

## **The Block Grant Adjustment process**

1. Following the devolution of tax powers to Wales, the Welsh Government's block grant is reduced to reflect the fact that revenues from devolved and partially devolved taxes now go directly to the Welsh Government rather than the UK Exchequer.
2. As agreed in the fiscal framework, the adjustments for land transaction tax and landfill disposals tax involve two elements –
  - a. A baseline for the adjustment – reflecting tax collected under the predecessor UK tax in Wales in 2017-18, the year prior to devolution.
  - b. Annual block grant adjustments – from the initial baseline the adjustment is increased or decreased reflecting growth in the equivalent UK Government tax in England and Northern Ireland.
3. The adjustments for 2018-19 and 2019-20 were first set using the Office for Budget Responsibility's autumn 2017 forecasts for stamp duty land tax and landfill tax in England and Northern Ireland. They will now be updated to take account of the OBR's autumn 2018 forecasts.
4. The impact of the revised OBR forecasts on the block grant adjustments will be reflected in the final Budget in December. The UK Government is also planning to publish details of the revised adjustments later in the year.
5. The Welsh Government is carrying out analytical work to establish how forestalling behaviour affected stamp duty land tax and land transaction tax revenues over the transition period earlier this year. The Welsh Government and UK Government are in discussions over the extent to which the block grant adjustment should allow for this behavioural effect.
6. For 2018-19, there will be a reconciliation process once outturn information is available around 6 months after the end of the financial year. The outcome of this reconciliation will be applied in the following financial year (2020-21).
7. The 2019-20 adjustments will be further revised in line with the OBR's forecast next autumn.
8. For income tax, the block grant adjustment for 2019-20 will be set at the level of the expected revenue from the Welsh rates and will be revised to reflect the outturn when that is available. There will therefore be no net budgetary impact in 2019-20.
9. In future years, the block grant adjustment for income tax will vary according to growth in revenues from 10p of each tax band in England and Northern Ireland. The adjustment will be set using the OBR's forecast in the autumn prior to each financial year and will be calculated separately for each band.
10. Outturn data will be available around 15 months after the end of the financial year and the outcome of the reconciliation will be applied in the following financial year.