

Agenda – Finance Committee

Meeting Venue:	For further information contact:
External Location	Bethan Davies
Meeting date: Thursday, 23 March 2017	Committee Clerk 0300 200 6372
Meeting time: 10.00	SeneddFinance@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

(10.00)

2 Paper(s) to note

(10.00)

Letter from the Secretary of State for Wales – Implementation of Fiscal Provisions – 21 February 2017

(Page 1)

3 Preparations for the implementation of fiscal devolution in Wales: Wales Audit Office Evidence Session

(10.00–11.00)

(Pages 2 – 40)

Huw Vaughan Thomas – Auditor General for Wales
Mike Usher – Director and Sector Lead, Health and Central Government, Wales
Audit Office
Richard Harries - Director, Financial Audit, Wales Audit Office

Paper 1 - Wales Audit Office Report: Preparations for the implementation of fiscal devolution in Wales

4 Implementation of Fiscal Provisions in the Wales Act 2014: Ministerial evidence session

(11.00–12.00)

(Pages 41 – 79)



Mark Drakeford – Cabinet Secretary for Finance and Local Government
Andrew Jeffreys – Director, Treasury, Welsh Government
Dyfed Alsop – Welsh Revenue Authority Implementation Director, Welsh Government

Paper 2 – The second annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014

Paper 3 – Evidence paper from Cabinet Secretary for Finance and Local Government – 9 March 2017

5 Motion under Standing Order 17.42 to resolve to exclude the public from the following business:

(12.00)

The remainder of today's meeting and all of the meeting on 29 March.

6 Implementation of Fiscal provisions: Consideration of Evidence

(12.00–12.15)

7 Financial Implications of the Trade Union (Wales) Bill

(12.15–12.25)

(Pages 80 – 81)

Paper 4 – Letter from the Cabinet Secretary for Finance and Local Government – Trade Union (Wales) Bill – 17 March 2017

Lunch (12.25–13.00)

8 Engagement Session with Bassaleg School

(13.30–14.30)

Agenda Item 2.1



Rt Hon Alun Cairns MP
Secretary of State for Wales
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Simon Thomas AM
Chair, Finance Committee
National Assembly for Wales
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Ref: 11SOS 17

21^{Feb} February 2017

Simon Thomas

Thank you for your letter of 31 January again inviting me to give evidence to your Committee on the implementation of the fiscal provisions in the Wales Act 2014.

As you note, the implementation of the Wales Act 2014 is the joint responsibility of the UK Government and the Welsh Government. Equally the Fiscal Framework which was published in December is a joint agreement between the UK Government and the Welsh Government on the future funding arrangements for Wales. I think it would be appropriate that your committee formally scrutinises the Cabinet Secretary for Finance and Local Government in relation to these matters given the respective lines of accountability.

Whilst pressures on my diary do not allow me to attend a formal evidence session, I would like to repeat my offer to meet committee members on an individual basis to discuss any particular concerns relevant to your inquiry.

Alun Cairns

Rt Hon Alun Cairns MP
Secretary of State for Wales
Ysgrifennydd Gwladol Cymru

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Preparations for the implementation of fiscal devolution in Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



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

The Wales Audit Office study team comprised Matthew Coe, Gareth Lucey, Ben Robertson and Deborah Woods under the direction of Richard Harries.

**Huw Vaughan Thomas
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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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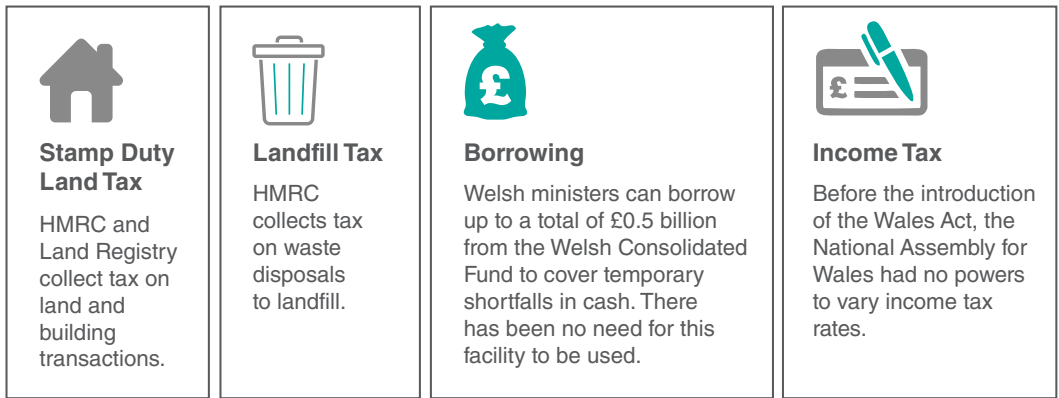
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Summary report

- 1 Fiscal devolution refers to the transfer of taxation and borrowing powers from the UK government to the National Assembly for Wales (the National Assembly) and Welsh Ministers. From 1 April 2018, and for the first time in over 800 years, Wales will become responsible for raising an element of its own tax revenues. The Welsh Government has been considering the implications of this fiscal devolution since 2013 as part of its fiscal reform agenda.
- 2 The **Wales Act (2014)** devolved certain taxation and borrowing powers from the UK Government and Parliament to the Welsh Government and the National Assembly. The Act empowers the National Assembly to legislate for taxes on the purchase or leasing of land and buildings and the disposal of waste to landfill for the first time. It also paves the way for the future devolution of an element of income tax-raising powers to the National Assembly, extends the circumstances in which Welsh Ministers can borrow in the short-term to manage the Welsh Government's budget, and grants Welsh Ministers new powers to borrow for capital expenditure. **Exhibit 1** sets out the specific changes to the financial environment in Wales.
- 3 The Wales Act 2014 was followed by the **Tax Collection and Management (Wales) Act 2016**, which was agreed unanimously by the National Assembly on 8 March 2016 and received Royal Assent in April 2016. The Act establishes the foundations for Wales' devolved tax regime, including the establishment of the Welsh Revenue Authority (WRA). This will be a new non-Ministerial Government Department. This means that whilst Welsh Ministers will set the policy framework and provide strategic direction, neither Ministers nor the Assembly will interfere in the day-to-day taxation decisions relating to the management and collection of devolved taxes.
- 4 The Welsh Government is also developing specific legislation for two new devolved taxes; the **Land Transaction Tax (LTT)** and **Landfill Disposals Tax (LDT)** to replace UK Stamp Duty Land Tax and UK Landfill Tax.
- 5 In September 2015, the Auditor General for Wales wrote to the Chair of the Finance Committee setting out his intention to issue a progress report on the state of the Welsh Government's preparations to implement fiscal devolution for Wales. This first review was undertaken in October 2016 and sought to answer the question 'Is the Welsh Government well placed to successfully implement fiscal devolution in Wales by 1 April 2018?'. **Appendix 1** provides more detail about the scope of our work and our audit methods.
- 6 This report looks first at the Welsh Government's approach in general to the overall fiscal devolution including the work of its Welsh Treasury functions; and secondly at specific work to date for establishing the WRA. The overall fiscal reform agenda is largely at the end of its planning phase and is now about to move forward into the delivery phase. Because the key work is still progressing, including the tax collection systems, the fiscal framework for adjustments to UK funding, and detailed forecasts required to underpin that fiscal framework, the arrangements around these areas will be covered in more detail in a second review the Auditor General intends to conduct in the autumn of 2017.

