audit legislation because of the variation in wording, and the courts then start saying—if they ever challenge—that Parliament, or whoever passed this, must have meant there was a difference, and I'm anxious to prevent that for the future by ensuring that we have consistency of wording. So, I've looked, in my comments, to both the Government of Wales Act 2006 and the Exchequer and Audit Departments Act 1921, to make sure that we're having the same powers.

[258] **Jocelyn Davies:** This comes back to your original point about the style of individual draughtspeople—that they might use slightly different terms, or not use exactly the same term, just because it's a different person who's written it, but it could have consequences, if it came to court, of being interpreted in a different way.

[259] **Mr Thomas:** Absolutely.

[260] **Jocelyn Davies:** Without there being any intention at all to do so on behalf of the legislature—

[261] **Mr Thomas:** I'm not arguing that there's a deliberate attempt. I'm simply saying that it would be helpful and avoid any case of future doubt to align legislation.

[262] **Jocelyn Davies:** Okay.

[263] **Alun Ffred Jones:** Iawn, diolch yn fawr. Cwestiwn pellach: a ydych chi'n fodlon bod adran 31 yn rhoi pwerau digonol i'r archwilydd cyffredinol gynnal astudiaethau gwerth am arian mewn perthynas ag awdurdod cyllid Cymru?

Alun Ffred Jones: Okay, thank you very much. A further question: are you content that section 31 provides the auditor general with sufficient powers to undertake value-for-money studies in relation to the Welsh revenue authority?

10:30

[264] **Mr Thomas:** Ydw, oherwydd, eto, mae'n gyffelyb i'r cymal sydd yn neddfwriaeth 2006.

Mr Thomas: Yes, because, once again, it's similar to the clause in the 2006 legislation.

[265] **Alun Ffred Jones:** Iawn. Diolch yn fawr. Ac un cwestiwn olaf: sut byddech chi'n cynnal astudiaethau gwerth am arian ar gynrychiolwyr fel Cyllid a Thollau Ei Mawrhydi, os byddech chi o gwbl?

Alun Ffred Jones: Right. Thank you very much. And one final question: how would you carry out value-for-money studies of delegates such as HMRC, if you would at all?

[266] **Mr Thomas:** Do you want to take that?

[267] **Mr Usher:** With HMRC, it takes us into the territory of the Comptroller and Auditor General, as the external auditor of HMRC, and the National Audit Office. When I came before the committee last year, I think I explained that we were starting to work very closely with the National Audit Office on exploring how the two audit bodies can work together to minimise any overlap or duplication of effort. We've had some very constructive engagement with them over the last 12 months, and, for that kind of thing, we would be talking to the NAO and they would be the ones engaging with

HMRC in terms of value-for-money-work around the way that HMRC is discharging its functions as an agent of the revenue authority.

[268] Working in conjunction with us, we'd take the results of that work, having agreed the scope of it with them, review the results and combine it with our own work looking at the WRA's end of things. So, when you look at things like the information transfer between HMRC and WRA, you'd have the two sets of auditors looking at both ends and that interface between the two. So, we'd make sure that we're not crossing over each other's toes and creating duplication and making sure, equally importantly, that nothing falls down the gaps. So, in effect, it's the two audit offices working together to make sure it's a seamless audit approach to the whole system, given you've got two different jurisdictions.

[269] **Mr Thomas:** And they would be covered in one report from me to the Assembly.

[270] **Jocelyn Davies:** Okay. Thanks, Fred. Julie, shall we come to your questions?

[271] **Julie Morgan:** Thank you very much, Chair. The regulatory impact assessment doesn't include an estimate of the cost of establishing the WRA, only the equivalent costs for Scotland. Do you think that we should have, at this stage, a clearer cost estimate of setting up the WRA?

