

Arrangements between the Welsh Government and the Department for Work and Pensions for the Welsh Rates of Income Tax

Introduction

1. The Welsh Rates of Income Tax (WRIT) will be set, each year, through a resolution passed by the National Assembly for Wales (“the Assembly”) on the basis of a proposal made by Welsh Ministers. WRIT is not a devolved tax. It forms part of the UK income tax system and will be administered along with the rest of the income tax system by Her Majesty’s Revenue and Customs (HMRC).

2. As certain aspects of the current tax and benefits systems are inter-dependent, the introduction of WRIT has consequential impacts for the Department for Work and Pensions (DWP). DWP therefore has to ensure that its systems and processes are ready to recognise WRIT when it is introduced from April 2019.

3. Section 116J of the Wales Act 2014 Reimbursement of expenses states “The Welsh Ministers may reimburse any Minister of the Crown or government department for administrative expenses incurred by virtue of this Chapter at any time after the passing of the Wales Act 2014 by the Minister or department.”

4. This Annex sets out the arrangements for the Welsh Government (WG) to meet the costs of changes to DWP administrative and IT systems made necessary by the introduction of WRIT. The arrangements in place between the WG and HMRC for setting up and administering WRIT are covered by a separate Memorandum of Understanding.

Welsh rates of Income Tax

5. The Wales Act 2014 (“the 2014 Act”) gives the Assembly the power to set a Welsh basic, higher and additional rate of income tax to be charged on Welsh taxpayers (as defined in section 116E of the 2014 Act). WRIT will commence from April 2019, the date set by the UK Government. It will be administered by HMRC as part of the UK-wide income tax system and applied to non-savings income. The Assembly will be able to set Welsh rates from zero to any number of pence or half-pence in the pound. These rates will be added to each of the main UK rate bands after ten pence in the pound has been deducted from each rate.

Purpose of this annex

6. This Annex sets out the arrangements agreed between the WG and DWP for ensuring DWP administered taxable benefits and associated IT systems recognise and interact with WRIT in order that benefit recipients who are Welsh taxpayers continue to receive the correct amount of benefits and the correct tax information is

recorded for HMRC purposes. It sets out the respective responsibilities of the WG and DWP in relation to these aspects of WRIT implementation and provides a framework for inter-Government work on this issue. It has no legal force, nevertheless both Governments expect it to be followed.

7. These arrangements reflect:

- The Memorandum of Understanding and Supplementary Agreements between the United Kingdom Government, The Scottish Ministers, the Welsh Ministers and Northern Ireland Executive Committee;
- Cabinet Office Devolution Guidance Notes; and
- HM Treasury's statement of funding policy, "Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly".

Date and timing

8. This Annex and arrangements described within it come into effect when the last of the parties to signify their acceptance of those arrangements through an exchange of letters signifies acceptance. It has no expiry date but will cease to have effect if WRIT is repealed. The arrangements may be brought to an end by agreement between DWP and WG and will be reviewed at the request of either party.

Senior responsible officers and Parliamentary reporting

9. The DWP Permanent Secretary is the Accounting Officer with overall responsibility for ensuring that the correct IT and administrative systems are in place to support the timely introduction of WRIT. Welsh Assembly Committees may request that DWP provides a senior official to give evidence and DWP will consider these requests in line with Cabinet Office guidance on officials' attendance at such Committees. The senior officials with responsibility for matters covered by this Annex are Andrew Jeffreys, Director of Welsh Treasury for the Welsh Government and Tracy Leck, Deputy Director DWP Digital for DWP.

Roles and responsibilities of DWP and WG

10. DWP will continue to have in place appropriate governance arrangements to ensure DWP IT systems, relevant staff guidance, customer forms and letters comply with WRIT provisions in the 2014 Act. The process will take an inter-governmental approach to quality assurance, reviewing progress against milestones and ensuring value for money.

11. The WG will be represented within DWP's internal governance arrangements for implementing WRIT and may also request that DWP commission an external assurance review at the WG's expense.

12. DWP will make the necessary changes to benefit IT platforms which interface with the UK tax systems to enable them to recognise the new "C" Welsh tax code. At the same time and where appropriate staff guidance and customer forms and letters will be amended accordingly.