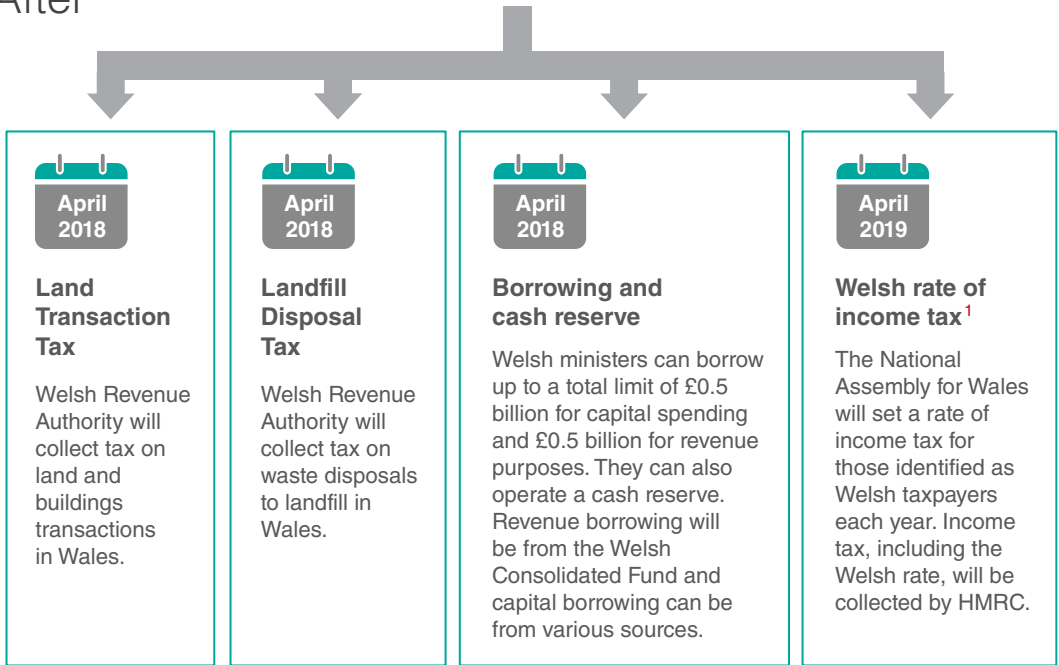
Exhibit 1 – Changes to the tax regime in Wales arising from the Wales Act 2014

Before



Wales Act 2014

After



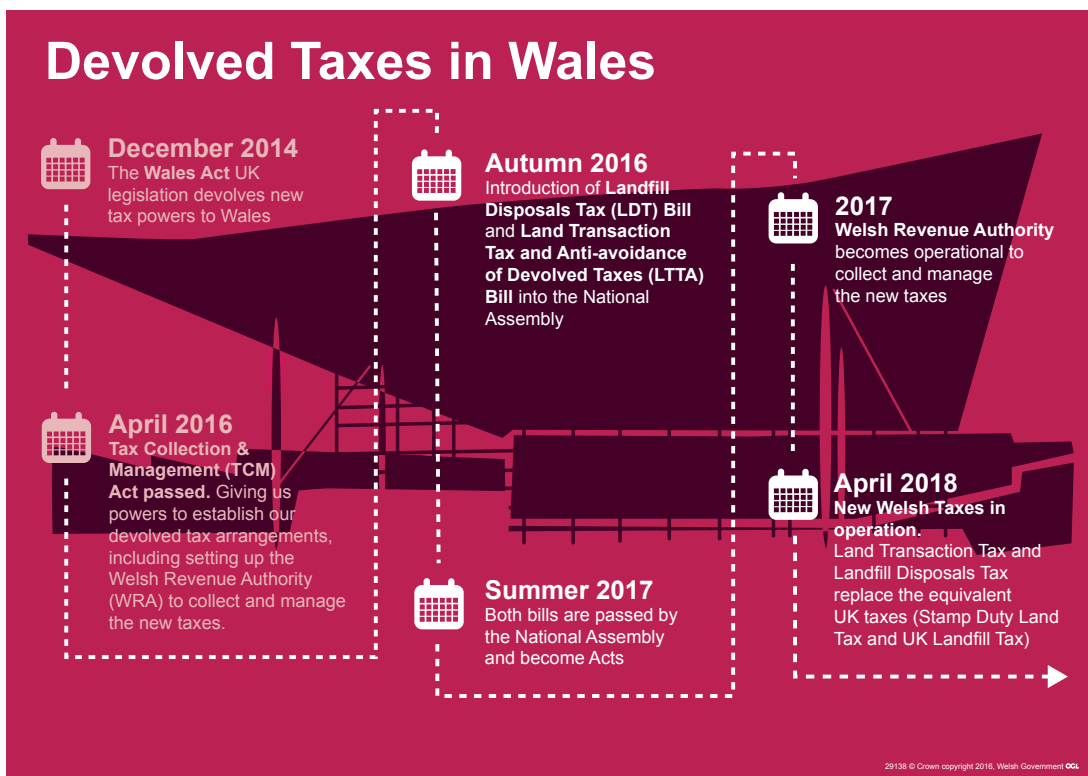
¹ A date for income tax devolution has not yet been set. April 2019 is the earliest possible date assuming Royal Assent for the Wales Bill in early 2017.

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

Key areas of focus through to April 2018

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

Exhibit 2 – Summarised timetable for devolved taxes in Wales



Copyright: Welsh Government

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

- 12 The specific areas that these detailed delivery plans need to address are:
- a Given that the bills for the specific taxes are progressing through the legislative process, the Welsh Government will need to ensure the impact of any amendments to these bills is reflected in the detailed project plans and processes.
 - b There will be challenges in agreeing a timely fiscal framework, striking the balance between preparing forecasts as late as possible to ensure accuracy, and allowing adequate time for the National Assembly's scrutiny of the 2018-19 budget.
 - c The Welsh Government needs to ensure that it is continuously reviewing what Welsh Treasury functions it needs in light of fiscal devolution, in particular the capacity and number of staff to deliver these roles up to and beyond 1 April 2018.
 - d Detailed and close engagement will be required as the programme moves through the delivery phase and approaches the implementation date of 1 April 2018, including the need to raise awareness of the changes to the tax regime in Wales among the wider general public.
 - e The WRA's statutory basis, governance and accountability frameworks need to be clearly defined and understood by all of its key stakeholders from the outset.
 - f The WRAIP needs to approve formally the underlying project plans as soon as possible for each project to move quickly into delivering its objectives. The programme will need very careful governance, management and monitoring as it progresses over the coming months.
 - g More detailed budgets now need to be developed to ensure the WRA is established on time, within cost and with the right skilled people.