[272] **Mr Thomas:** I think I've made more general comments about making sure that the regulatory impact assessments are accurate at the point at which they're prepared. I think it is reasonable, in terms of drawing up a regulatory impact assessment for the WRA, to look to Scotland and to try to draw and derive figures from that. I do think that there are one or two elements, which are, inevitably, not there. I need to clarify, for example, how my own audit costs are to be met. I would prefer that they're met out of the consolidated fund, because the Welsh Government's are met out of the consolidated fund and it makes sense to have them. But, I think, with those kinds of variations, the regulatory impact assessment is actually a reasonable one.

[273] **Julie Morgan:** Thank you. How are you working with the National Audit Office and Audit Scotland to benefit from their experience of auditing HMRC and Revenue Scotland?

[274] **Mr Thomas:** Mike is my representative at those meetings, so Mike?

[275] **Mr Usher:** Yes, I'm happy to take that one. I'll take the National Audit first and then Audit Scotland. With the National Audit Office, we're working very closely with their revenue audit team, who do the audit of HMRC. I'm meeting regularly with my counterpart, the director responsible for that audit. We're discussing audit methodology; we're looking at audit tools; the training that our staff will need to undertake that work; and we have plans that we're putting in place to have all that worked up between now and April 2018. We're also looking at the likely workload and skill-mix requirements for our own workforce planning as part of this, and we are confident that we will have the ability, capacity and capability within the WAO to do what we need to do. Working with the NAO, as I said to Alun, we're trying to ensure that the work is seamless on where we're going with HMRC and WRA.

[276] Then, with Audit Scotland, again, there's very close co-operation. They've been keeping us in touch, almost in real time really, with the work that they were doing on preparedness in the run-up to go live in Scotland last April, and we're also looking at the way that the NAO and Audit Scotland are working together through the memorandum of understanding that they have agreed between the Comptroller and Auditor General and the Auditor General for Scotland. We're going to take that as a starting point for an equivalent memorandum of understanding between Huw and the Comptroller and Auditor General, albeit that the Scottish one obviously covers the local income tax because that's up and live, whereas here, of course, that may be a little way downstream. So, it will be a cut-down version, but the principles in the memorandum of understanding around making sure that things are covered in an appropriate, cost-effective way, with nothing falling through the gaps—. So, close liaison and co-operation is very much at the heart of what we're doing. We've been delighted, actually, I must say, to date, with the co-operation we've had from colleagues both in the NAO and Scotland. It's going well.

[277] **Julie Morgan:** So, you're working very closely.

[278] **Mr Usher:** Indeed. Yes.

[279] **Julie Morgan:** Then the final question: what about your own costs with the training of your staff to be ready—well, before the first annual audit? Have you been able to estimate how much that is costing and what you need there?

[280] **Mr Thomas:** I can't at present, but we are finalising our estimates and we'll be covering that in the document that you'll be receiving in about two weeks' time. We do need to make sure that we are covering those various costs you've identified. But I think, going forward, we do feel, as I said, that this needs to be from the consolidated fund from 2018 onwards. I think, at present, my concern is to ensure that I'm proportionately training staff, and we are taking real advantage of the fact that Scotland is there and we can mirror their experience.

[281] **Mr Usher:** Could I just add, actually—we're not starting from a zero base here as well? A number of our staff, myself included, have experience of auditing revenue in the past. I used to audit the Driver and Vehicle Licensing Agency, for instance. So, we have a number of staff who actually have a fair bit of knowledge here that we're using to build on. We're not starting from scratch.

[282] **Julie Morgan:** Thank you.

[283] **Jocelyn Davies:** So, Mike, is the memorandum of understanding for Scotland a public domain document? Would you know?

[284] **Mr Usher:** I'm afraid that I don't know the answer to that. They certainly provided us with a copy to inform our thinking. I don't know whether it's in the public domain. If you don't mind, I'll check. If it is, we'll let you have a copy.

[285] **Jocelyn Davies:** Well, as long as it's not too long and complicated. It will be interesting to see what a document that would govern that kind of arrangement might look like.