13. DWP will develop and test the IT and administration of WRIT in consultation with HMRC and the WG.

14. DWP will invoice the WG for agreed items of expenditure as set out in paragraph 26 below.

15. WG will make payment to DWP for amounts invoiced for agreed items of expenditure as set out in para 27 below.

16. DWP will have no role in relation to determining an individual's tax liability nor for the publicity of WRIT other than ensuring, where appropriate, that customer communications reflect the Welsh rate.

DWP IT and administrative impacts of WRIT implementation

17. DWP will remain responsible for ensuring that the correct IT and administrative systems are in place to support the timely introduction of WRIT.

18. DWP will keep the WG informed of, and will consult with the WG on plans, timetables, estimated costs, risks and progress. Where there are options for developing and amending such systems, DWP will discuss these, together with the cost, risk, efficiency, effectiveness or customer impact factors, with the WG before an option is selected.

19. DWP will upgrade and test all areas of DWP business that will be impacted by WRIT. This will be done through contracted IT suppliers and in accordance with its normal IT development practice.

20. Transparent change costs of each part of the IT system will be notified to the WG, subject to any confidentiality rules in prevailing DWP contracts.

21. The WG will have an opportunity to review plans for IT testing and the results of such tests.

22. DWP will develop non IT systems for all areas of DWP business that will be impacted by WRIT. This will be done in accordance with normal DWP practice.

23. A breakdown of the expected costs and activities for both IT system and non IT system changes will be shared with the WG before such costs are incurred.

24. DWP and the WG will scrutinise the IT and non IT System costs with a view to ensuring value for money. Where the WG have any concerns about the cost of a particular item that joint discussions cannot resolve, the WG – or DWP on behalf of the WG – may request an independent assessment of the estimated costs in question. All associated costs of the independent assessment will be met by the WG. Any contracts or costs finalised after this Annex takes effect will be discussed and agreed with the WG in advance.

Continuing operations

25. After IT changes have been made to deliver WRIT, DWP will maintain its IT and administrative systems so that WRIT continues to operate effectively in respect of the administration of benefits.

Funding

26. Where DWP charges for its services it does so (following HM Treasury policy) at the full economic cost of providing the service seeking to make clear the breakdown of the calculation. Full economic cost is based on average salary cost for the relevant grade plus per capita overheads such as superannuation. Where costs are under contract by third parties including DWP's IT supplier, these will be charged at cost.

27. The WG will meet costs which it is satisfied have been wholly and necessarily incurred as a result of the introduction of WRIT.

28. Once the changes are made to DWP's IT systems to recognise WRIT as introduced in the Wales Act 2014 as amended, there will be no additional annual expenditure to maintain these changes.

29. Costs will be borne by the WG and DWP as set out below:

Costs borne by WG – DWP will invoice and the WG will pay for:

- Capital and other costs of making IT changes to DWP systems and ancillary costs (i.e. non-IT) relating to staff guidance and customer forms and letters required as a result of the introduction of WRIT.
- If suppliers consume more time and materials than agreed estimates DWP will discuss with WG with the expectation that WG will meet costs if these increases have been incurred wholly and necessarily as a result of the introduction of WRIT and not as a result of error on the part of suppliers.

Costs borne by DWP – DWP will not charge for:

- Cost of changes to DWP IT systems where no specific provision needs to be made for WRIT
- Supplier issues covered under DWP contract warranties
- Costs involving changes to the IT systems where aspects of WRIT cannot reasonably be costed separately.

Invoicing

30. DWP will invoice WG for costs quarterly in arrears. WG will make payment to DWP within 30 days of the invoice date, or within 30 days of the receipt of the invoice if there is a delay of more than 5 days between invoice date and date of receipt.

31. Separate arrangements may be agreed between DWP and the WG for Quarter 4 payments to ensure that payments are made in the appropriate financial year.

Dispute resolution

32. In the first instance, issues should be escalated to the Wales Programme Board and if not resolved, they should be escalated to Joint Exchequer Committee JEC(O).

Information sharing

33. DWP will provide WG with information that will enable Welsh Ministers and officials to discharge their duties in respect of Welsh Assembly accountability.

Limitations

34. DWP operates within the legal constraints of customer confidentiality, the Data Protection Act 1998 and its successor legislation, and Social Security Administration Act 1992.