Part 1

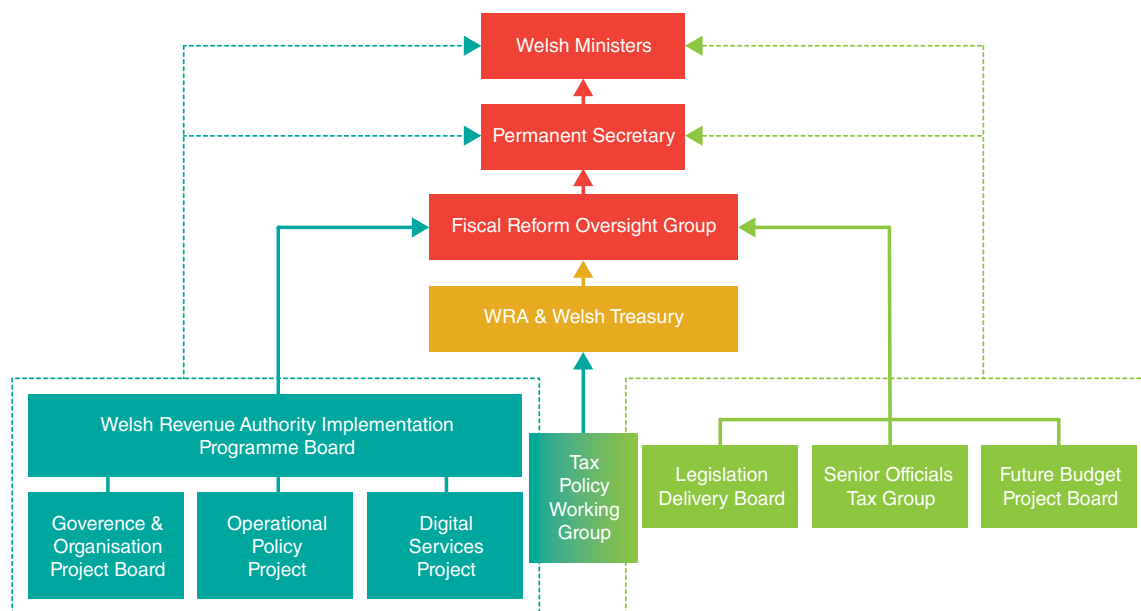
The fiscal reform agenda is well-structured, has been appropriately resourced, and is making generally good progress



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

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

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



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

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

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

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

- 1.11 The Welsh Government is developing the legislative framework to establish the devolved tax arrangements set out in the UK's Wales Act 2014.
- 1.12 There are three pieces of additional Welsh primary legislation:

<p>Tax Collection and Management (Wales) Act</p> <p>Establishes the foundations of the tax regime in Wales. This includes the arrangements for collecting and managing the new devolved taxes, and the creation of the Welsh Revenue Authority.</p> <p>Introduced to the National Assembly for Wales in July 2015. Royal Assent received in April 2016.</p>	<p>Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill</p> <p>This will allow the WRA to collect taxes on land and buildings transactions, such as buying a house, and provides the WRA with the powers to take forward anti-avoidance action.</p> <p>Introduced to the National Assembly for Wales in September 2016. Royal Assent expected by summer 2017.</p>	<p>Landfill Disposal Tax Bill</p> <p>This will allow the WRA to collect the taxes on disposing of waste to landfill, and to enforce compliance with this legislation.</p> <p>Planned to be introduced to the National Assembly for Wales in autumn 2016. Royal Assent expected by summer 2017.</p>
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- 1.13 The Welsh Government started planning in 2013 for the devolution of these taxes and the legislation required. Following extensive engagement with stakeholders, including the Scottish Government, Wales has adopted a different approach to the timing of its legislation. In Scotland the legislation for the devolved taxes was considered first, and the Revenue Scotland and Tax Powers Act received Royal Assent in September 2014, after the devolved taxes legislation. By considering the Tax Collection and Management (Wales) Act before the devolved taxes bills, Welsh Government officials have had the benefit of providing a longer period of over 24 months (compared to six months in Scotland) to implement the WRA and its functions.
- 1.14 The Welsh Government considers that their legislative approach should both reduce the number of amendments to the primary legislation, and minimise the need for subsequent secondary legislation. Amongst other things, secondary legislation will be needed to provide the WRA with statutory criminal powers, and to allow Welsh ministers to vary tax rates and bands at short notice, with subsequent approval of any permanent variations by the National Assembly.
- 1.15 Given that the bills for the specific taxes are progressing through the legislative process, the challenge for the Welsh Government will be to ensure the impact of any amendments to these bills are reflected in the detailed project plans and processes.

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



The block grant adjustment

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



Borrowing powers

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



A cash reserve

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



Compensating adjustments

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



Revenue forecasts

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

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

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

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

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

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

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

Part 2

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



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

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

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

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

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

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

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

Exhibit 4 – Key milestones and deliverables for the WRAIP

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

Source: Welsh Government

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

² This methodology involves a high degree of consultation with stakeholders to identify requirements, with development and testing of elements of the system then being combined into short 'sprints'. This contrasts with the more traditional 'waterfall' method of software development, which has clearly separate design, implementation and testing phases. AGILE is widely thought to produce software more in line with user needs, within tight timescales.

Appendices

Appendix 1 - Methods



Appendix 1 - Methods

We reviewed a range of information during our audit including:

- Various legislation and draft legislation including the Wales Act 2014, Tax Collection & Management (Wales) Act and the Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Bill
- Publicly available information on fiscal devolution relating to both Wales and Scotland
- The project plans
- The highlight reports from key programme and project/group boards
- The governance documents
- The results of gateway reviews that have been undertaken
- Various reports from other audit bodies on fiscal devolution and project management including Audit Scotland, the National Audit Office and the New Zealand Auditor General
- Published documents from the Welsh Government and Welsh ministers

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

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

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

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

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

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Llywodraeth Cymru
Welsh Government

Y Pwyllgor Cyllid | Finance Committee
FIN(5)-10-17 P2

Agenda Item 4

The second annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014

Laid before the National Assembly for Wales and presented to
Parliament, pursuant to Section 23 of the Wales Act 2014

December 2016

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Foreword



Significant progress has been made over the last year on all aspects of the tax devolution implementation programme. The Tax Collection and Management (Wales) Act gained Royal Assent in 2016, making provision for the establishment of the Welsh Revenue Authority (WRA). Following the appointment of the WRA implementation director in the summer, the candidate information pack was issued for the appointment of the WRA chair and non-executive board members. I intend to make an announcement about the appointment of the chair in the New Year, to ensure he or she has a role in the appointment of the board.

Two tax Bills – the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill and the Landfill Disposals Tax (Wales) Bill – were introduced to the National Assembly this autumn and are undergoing scrutiny. I am grateful to the many organisations and individuals who have taken time to contribute to the development of these Bills over the past couple of years. They have benefited greatly from this input.

Underpinning the work to implement Wales' new tax powers are the negotiations between the Welsh Government and the UK Government, at the Joint Exchequer Committee (Wales), on a fiscal framework, which will set out how public services in Wales will be funded after tax devolution. The framework will specify how the Welsh block grant will be adjusted following the devolution of stamp duty land tax, landfill tax and the partial devolution of income tax and how the funding floor will operate and interact with the Barnett formula. The two governments are also negotiating Welsh Government capital borrowing powers and other budgetary management issues. It is expected these negotiations will be completed by early 2017.

Land transaction tax, which will replace stamp duty land tax and landfill disposals tax, which will replace landfill tax, are due to come into effect in April 2018. These will be the first Welsh taxes in almost 800 years.

A handwritten signature in blue ink that reads "Mark Drakeford".

Mark Drakeford AM
Cabinet Secretary for Finance and Local Government

Introduction

Under section 23 of the Wales Act 2014¹, Welsh Ministers and the Secretary of State for Wales are each required to report annually on the progress made in effecting the provisions under Part 2, until the first anniversary after the final provisions have been implemented. This is the second annual report by Welsh Ministers.