[286] **Mr Usher:** We'll check and come back to you on that.

[287] **Jocelyn Davies:** Lovely. Okay. Chris, shall we come to your questions?

[288] **Christine Chapman:** The explanatory memorandum noted you've estimated the cost of auditing the tax statement as being in the region of between £20,000 and £70,000 per annum. I just wonder whether you could explain how you came up with this figure.

[289] **Mr Usher:** We've had a number of conversations with the Welsh

Government Bill team who, quite understandably, are looking to push us to come up with a precise number. At the moment, we can't do that. What we'll do is give, if you like, an order of magnitude. So, it's not going to be a six-figure audit fee for this. The reason for the range that we've given is, firstly, at the time we started developing this, there had been no ministerial decision on the options for collection. Those decisions have now been taken. So, we've been able to refine our estimate a little, but what we don't know yet, because decisions are yet to be taken, is the mechanics of how this will work from, say, a systems perspective. So, to give an example—the Welsh revenue authority itself: will it have its own independent set of ledgers and information systems, or will it, for instance, piggyback onto the Welsh Government's ledger system, set up as a separate company within that, so it's ring-fenced but piggybacks on their systems? We audit the Welsh Government systems already. We understand how they work. That's a very straightforward task, to just look at that separate ring-fenced system. If the Welsh revenue authority had its own free-standing system—and they've yet to decide on all of this—then clearly we'd need to understand how the system works and the interfaces. We would need to do quite a bit of set-up systems testing in the first year. All of that comes at a cost.

[290] Similarly, with the relations with Natural Resources Wales and the information exchanges, we don't know how that will work yet or, again, the interface between WRA and HMRC. So, until we have a better handle and decisions are taken on the systems—. We can then refine the auditing estimates. What we do know is that, in the first year, it is more expensive because of all that set-up. Once you've got the systems up and running, we would then, in terms of systems assurance, be looking at any changes to those systems in future years. It moves to a steady state audit, which means lower annual costs going forward.

[291] So, we can't really say much more than that at the moment, but as soon as we're able to refine the estimates of costs—the Bill team are certainly pressing us—we will provide that to them. But they need to take the decisions for us then to work out how much work is needed. It is chicken before egg, more or less—

[292] **Christine Chapman:** You've got some sort of option, then.

[293] **Mr Usher:** I'm sorry; that was a long answer. I apologise.

[294] **Jocelyn Davies:** So they've asked you to give them an estimate on cost

without telling you what it is that they want you to do.

[295] **Mr Usher:** Well, in fairness to them, you know, they're trying to give the Assembly as informed a regulatory impact assessment as they can for costs. We're working very well with the Bill team. We've given them what we can at the moment. As they refine their thinking, the project planning et cetera, we can be refining our estimates as well, and it's very much an iterative dialogue with them. It is going very well, but the range, at the moment, is a broad one, because the difference in audit cost is, in order of magnitude, quite considerable, depending on the different options that are taken, but audit cost isn't the only driver here, of course. That's a secondary factor.

[296] **Christine Chapman:** What about estimating the time and costs that, you know, you'll need to audit WRA and the new Welsh tax system? Have you factored that in—the time and costs?

[297] **Mr Usher:** Well, the cost estimates—as I say, at the moment, we can't refine them, but the cost is driven by two things, really: the amount of time we need to spend and the skill mix of the staff we need to deploy, depending on complexity et cetera. So, the time and cost are inextricably linked; they are opposite sides of the equation. So, as we refine one, we'll be able to refine the other.

[298] **Christine Chapman:** Thank you. Your written evidence notes that, in the absence of a fee-charging provision for the tax statements, the costs would need to be borne by the WAO estate. Do you believe it would be preferable for the Public Audit (Wales) Act 2013 to be amended to allow you to raise a fee or should the cost be provided through the WAO estimate?

[299] **Mr Thomas:** This is a clause that I've raised before that I do think needs to be revisited in the 2013 legislation. I don't think that—. Particularly given that we have a new body and, as Mike said, it's inevitably going to be the case that, with the first-year costs, there is going to be a degree of uncertainty about them. I do feel that we can't rely on this particular clause, because it is a charge

[300] 'in relation to the audit of a person's accounts or statement of accounts'.

[301] I don't think the tax statement is that. Now, I think, therefore, that

what needs to be included in the legislation is a very clear statement that the costs of audit are a legitimate charge on the consolidated funds.

[302] **Jocelyn Davies:** Because this wasn't envisaged when the legislation was drawn up—the 2013 Act. This wasn't envisaged, so it says 'statement', but the tax statement is a different thing. Is that what you're telling us? Martin.

[303] **Mr Peters:** Yes. I think it's really a matter of being clear about expectations, in that, currently, we're pretty certain we cannot charge a fee for the audit of the tax statement—the WRA is another matter—we don't think that's particularly a problem, because taking, for example, the C&AG's audit of tax statements, or trust statements as they call them, there isn't a fee, because it's borne by the consolidated fund. We think that's an acceptable way forward here; it's not like the accounts of an organisation where it's usual to show an audit fee. So, in a sense, there's nothing to be done, provided everybody's happy with us doing that and expecting an element of the estimate to cover the audit of the tax statements.

[304] **Jocelyn Davies:** Mike.

[305] **Mr Usher:** Can I just add to that, for clarity? Just talking about the audit of the tax statement, the Welsh revenue authority's annual report and accounts would attract an audit fee in the usual way. So, that's absolutely fine; that's all covered. It's simply the tax statement that needs to be considered here.

[306] **Christine Chapman:** Just one final question, I'm taking you now to, you know, the auditing of HMRC's delegated tax collection functions. How do you anticipate carrying out, you know, that audit? Will there be any interaction—I would imagine there would be—with the Comptroller and Auditor General's existing audit of HMRC? How is that going to work?

[307] **Mr Thomas:** As Mike indicated, for the HMRC side, we would be relying on the Comptroller and Auditor General. We'll be ensuring that we specify what it is we want out of that arrangement, and it's one of those factors that are covered in the memorandum of understanding.

[308] **Christine Chapman:** Right. Okay.

[309] **Mr Usher:** Could I add one point to that? We've been discussing with the National Audit Office the quantum of work that they would need to do. At

the moment, they audit the totality of HMRC's operations to a level of materiality; that is quite a large number.

10:45

[310] The sort of taxes we're talking about here are relatively small in HMRC's total terms. So, the work that the NAO currently do for HMRC will be insufficient to provide audit assurance over HMRC's operations on these devolved taxes. So, the NAO will need to do more work and that will be a cost as part of these arrangements. So, we are arranging a meeting between ourselves, the NAO and the Welsh Government Bill team in the next couple of months to try to get a better handle, again, on quantum of cost. But there is an additional cost there, through the decision to use HMRC as the collection agent, because the NAO will need to do some additional audit work above and beyond what it currently does. But the quantum of cost, as I say, is yet to be determined.

[311] **Jocelyn Davies:** Okay. Thank you very much. We've run out of questions. I think your evidence today's been very helpful for us. As usual, we'll send you a transcript. If you would check it, just in case it does contain any errors, and then we'll be able to correct it.

10:46

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting**

Cynnig:

Motion:

bod y pwyllgor yn penderfynu that the committee resolves to gwahardd y cyhoedd o weddill y exclude the public from the cyfarfod yn unol â Rheol Sefydlog remainder of the meeting in 17.42(vi).

accordance with Standing Order 17.42(vi).

Cynigiwyd y cynnig.

Motion moved.

[312] **Jocelyn Davies:** I now move a motion under Standing Order 17.42 that

we go into private session. Are all Members content? Thank you.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10:46.

The public part of the meeting ended at 10:46.