Section 23(7) of the Act specifies the annual reports must include the following information on the finance provisions:

- (a) *A statement of the steps that have been taken, whether by the maker of the report or by others, since the making of the previous report (or, in the case of the first report, since the passing of this Act) towards implementation of the provisions of this Part,*
- (b) *A statement of the steps that the maker of the report proposes should be taken, whether by the maker of the report or by others, towards the implementation of the provisions of this Part,*
- (c) *An assessment of the operation of the provisions of this Part that have been implemented,*
- (d) *An assessment of the operation of any other powers to devolve taxes to the Assembly or to change the powers of the Welsh Ministers to borrow money, and of any other changes affecting the provisions inserted or amended by this Part,*
- (e) *A statement of the effect of this Part on the amount of any payments made by the Secretary of State under section 118 of GOWA 2006 (payments into the Welsh Consolidated Fund), and*
- (f) *Any other matters concerning the sources of revenue for the Welsh Government that the maker of the report considers should be brought to the attention of Parliament or the Assembly.*

At this early stage of implementation, this second report focuses on (a) and (b).

The reports are not required to address the following sections of the Wales Act 2014; section 10 (Welsh taxpayers for social security or child support purposes); section 11 (Amendments to the definition of a Scottish taxpayer) and section 22 (Budgetary procedures), however Welsh Ministers have decided to include progress towards delivering section 22 in this report.

The reports are due each year before the anniversary of the day on which the Act gained Royal Assent – 17 December 2014 – with the final report being due on, or as soon as practicable after, the first anniversary of the day on which the last of the provisions in Part 2 is implemented.

¹ The Wales Act 2014 is available on the Gov.UK website:
<http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

Land transaction tax

Section 15 of the Wales Act 2014 amends the Government of Wales Act 2006 (“GOWA 2006”) to enable the National Assembly for Wales to legislate for a Welsh tax on transactions involving interests in land. Section 16 and Schedule 2 amend UK legislation to dis-apply UK stamp duty land tax in relation to Wales. The amendments have effect on or after such date as is appointed by the Treasury by Order. Section 17 concerns the supply of information about land transactions in Wales to HMRC.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that stamp duty land tax would be 'switched off' from April 2018.²

1. The Welsh Government has made considerable progress during the last year towards the implementation of land transaction tax (LTT) to replace stamp duty land tax (SDLT) when SDLT is switched off in Wales.
2. In the early part of 2016, work focused on preparing the draft provisions of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill in order to test key sections with stakeholders and tax experts. The Cabinet Secretary for Finance and Local Government published an early draft of the Bill in July ahead of its introduction, to enable Assembly Members and other stakeholders to familiarise themselves with its structure and scope. The Welsh Government also published a factsheet about the Bill, which outlined the key differences between LTT and SDLT. Feedback was positive – stakeholders highlighted the accessible nature of what was a very technical piece of legislation.
3. The Bill was introduced to the National Assembly on 12 September 2016. The National Assembly’s Finance Committee is scrutinising the Bill and undertook a call for evidence between 14 September and 21 October. The Cabinet Secretary for Finance and Local Government attended two sessions with the Finance Committee where he provided evidence about the general principles of the Bill. A scrutiny report, which details the Finance Committee’s findings and sets out its recommendations, is due to be published on 22 December. A Plenary debate about the Bill’s general principles is anticipated in January 2017. The Welsh Government hopes to secure Royal Assent for the Bill by summer 2017.
4. The Bill provides for the following:
 - The key concepts of LTT including which type of transactions will incur a charge and on whom;
 - The procedure for setting the rates and bands for the tax;
 - How the tax will be calculated and what reliefs may apply;
 - The provision for making a land transaction return and for payment of the tax;
 - The specific provisions applicable to a variety of persons and bodies in respect of the tax;
 - Duties on taxpayers to make payment and pay penalties and interest in certain circumstances; and

² 'Wales Bill: financial empowerment and accountability' Cm 8838, para 16. Available at: <https://www.gov.uk/government/publications/wales-bill>

- Specific measures to tackle devolved tax avoidance.
5. The Welsh Revenue Authority (WRA) will undertake all the tax collection and management functions for LTT; HMRC will provide expertise and knowledge through staff secondments to develop and enhance the WRA's compliance expertise.

LTT additional dwellings surcharge

6. In the Autumn Statement 2015, the UK Government announced the introduction of higher rates of SDLT on purchases of additional residential properties, such as buy-to-let properties and second homes. Following a short consultation, the SDLT higher rates came into force from 1 April 2016. The Scottish Government passed legislation to implement a similar higher rate from 1 April 2016 – the additional dwelling supplement – for its land and buildings transaction tax.
7. In July 2016, the Welsh Government published a Welsh Treasury paper and online survey to seek views about the application and operation of the SDLT higher rates, and whether higher rates should be developed for LTT.
8. Informed by the responses to the Treasury Paper, the Cabinet Secretary announced the Welsh Government will make provision for the LTT surcharge on purchases of additional residential dwellings in the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill during stage 2 of the legislative process. The Welsh Government is continuing to assess the responses together with emerging evidence about the impact of the new SDLT higher rate in Wales.

Setting rates and bands for LTT

9. In September, the Welsh Government published a research paper about setting rates and bands for LTT, which explained the wider context in which they will be set. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill provides for Welsh Ministers to specify the rates and bands in regulations, which will enable an announcement to be made closer to when the legislation comes into force. The property market and SDLT can change rapidly, potentially making rates which are announced too early unsuitable. The Welsh Government will be able to draw on the latest economic data and forecasts when determining the initial rates and bands.

Stakeholder engagement

10. Stakeholders' contributions have been vital to the development of LTT legislation, and engagement will continue during the passage of the Bill. The Welsh Government has worked with the Law Society and the Council for Licenced Conveyancers to involve solicitors and conveyancers throughout Wales and in England. The Welsh Government has used solicitor and tax professional networks; published articles in the professional news and met with groups, including the National Associations for Landlords and Estate Agents and the Royal Institute of Chartered Surveyors. The Tax Forum, Tax Advisory Group³ and LTT Technical Expert Group have also provided strong support.

³ Information about the Tax Advisory Group and Tax Forum is at appendix 1.

11. The Welsh Government is discussing data collection and sharing arrangements with HMRC, the Land Registry, the Valuation Office Agency and local authorities.
-

Landfill disposals tax

Section 18 of the Wales Act 2014 amends GOWA 2006 to enable the National Assembly for Wales to legislate for a Welsh tax on disposals to landfill. Section 19 amends Part 3 of the Finance Act 1996 to dis-apply UK landfill tax in relation to Wales.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies that landfill tax would be 'switched off' from April 2018.

12. On 28 November 2016, the Cabinet Secretary for Finance and Local Government introduced the Landfill Disposals Tax (Wales) Bill to the National Assembly for Wales. This will make provision for a tax on disposals to landfill in Wales and replace Landfill Tax from 1 April 2018. The Bill is the third to establish devolved tax arrangements in Wales.
13. This legislation is linked to the Tax Collection and Management (Wales) Act 2016⁴ (TCMA), which sets out the arrangements for the collection and management of devolved taxes, including the establishment of the WRA. The Bill will build on the administrative framework established through the TCMA by setting out the operational arrangements for landfill disposals tax (LDT) in Wales. This will ensure that a tax on disposals of waste to landfill will continue to be managed and collected in Wales once Landfill Tax is devolved to Wales in April 2018. The introduction of LDT will protect tax revenues for continued investment in public services in Wales. The LDT legislation will also continue to encourage greater prevention, re-use, recycling and recovery of waste.
14. The Welsh Government, in line with views from stakeholders, will be broadly consistent with the existing landfill tax in terms of processes and approach to tax rates. However, the Bill seeks to update the legislation to reflect current practices and to provide clarity and certainty for taxpayer and the WRA. The Bill seeks to provide stability and reassurance to businesses and minimise the risk of waste tourism.
15. The Bill will enable the WRA to charge tax on unauthorised disposals of waste, thereby tackling this known form of tax evasion.

Stakeholder engagement

16. The Welsh Government has consulted widely on both the collection and management arrangements⁵ and on the detail of this Bill; we have engaged extensively with stakeholders throughout the development of LDT policy and legislation.
17. Throughout policy development, engagement with multiple stakeholders has taken place through the Welsh Government's Tax Advisory Group, Tax Forum⁶, Landfill Disposals Tax Technical Experts Group and with the landfill site operators'

⁴ Tax Collection and Management (Wales) Act 2016:

<http://www.senedd.assembly.wales/mglIssueHistoryHome.aspx?IId=12989>

⁵ *Collection and Management of Devolved Taxes in Wales* - summary or responses (February 2015):

<https://consultations.gov.wales/consultations/collection-and-management-devolved-taxes-wales>

⁶ Information about the Tax Advisory Group and Tax Forum is at appendix 1.

stakeholder group. The latter two of these groups provide understanding and advice about the practical application of Landfill Tax.

18. The consultation responses and engagement events were particularly helpful in highlighting areas where it will be important to maintain consistency with arrangements in the rest of the UK and where there are opportunities for clarifying and updating the existing legislation and making changes to better reflect Welsh circumstances and needs.
19. The Welsh Government has tested the practical implications of the proposed tax through detailed discussions with stakeholders, including landfill site operators, financial experts, environmental services and Natural Resources Wales (NRW). The Bill, as introduced, reflects the responses and feedback from stakeholders.

Landfill Disposals Tax – Communities scheme

20. In July 2016, the Cabinet Secretary for Finance and Local Government confirmed his intention to establish a Landfill Disposals Tax Communities Scheme to support environmental and community projects in areas affected by the disposal of waste to landfill. The projects will focus on bio-diversity, waste minimisation and wider environmental enhancements and will be aligned to the goals set out in the Well-being of Future Generations (Wales) Act 2015 and the Welsh Government's *Taking Wales Forward* programme for government which seeks to build a sustainable Wales.
 21. To maximise the amount of funding reaching communities, the scheme will be delivered as a grant with some of the LDT revenue allocated to a third party (the distributive body) to distribute the money directly to projects. On 29 November 2016 the Cabinet Secretary announced a procurement exercise would take place in 2017 to appoint the distributive body.
 22. Extensive work has been carried out with stakeholders to help shape the development of the scheme. A workshop was held in December 2015 to establish the underpinning principles. A further workshop was held in March 2016 to look in more detail at the principles and administration of the scheme; its geographical focus and the types of projects that should be supported. A number of meetings have been held with landfill site operators in March and September 2016 and with the LDT Technical Experts Group in March and November 2016.
 23. An update paper will be published shortly, outlining how the scheme will operate, including its administration, the type of projects that will receive funding and the geographical focus of the scheme.
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Welsh Revenue Authority

24. The Tax Collection and Management (Wales) Act 2016 (TCMA) received Royal Assent in April. The Act puts in place the foundations for Wales' new tax regime, including the establishment of the Welsh Revenue Authority (WRA) as a non-Ministerial department legally responsible for the collection and management of devolved taxes.
25. The TCMA provides WRA with the power to delegate any of its functions to any body that has been prescribed in regulations made by the Welsh Ministers. In July 2016, the Cabinet Secretary for Finance and Local Government announced the WRA would collect and manage land transaction tax. It would also undertake most of the collection and management functions for landfill disposals tax, working in partnership with Natural Resources Wales (NRW) on compliance and enforcement.

Resources and location

26. Dyfed Alsop, previously chief strategy officer of the Valuation Office Agency (VOA), was appointed the WRA's implementation director in August 2016. The WRA will be a highly-skilled, small but flexible organisation which can attract and retain a variety of professionals and will carry out a wide range of functions, including the processing of tax returns, tax compliance, analysis of data and developing digital capability. The skills requirements will be kept under review as the development work programme progresses. It will be essential the WRA attracts people with the necessary skills and experience – the WRA's ability to attract and retain a skilled workforce will be the most critical factor in determining its success.
27. The candidate information pack for the appointment of the WRA chair and non-executive board members was published on 29 November 2016. The Welsh Government has worked with leaders from the private, public and third sectors to seek their views about the appointment process for the WRA chair and to ensure a wide and diverse field of candidates.

Stakeholder engagement

28. Stakeholder engagement has focused on tax professionals and umbrella bodies – the Tax Advisory Group, Tax Forum⁷, and technical expert groups. Customer networks are being developed with those agents – such as solicitors, conveyancers, and taxpayers (landfill operators) – who will transact with the WRA when paying land transaction tax (LTT) and landfill disposals tax (LDT).
29. The WRA programme team has consulted and worked with taxpayers and agents to develop the processes in relation to the collection and management of LTT and LDT.
30. The Welsh Government and HMRC have started to scope the work to enable a smooth transition for those who will pay LTT and LDT in April 2018. Good progress has been made with Natural Resources Wales (NRW) on its compliance and enforcement function for LDT – a dedicated project manager in NRW is being funded by the Welsh Government.

⁷ Information about the Tax Advisory Group and Tax Forum is at appendix 1.

31. The WRA implementation programme is working closely with the Land Registry, the Valuation Office Agency, and the Ministry of Justice on a wide range of issues from data sharing to the treatment of cross-border properties for LTT and the operation of tax tribunals. A tax liaison group has been established with Welsh local authorities to learn from their experience in collecting local taxes; to share best practice in tax collection and to explore opportunities of future collaborative working.

WRA costs

32. Work has begun to test the market for the delivery of a digital service required by the WRA for April 2018 and detailed work on WRA organisational structures will inform resource requirements for 2017-18.
 33. The estimated range of expenditure published last year – in a letter from the Minister for Finance and Government Business to the Finance Committee in November 2015 – remains the best estimates of costs. This set out implementation costs estimates of £4.8m to £6.3m between 2016-17 and 2018-19 and annual running costs of £2.8m to £4m.
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Borrowing

Section 20 of the Wales Act 2014 amends GOWA 2006 to enable the Welsh Ministers to borrow up to £500m to manage cash-flow (to smooth fluctuations in tax receipts and address temporary mismatches between tax and spending) and, subject to the approval of HM Treasury, up to a total of £500m to meet capital expenditure. The new borrowing powers will come into force by way of Commencement Order made by the Treasury alongside the devolution of stamp duty land tax and landfill tax (planned for April 2018).

Section 21 of the Wales Act 2014 once commenced will repeal the (more limited) borrowing powers in Schedule 3 to the Welsh Development Agency Act 1975, which have been conferred on the Welsh Ministers.

The Command Paper issued by the UK Government alongside the Wales Bill (March 2014) additionally specifies:

Capital Borrowing

- Within the £500m limit for capital borrowing, the Welsh Government may borrow up to £125m per annum;
- Sources of capital borrowing are limited to the National Loans Fund (via the UK Government) or commercial banks;
- Until the new capital borrowing powers come into effect (planned for April 2018), the Welsh Government may borrow under Schedule 3 to the Welsh Development Agency Act 1975 for the purposes of funding improvements to the M4 in south-east Wales;
- The UK Government will review the Welsh Government's capital borrowing ceiling at each Spending Review, in the light of economic and fiscal circumstances, and the level of devolved taxation.

Revenue Borrowing

- Within the £500m limit for revenue borrowing, the Welsh Government may borrow up to £200m per annum;
- A new cash reserve will assist the Welsh Government in managing volatility by providing a mechanism for saving 'surplus revenues' (for example, tax receipts which come in above forecasts) – the first call on a surplus will be the repayment of any outstanding current borrowing, after which any remainder could be paid into a cash reserve or used to finance additional public spending on devolved matter.

34. The UK Government's St David's Day Process Command Paper (February 2015) agreed to add the option of bond financing.⁸ This will need to be enacted before the capital borrowing powers become available.

⁸ Following intergovernmental and cross-party talks (the St David's Day Process) the UK Government agreed to extend the Welsh Government's borrowing powers to include the issue of bonds in the Command Paper 'Powers for a purpose: towards a lasting devolution settlement for Wales' (Cm 9020), 27 February 2015, chapter 4, page 51:
<https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

35. As part of the adjustment made to enable the full devolution to Wales of non-domestic rates (April 2015), the UK Government added £98.5m to the Welsh Government's new cash reserve. This will be available to use to address future volatility in devolved taxes.
 36. The Welsh Government is considering options in the approach for implementation of capital borrowing powers and the mechanisms and processes required for those powers to operate effectively. This will include the approach taken to reporting on the financing of capital expenditure and levels of debt repayments and outstanding commitments.
 37. In September 2016, the Welsh and the UK governments – at the Joint Exchequer Committee (Wales) – agreed to include a review of the case for changing the capital borrowing limit as part of the fiscal framework negotiations.
-

Income tax

Sections 12-14 and Schedule 1 to the Wales Act 2014 provide for the National Assembly to vote on a resolution proposing a referendum on the partial devolution of income tax to Wales. If passed, a recommendation would be made to Her Majesty to make an Order in Council which would cause a referendum to be held in Wales.

Should a referendum be held, and should the majority of voters agree that income tax be partially devolved, Sections 8-11 set out how income tax would be devolved; define Welsh income taxpayers and provide for the National Assembly to set income tax rates in Wales (see paragraph 41).

38. Implementation of the income tax provisions in the Wales Act 2014 would contribute a further £2bn in devolved tax revenue to the Welsh budget and therefore significantly increase the scope for volatility in the budget for public services in Wales. Given the long-running concerns about the operation of the Barnett formula in Wales⁹, it is imperative that a robust, long-term solution is secured before the powers are enacted. The Commission on Devolution in Wales (the Silk Commission), which provided the basis for much of Part 2 of the Wales Act 2014, recommended the transfer of income tax powers to the Welsh Government should be conditional on resolving the issue of fair funding in a way that is agreed by both the Welsh and UK governments. This recommendation was welcomed by all parties in the National Assembly.
39. In the Spending Review and Autumn Statement 2015, the UK Government announced a funding floor for Wales to be set at 115% of spending per person in England on services devolved to Wales. However, no further details were provided about how the calculations would be made or how the floor would operate.¹⁰ The funding floor is currently being discussed at the Joint Exchequer Committee (Wales) by the Welsh and UK governments as part of the negotiations on a fiscal framework for Wales.

Removal of the referendum requirement

40. The Wales Bill currently before Parliament contains provision to remove the requirement for a referendum before the income tax provisions in the Wales Act 2014 are commenced. In theory, this would enable the UK Government to commence the income tax provisions in the Wales Act 2014 without seeking the agreement of the National Assembly.
41. This underlines the importance of the two governments reaching agreement on the fiscal framework. The First Minister has made clear this will be a precondition of supporting a Legislative Consent Motion (LCM) for the Wales Bill.

⁹ See the reports by the Independent Commission on Funding & Finance for Wales ('Holtham Commission'): <http://gov.wales/funding/fiscal-reform/framework/reports/?lang=en>

¹⁰ Spending Review and Autumn Statement 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf

New devolved taxes

Section 6 of the Wales Act 2014 amends GOWA 2006 to enable the creation of new devolved taxes by way of Her Majesty making an Order in Council. A recommendation to Her Majesty to make an Order in Council cannot be made until a draft of the statutory instrument containing the Order has been laid before and approved by each House of Parliament and the National Assembly. These could be existing UK taxes which the UK Government devolves to Wales or taxes newly created by the Welsh Government.

The Command paper issued by the UK Government alongside the Wales Bill (March 2014) provides further detail of how Welsh Government proposals for new taxes would, in the first instance, be assessed by the UK Government.

42. The Welsh Government has no plans at this time to propose a new devolved tax, however the ability to design new taxes is a useful addition to the Welsh Government's powers. In the future it could be used to help change behaviour, raise revenue to invest in public services - or both. Consideration is underway following useful contributions in this area, including the work of the Bevan Foundation.¹¹ The Welsh Government is clear that any proposal for a new tax needs to be tested thoroughly to ensure it could deliver the desired outputs without unwanted consequences, and that there were no practical obstacles.

¹¹ The Bevan Foundation's report 'Tax for good: devolved taxes for a better Wales' is available at: <https://www.bevanfoundation.org/publications/tax-good-new-taxes-better-wales/>

Block grant adjustment

43. Public services in Wales are funded mainly via the Welsh block grant. When Welsh taxes are introduced in April 2018 – land transaction tax (LTT) and landfill disposals tax (LDT) – tax revenue which is currently paid to the UK Government will instead be paid to the Welsh Government. As a result, the Welsh block grant will need to be adjusted.
44. Negotiations between the Welsh Government and the UK Government about how funding for services will change following the devolution of tax powers began in September 2016.¹² The two governments are seeking to agree a new fiscal framework which will address:
- The adjustment to the block grant;
 - The operation of the funding floor, including how it will function alongside the Barnett formula and the block grant adjustment;
 - The Welsh Government's capital borrowing ceiling;
 - Budget management arrangements.
45. The talks are being held as part of the Joint Exchequer Committee (Wales), which was established in 2014 to oversee the transfer of financial powers to the Welsh Government. The JEC(W) comprises the Cabinet Secretary for Finance and Local Government, representing the Welsh Government, and the Chief Secretary to the Treasury, representing the UK Government.
46. At the time of writing, it is anticipated the negotiations will be concluded by early 2017.
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¹².Fiscal framework negotiations:
<http://gov.wales/funding/fiscal-reform/framework/?lang=en>

Budgetary procedures

Section 22 of the Wales Act 2014 which amends GOWA 2006 provides for the Assembly to legislate for its own budgetary procedures.

47. A report on progress towards establishing new budgetary procedures for the National Assembly is not required under the Wales Act 2014, however the Welsh Government considers it appropriate to review progress.
48. Following the recommendations of the Fourth Assembly's Finance Committee inquiry into Best Practice Budget Processes, Welsh Government and Assembly Commission officials have collaborated to develop proposals for a revised budget scrutiny process. The National Assembly's Business Committee has considered the overarching principles of a revised budget scrutiny process, which will inform revisions to the National Assembly's Standing Orders. A Budget Protocol will also be developed. It is expected these will be debated and voted on in spring 2017 to be ready for scrutiny of the 2018-19 draft Budget.
49. Further improvements include the alignment of the Welsh Government's budget motion and consolidated accounts with that of HM Treasury's budget boundary. A phased approach to the implementation of alignment has been adopted, commencing with those bodies that are currently consolidated within the Welsh Government's annual resource accounts. The Government of Wales Act 2006 (Budget Motions and Designated Bodies) Order 2016 was laid on 18 November 2016, designating health boards in Wales and two of the Welsh Government's subsidiary companies.¹³
50. The next phase of alignment will consider all other Welsh Government bodies classified by the Office of National Statistics to the Central Government sector.
51. The Wales Bill currently before Parliament provides for the devolution of powers related to financial controls, accounts and audit. Subject to its successful passage, this will provide the Welsh Government and National Assembly with the scope to develop and introduce comprehensive Welsh financial framework legislation incorporating both budgetary and accountability arrangements.

Forecasting revenues

52. The UK Government has asked the Office for Budget Responsibility (OBR) to forecast Welsh receipts for the two taxes which will be devolved to Wales – stamp duty land tax (to be replaced by land transaction tax) and landfill tax (to be replaced by landfill disposals tax). The OBR produced forecasts for the first time in December 2014 and has repeated the exercise alongside the March 2015, July 2015 and March 2016 Budgets; the 2015 Spending Review and Autumn Statement and 2016 Autumn Statement.

¹³ The Government of Wales Act 2006 (Budget Motions and Designated Bodies) Order 2016: <http://www.legislation.gov.uk/wsi/2016/1096/contents/made>

53. The Welsh Government will generate its own forecasts of tax revenues for the replacement taxes – land transaction tax and landfill disposals tax – from 2018-19 onwards.
 54. The Welsh Government is considering the best approach to providing independent scrutiny of the revenue forecasts for Welsh taxes.
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Appendix 1

Engagement

Tax Advisory Group (TAG)

TAG provides strategic advice to Welsh Ministers about tax policy and administration and considers the impact new policies may have on the people of Wales. Its membership represents a broad range of perspectives and expertise to ensure that the needs of the people of Wales are represented at the highest level.

The group is chaired by the Cabinet Secretary for Finance and Local Government and meets three times a year.

Remit

- To provide advice and support in the development of tax policy and administration in Wales;
- To give advice about the wider impact of Welsh tax policy on stakeholders and the economy and social fabric of Wales;
- To help to improve communication across a range of stakeholders about tax policy and administration to better inform Welsh Government tax consultations and legislation.

Members

Emma Watkins, CBI

Ruth Marks, Wales Council for Voluntary Action

Janet Jones, Federation of Small Business

Robert Lloyd Griffiths, Institute of Directors

Dr Victoria Winckler, the Bevan Foundation

Martin Mansfield, Wales TUC

Kay Powell, The Law Society

Councillor Aaron Shotton, Welsh Local Government Association

Martin Warren, Institute of Chartered Accountants in England and Wales

David Phillips, Institute for Fiscal Studies

Andrew Evans, Geldards LLP

Frank Haskew, Institute of Chartered Accountants in England and Wales

Further information about the TAG is available at:

<http://gov.wales/funding/fiscal-reform/tax-policy-development/tax-advisory-group/?lang=en>

Tax Forum

The Tax Forum engages with relevant professions and representative organisations about tax policy and administration. It provides a two-way conversation with tax professionals about the development of tax policy and legislation in Wales. It meets at least twice a year.

From December 2016, the Tax Forum will be chaired by the WRA implementation director.

Remit

- To discuss, inform and feedback about the Welsh Government's approach to the devolution of taxes in Wales;
- To provide advice and support about communicating the development of tax policy and administration in Wales;
- To give advice about the wider impact of Welsh tax policy on stakeholders in Wales;
- To work with the Welsh Government in enabling communication across key established networks with regards to tax policy and administration.

Members

The membership is drawn from those professions and organisations on which changes in tax administration will have a direct effect. The attendees vary from meeting to meeting, and include representatives of business, the public sector and the third sector. Those who have attended meetings to date are representatives of the following:

- Association of Chartered Certified Accountants
- Association of Taxation Technicians
- Bangor Law School
- Cardiff Council
- Cardiff Law School
- Chartered Institute of Public Finance and Accountancy
- Chartered Institute of Taxation
- Conwy Council
- Country Landowners Association
- Country Land and Business Association Limited
- Cyngor Gwynedd Council
- Federation of Small Businesses
- HM Revenue and Customs
- Institute of Chartered Accountants of England and Wales
- Land Registry
- The Law Society of England and Wales
- Office of Tax Simplification
- Royal Institute of Chartered Surveyors Wales
- Valuation Office Agency
- Wales Audit Office
- Wales Social Partners Unit
- Wildlife Trust Wales
- Woodland Trust
- Welsh Local Government Association
- Wales Council for Voluntary Action

Further information about the Tax Forum is available at:

<http://gov.wales/funding/fiscal-reform/tax-policy-development/tax-forum/?lang=en>

Stakeholder events

The Cabinet Secretary for Finance and Local Government and his predecessor, the Minister for Finance and Government Business, have attended a wide range of meetings, seminars and other events across Wales, raising awareness of the new fiscal powers and encouraging engagement in the policy development process. These include a Welsh Tax

Conversation in February 2016; a keynote address at the Chartered Institute of Waste Management on landfill disposals tax and the Welsh Revenue Authority (WRA) and a speech at an event organised in October 2016 by the Law Society and the Chartered Institute of Taxation on the WRA and land transaction tax.

Other ways to keep in touch

Social media

Tax devolution in Wales is promoted on social media through a Welsh Treasury twitter account @WelshTreasury: <https://twitter.com/WelshTreasury>

Newsletter

The first bimonthly Welsh Treasury newsletter was issued in October 2016. This provides brief updates on progress and links to further information. New subscribers can sign up at: https://public.govdelivery.com/accounts/UKWALES/subscriber/new?topic_id=UKWALES_102

Treasury Papers

More detailed information about the development of devolved taxes is provided in the Treasury Papers series, including key facts and figures about the taxes being devolved: <http://gov.wales/funding/fiscal-reform/treasury-papers/?lang=en>

Appendix 2

Further information

A range of further information on tax devolution to Wales is available on the internet.

Background

Independent Commission on Funding and Finance for Wales (Holtham Commission)

The commission was established by the Welsh Government to consider the funding mechanism for Wales and how it could be improved, including the case for devolution of tax and borrowing powers. It issued two reports with recommendations (2009 and 2010) – these and other materials published by the commission are available at:

<http://gov.wales/funding/fiscal-reform/framework/reports/?lang=en>

Commission on Devolution in Wales (Silk Commission)

The UK Government's commission tasked with considering the financial and constitutional arrangements for Wales. Its first report (2012) looked at the case for devolving tax and borrowing powers and related institutional changes:

<http://webarchive.nationalarchives.gov.uk/20140605075122/http://commissionondevolutioninwales.independent.gov.uk/>

Welsh Government and the National Assembly

Consultations

The collection and management of devolved taxes, including a summary of responses:
<http://gov.wales/betaconsultations/finance/devolved-taxes/?lang=en>

Land transaction tax, including a summary of responses:

<http://gov.wales/betaconsultations/finance/land-transaction-tax/?lang=en>

Landfill disposals tax, including a summary of responses:

<http://gov.wales/betaconsultations/finance/landfill-disposals-tax/?lang=en>

Discussion paper

Setting rates and bands:

<http://gov.wales/funding/fiscal-reform/welsh-taxes/land-transaction-tax/?lang=en>

Tax Collection and Management (Wales) Act 2016

This Act puts in place the legal framework for the collection and management of devolved taxes in Wales, including establishing the Welsh Revenue Authority (WRA):

http://www.legislation.gov.uk/anaw/2016/6/pdfs/anaw_20160006_en.pdf

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

Introduced 12 September 2016 and currently before the National Assembly, this Bill includes provision for introducing a land transaction tax from April 2018 and measures to tackle the avoidance of devolved taxes:

<http://www.senedd.assembly.wales/mglIssueHistoryHome.aspx?lId=15873>

Landfill Disposals Tax (Wales) Bill

Introduced 28 November 2016, this Bill includes provision for introducing a landfill disposals tax from April 2018:

<http://www.senedd.assembly.wales/mglIssueHistoryHome.aspx?Ild=15874>

Fiscal framework

The framework will set out the adjustments to the Welsh block grant, the operation of the funding floor and how it will function alongside the Barnett formula, the Welsh Government's capital borrowing ceiling and budget management issues.

<http://gov.wales/funding/fiscal-reform/framework/?lang=en>

UK Government and Parliament

Wales Act 2014

UK legislation paving the way for devolution of tax and borrowing powers:

<http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

Wales Bill 2014 Command Paper

Some aspects of the arrangements for devolving tax and borrowing powers (such as target dates, early access to borrowing and the approach to creating new devolved taxes) were set out in the UK Government Command Paper Wales Bill: financial empowerment and accountability, published in March 2014:

<https://www.gov.uk/government/publications/wales-bill>

St. David's Day Command Paper

Issued in February 2015, *Powers for a purpose: towards a lasting devolution settlement for Wales* committed the UK Government to, among other things, introduce a floor in the level of relative funding it provides to the Welsh Government; to consider the case and options for devolving further powers to the Assembly over air passenger duty and enable the Welsh Government to issue bonds (pages 50-51):

<https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

Spending Review and Autumn Statement 2015

This includes the commitment to introduce a funding floor for Wales at 115% of comparable spending per head in England (page 57):

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf

Wales Bill 2016

The Wales Bill covers a wide range of provisions, including the repeal of the requirement in the Wales Act 2014 for a referendum to be held before Welsh Rates of Income Tax could be introduced. Information about the passage of the Bill is available on the Parliament website:

<http://services.parliament.uk/bills/2016-17/wales.html>

Annex 3

Acronyms used in this report

GOWA 2006	Government of Wales Act 2006
HMRC	Her Majesty's Revenue and Customs
JEC(W)	Joint Exchequer Committee (Wales)
LCM	Legislative Consent Motion
LDT	landfill disposals tax
LTT	land transaction tax
NRW	Natural Resources Wales
OBR	Office for Budget Responsibility
SDLT	stamp duty land tax
TAG	Tax Advisory Group
TCMA	Tax Collection and Management (Wales) Act 2016
VOA	Valuation Office Agency
WRA	Welsh Revenue Authority

Implementation of the financial provisions in the Wales Act 2014

1. The latest annual report on the implementation and operation of the financial provisions in the Wales Act 2014 was laid before the National Assembly on 14 December.¹
2. Since then, there have been a number of important developments, including agreement of the fiscal framework between the Welsh and UK governments; progress of the two tax bills through the National Assembly and the continuing work to establish the Welsh Revenue Authority.
3. I am grateful to the Finance Committee for its productive scrutiny of all these issues during what has been a busy start to 2017.
4. This note provides a brief summary of the main developments since the publication of the Wales Act 2014 report.

Fiscal framework

5. The fiscal framework for the Welsh Government, which was agreed with the UK Government and published 19 December, secures the long-term fair funding for devolved public services in Wales. It addresses unfairness in the current funding arrangements and protects Wales from undue risks following the devolution of tax powers while also paving the way for the introduction of Welsh rates of income tax in 2019.

The main features of the fiscal framework are:

- Reform of the Barnett formula as applied to Wales, including a long-term floor at 115% of comparable spend in England and an interim floor at 105% while spending per head in Wales remains above 115%.
- A method for adjusting the block grant for income tax, which ensures the characteristics of the tax base in Wales are appropriately reflected and protects the Welsh budget from the impact of some significant UK policy changes.
- Doubling the Welsh Government's capital borrowing limit to £1bn.
- A new single Wales reserve, which provides additional flexibility to manage resources across years and to deal effectively with any volatility from Welsh tax revenues.
- Independent oversight of the operation of the fiscal framework, including any disagreements between the Welsh and UK Governments.

Tax legislation

6. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill recently passed Stage 2 proceedings. All government amendments to the Bill were supported, including the higher rates surcharge for purchases of additional residential properties. Stage 3 proceedings will be held at the end of March.

¹ The annual report is available at: <http://gov.wales/docs/caecd/publications/161214-2nd-report-en.pdf>

7. The Landfill Disposals Tax (Wales) Bill was introduced on 28 November. The Stage 1 committee reports will be published in early March and the General Principles debate will take place on 21 March.

Income tax

8. Following Royal Assent of the Wales Act 2017, which removed the need for a referendum before Welsh rates of income tax could be introduced, I have had initial discussions with the Chief Secretary to the Treasury about the introduction of Welsh rates of income tax. My officials are now beginning talks with the Treasury and with HMRC about the introduction of Welsh rates of income tax from April 2019.

Welsh Revenue Authority (WRA)

9. On 3 February, I announced the headquarters of the Welsh Revenue Authority would be Treforest. WRA will also have a presence in Aberystwyth and Llandudno, and will work directly with taxpayers throughout Wales. The location of the headquarters will be reviewed 18 months after the WRA is fully established and operational.
10. I welcomed the Finance Committee's pre-appointment hearing with Kathryn Bishop, the preferred candidate for the post of WRA chair and its subsequent report. I am considering the report and will make an announcement about the appointment shortly.
11. The closing date for applications for non-executive members of the WRA board has now passed. We received a good response to the advert. Once the chair has been appointed, the board appointments will proceed to the next stage.

Capital borrowing

12. The powers available under the Welsh Development Agency (WDA) Act 1975 have been repealed and the new capital borrowing powers under the Wales Act 2014 have been enacted. As a result, the Welsh Government is able to borrow funds for capital purposes with immediate effect. During the early access period – before land transaction tax and landfill tax are introduced in April 2018 – these powers can only be used to support a total of £40m of investment in the new M4.

New devolved taxes

13. Consideration of the case for developing new taxes, including proposals in the Bevan Foundation report, will continue this year.

Budgetary procedures

14. The Welsh Government and National Assembly continue to collaborate on proposals to revise the budget scrutiny process for the 2018-19 draft Budget. The National Assembly's Business Committee has agreed the approach to revising Standing Orders, which is progressing alongside the development of the Budget Protocol. The Business Committee will consult with the Finance Committee about the proposals in due course.

Independent scrutiny of forecasts

15. In 2017-18 the forecasting of Welsh tax revenue will be undertaken by the Welsh Treasury and its work will be scrutinised and assured by an independent organisation. It will also advise about the methodology employed to help shape future forecasting activity. Following a competitive procurement exercise, a team from the Business School at Bangor University has been appointed to undertake this work.
16. Over the coming months I will consider the options for forecasting arrangements in future years.

Mark Drakeford
Cabinet Secretary for Finance and Local Government
9 March 2017

Document is Restricted

Agenda Item 7

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted