

**THE UK GOVERNMENT'S FOURTH ANNUAL REPORT
ON THE IMPLEMENTATION AND OPERATION OF
PART 2 (FINANCE) OF THE WALES ACT 2014**

Fourth Annual Report on the Implementation and Operation of Part 2 (Finance) of the Wales Act 2014

Presented to Parliament pursuant to Section 23(1)(b) of
the Wales Act 2014

Presented to the National Assembly for Wales pursuant to
Section 23(1)(c) of the Wales Act 2014

December 2018



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FOREWORD

This report sets out the progress in implementing the devolution of tax and borrowing powers under Part 2 of the Wales Act 2014.

The Wales Act 2014 provides significant new powers for the National Assembly for Wales and Welsh Government that deliver true accountability into devolved governance in Wales. Four years on from its enactment we have seen considerable progress and continue to work with the Welsh Government towards its full implementation.

Following the devolution of powers in the Wales Act 2014, this year has seen the transition from Stamp Duty Land Tax and Landfill Tax, to Land Transaction Tax and Landfill Disposals Tax in Wales from 1 April. The positive collaboration between the UK Government and the Welsh Government has ensured a smooth transition to devolved taxes. This work will continue as we prepare for the introduction of Welsh Rates of Income Tax from April next year. The implementation of these new devolved taxes has placed greater accountability at the heart of the Welsh devolution settlement and ensured that the Welsh Government has more responsibility for how money is raised and spent in Wales.

Building on the agreement between the two Governments which provides for a fiscal framework for Wales, the Welsh Government's capital borrowing limit was doubled in the Wales Act 2017 to £1bn from 2018-19 onwards. Furthermore, as the Chancellor of the Exchequer announced at Autumn Budget 2018 the Government will undertake a review of the Welsh Government's capital borrowing powers at the Spending Review to consider whether the borrowing cap should be increased by up to £300 million to support the development of a new M4 relief road.

These new taxes and borrowing powers form a key part of the new devolution settlement in Wales and provide the Welsh Government with more levers to support economic growth in Wales.

RT HON ALUN CAIRNS MP
SECRETARY OF STATE FOR WALES

CHAPTER 1

INTRODUCTION

Scope and Content of this Report

1. This is the fourth report on the implementation of Part 2 of the Wales Act 2014 since the Act gained Royal Assent on 17 December 2014.
2. Part 2 of the Wales Act 2014 deals exclusively with the devolution of financial powers. These include:
 - the creation of new Welsh Rates of Income Tax;
 - the disapplication of UK Stamp Duty Land Tax in Wales and provision for the introduction of a new Welsh tax on land transactions;
 - the disapplication of UK Landfill Tax in Wales and provision for the introduction of a new Welsh tax on disposals to landfill;
 - provision for borrowing by Welsh Ministers; and
 - the power to create new devolved taxes.
3. The financial provisions are being implemented over a number of years. The timetables for the devolution Stamp Duty Land Tax and Landfill Tax were set out in the Command Paper¹ which accompanied the publication of the Wales Bill in March 2014.
4. In order that both Parliament and the National Assembly for Wales (the “Assembly”) are fully informed through this process, section 23 of the Wales Act 2014 requires the Secretary of State for Wales and Welsh Ministers to report annually on the implementation of this part of the Act. In order that both Parliament and the Assembly are informed of the views of both administrations:
 - the Secretary of State for Wales is required to report to Parliament and provide a copy of the report to Welsh Ministers;
 - Welsh Ministers are required to lay the report before the Assembly, and to report themselves to the Assembly and provide a copy to the Secretary of State; and
 - the Secretary of State is required to lay the Welsh Ministers’ report before both Houses of Parliament.

Both Governments will continue to report until the first anniversary of the day on which the last provisions of Part 2 come into force.

5. Section 23(7) of the Wales Act 2014 requires the annual reports to contain:

¹ Cm 8838 *Wales Bill: Financial Empowerment and Accountability*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf

(a) a statement of the steps which 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 the commencement of the provisions of this Part,

(b) a statement of the steps which the maker of the report proposes should be taken, whether by the maker of the report or by others, towards the commencement of the provisions of this Part,

(c) an assessment of the operation of the provisions of this Part which have been commenced,

(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) the effect of this Part on the amount of any payments made by the Secretary of State under section 118 of Government of Wales Act 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.

6. Annex A provides a detailed list of the paragraphs in this report which address each of these requirements. However, the reports are not limited to these requirements, and may also contain any other matters that each Government believes to be relevant or useful to both Parliament and the Assembly.

CHAPTER 2

WELSH RATES OF INCOME TAX

7. The Wales Act 2014 established that, subject to the outcome of a referendum in Wales on the introduction of Welsh Rates of Income Tax, the main UK rates of income tax applied to non-savings/non-dividend income would be reduced by 10p for Welsh taxpayers, and the Assembly would be able to set, annually, new Welsh Rates of Income Tax (WRIT), which would be added to the reduced UK rates. The rest of the income tax structure remains a non-devolved matter, and continues to be determined by the UK Parliament.
8. The Wales Act 2017, which received Royal Assent on 31 January 2017, removed the requirement to hold a referendum, paving the way for the introduction of WRIT in April 2019.
9. HMRC will administer WRIT as part of the UK's income tax system. HMRC has experience of introducing a similar system when it implemented the Scottish Rate of Income Tax in 2016 and further Scottish income tax powers in 2017. The approach used for Scottish income tax forms the basis of HMRC's approach to implementing WRIT but with modifications to take account of the specific situation of Wales.
10. HMRC is committed to working collaboratively and constructively with the Welsh Government and other stakeholders throughout its implementation and future administration of WRIT. The Welsh Government pays for the costs of implementation.

Steps taken towards implementation

Project governance

11. HMRC has put in place governance arrangements to ensure the effective oversight and accountability of its implementation of WRIT. The Welsh Government is represented at every level of governance, ensuring it is fully sighted on the implementation process and its associated costs, and is involved in relevant decisions. The governance arrangements include:
 - The appointment of an Additional Accounting Officer in HMRC for WRIT who is accountable for the implementation and collection of WRIT²;
 - a Programme Board of senior officials to provide oversight of all HMRC's Welsh tax devolution work;
 - a Project Board to manage the implementation of WRIT; and

² Full details of the responsibilities of Accounting Officers are shown at Chapter 3 of the HM Treasury document, Managing Public Money: <https://www.gov.uk/government/publications/managing-public-money>

- specific risk and communication sub groups to manage those elements of the project.
12. Working collaboratively with the Welsh Government underpins HMRC's approach to delivering WRIT. To facilitate this, HMRC and the Welsh Government signed a Memorandum of Understanding (MoU) in November 2017 setting out their respective responsibilities in relation to establishing and operating WRIT efficiently and effectively.

Communications

13. The Communications Sub-Group includes representatives from the Welsh Government and the Office of the Secretary of State for Wales and has agreed a communications strategy that sets out a wide range of activities targeting key audiences. HMRC and the Welsh Government are working closely together to align their communications activity to ensure messages are consistent and complementary.
14. In November 2018 HMRC sent letters to over 2 million HMRC customers resident in Wales. The letter provided information to those customers about the new Welsh Rates of Income Tax and what actions they must take, if any. Enclosed with the letter was a flyer from the Welsh Government on how the Welsh income tax will directly fund services in Wales. Welsh language provision is a key consideration for communications on WRIT and both the letter and flyer are bi-lingual.
15. Alongside this, HMRC has:
- issued messages about WRIT to employers, tax agents and pension scheme administrators through its regular Employer Bulletin, Agent Update and Pensions Newsletter;
 - published information in September 2018 about WRIT on GOV.UK, including extensive guidance on how to determine if you are a Welsh taxpayer and a WRIT landing page in October 2018;
 - held face to face briefings with key industry sectors such as software developers and employer and payroll groups;
 - carried out social media activity, issued a media briefing and briefings aimed specifically at Welsh Parliamentarians³; and
 - published a consultation on draft legislation needed to ensure the new Welsh rates interact as intended with other areas of the income tax system.

³ Defined by the Wales Act 2014 as Assembly Members and Members of Parliament for constituencies in Wales.

16. This will be supplemented by further social media activity and briefings for specific sectors, such as employers, agents, professional bodies and voluntary organisations.

Welsh taxpayer identification

17. Correctly identifying Welsh taxpayers is of central importance to the effective and accurate operation of WRIT. HMRC agreed a Welsh Taxpayer Identification Strategy with the Welsh Government in March 2018 that sets out all the steps to be taken to identify the Welsh taxpaying population. HMRC is on track to identify all Welsh taxpayers on its systems in time for the introduction of WRIT in April.

18. HMRC has developed a four stage process to **identify** and **inform** Welsh taxpayers of their Welsh taxpayer status, **initiate** the new Welsh tax code and **maintain** the accuracy of Welsh taxpayer population into the future:

- Identify: Identification of Welsh taxpayers is done using postcodes. HMRC has obtained a full and up to date list of about 138,000 Welsh postcodes from the Ordnance Survey, which it has used to extract records with a Welsh address from its systems;
- Inform: HMRC sent letters in November 2018 to over 2 million HMRC customers who it identified as being resident in Wales. This includes people who earned below the threshold to pay tax;
- Initiate: HMRC will issue Welsh taxpayers in employment with a new PAYE tax code prefixed by the letter “C”. These tax codes will be generated during HMRC’s annual coding exercise, which starts in December 2018, and will come into operation on 6 April 2019;
- Maintain: The Welsh taxpayer population will not be static. People move to and from Wales and people become or cease to be taxpayers for a variety of reasons. A number of steps will need to be taken to ensure the ongoing accuracy of the Welsh taxpayer population. HMRC will agree and set out its ongoing assurance strategy in discussion with Welsh Government.

IT

19. HMRC has developed an IT solution that will implement the changes required to administer WRIT. An IT delivery plan is in place with three main phases of delivery, the first completed in November 2018. This delivery amends IT systems and processes to identify Welsh taxpayers, allocate “C” tax codes and administer Welsh Rates of Income Tax, as agreed by the Assembly.

Costs

20. HMRC estimates the overall cost of implementing WRIT will be between £7.5 and £9.5 million. This current estimate represents a refinement of the initial estimate of £5-£10 million which was based on experience of implementing the Scottish Rate of Income Tax.
21. HMRC is confident that WRIT will be delivered within that range. As the final elements of the costs are clarified and further refined HMRC will keep the Welsh Government fully sighted.
22. Up to 14 December 2018, HMRC has invoiced the Welsh Government for £525,770 to implement WRIT.

Welfare

23. The Department for Work and Pensions (DWP) has completed the actions needed to ensure DWP-administered taxable benefits and associated IT systems recognise and interact with WRIT from the tax year commencing April 2019.
24. DWP and the Welsh Government have also reached agreement on the reimbursement of essential DWP costs. The arrangements covering this agreement were published on GOV.UK and (bilingually) on the Welsh Government website in November 2018.

Steps to be taken towards implementation in 2019

25. A significant amount of the activity needed to implement WRIT took place in 2018. However, there is still further work to be completed in 2019 to ensure the efficient and smooth delivery of WRIT. In particular, the nature of Self-Assessment means that changes to certain systems will be delivered in the 2019/20 tax year.
26. The second phase of the IT delivery plan will be completed by April 2019. This will see changes to HMRC's online services being implemented, along with requirements for financial accounting.
27. HMRC will also be refining estimates for the ongoing IT running costs of WRIT and will provide an update on this in the next report.
28. Identifying Welsh taxpayers will be an ongoing challenge rather than a one-off activity. HMRC will agree and set out its ongoing assurance strategy in discussion with Welsh Government. The activity agreed for the assurance strategy will help HMRC corroborate many of its records and develop an even greater level of confidence in the accuracy of the identified population.
29. All of the implementation activity will be supported by a coherent and consistent programme of communications targeted at key audiences,

such as employers, agents, software developers and individual taxpayers designed in conjunction with the Welsh Government. HMRC will undertake a range of internal communications to inform its staff of the changes brought about by WRIT and the impacts it will have on HMRC business.

CHAPTER 3

WELSH TAXES ON LAND TRANSACTIONS AND DISPOSALS TO LANDFILL

Introduction

30. The Wales Act 2014 provides for the power to tax land transactions and disposals to landfill sites in Wales to be devolved to the Welsh Government and for Stamp Duty Land Tax (SDLT) and Landfill Tax (LT) to be dis-applied in Wales.
31. In summer 2017, the Assembly passed the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act and Landfill Disposals Tax (Wales) Act providing for the introduction of a Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT), which came into force on 1 April 2018. The UK taxes ceased to apply in Wales at that point and a corresponding adjustment was made to the Welsh block grant.
32. Land Transaction Tax and Landfill Disposals Tax are administered by the Welsh Revenue Authority ('WRA'), a new non-ministerial department of the Welsh Government established in October 2017.
33. A joint project was set up by HMRC and the Welsh Government in 2016 to manage the disapplication of both SDLT and Landfill Tax and the transition to LTT and LDT in Wales. The Joint Project Board included representatives from HMRC and the Welsh Government (since October 2017 the WRA). Board members were involved in decision making to ensure that the project provided effective solutions and value for money. HMRC was represented on the Welsh Government's Operational Policy and Delivery Project Board. This gave both HMRC and Welsh Government visibility of key decisions and allowed a collaborative and joined-up approach to project delivery.
34. HMRC and the Welsh Government worked closely together on tax design, legal issues and operational issues to ensure a smooth transition to the devolved taxes. To facilitate this, HMRC and the Welsh Government signed a Memorandum of Understanding on Land Transaction Tax and for the disclosure of information in 2016.
35. The Welsh Government pays HMRC's costs associated with ceasing to operate SDLT in Wales. Due to the relatively small numbers of Landfill Tax operators affected by the changes being implemented, and the fact that relatively few changes were required to HMRC's systems, HMRC agreed that any costs associated with the disapplication of Landfill Tax in Wales would not be passed on to the Welsh Government.
36. HMRC will transfer to the Welsh Government the savings from no longer administering these taxes in Wales. This has been agreed by both

authorities as £115,565 per annum from the devolution of SDLT and £56,908 per annum from the devolution of Landfill Tax.

Steps taken towards implementation

Project governance

37. The joint project was overseen by the Welsh Tax Devolution Programme Board and underlying Project Board, made up of representatives from both HMRC and the WRA. Under supervision of the Programme board and Project board, the taxation of land transactions and disposals to landfill sites were successfully devolved to Wales from 1 April 2018.

Communications

38. The Joint Communications Group (“JCOMM”), which was set up in 2017 to develop a collaborative approach between HMRC and the Welsh Government on communicating the tax changes, oversaw a range of communications activity in the run up to introduction of the devolved taxes in April 2018.

39. This included working with a range of external stakeholders on the development of joint guidance explaining the transitional arrangements between the taxes, updates to GOV.UK and informing key stakeholders in advance of the transition date.

IT

40. The majority of the IT work has now been completed. The two main areas of work delivered were:

- validation to ensure that HMRC’s SDLT systems no longer accept returns in respect of transactions in Wales (identified via the Local Authority code); and
- a file transfer service to ensure that essential data on Welsh land transactions can be received into HMRC’s systems for statistical, valuation and compliance purposes.

Costs

41. HMRC estimates the overall cost of transitioning to LTT in Wales will be £1.75 to £2 million. This is higher than the original estimate of £1 million discussed with the Welsh Government largely due to changes to HMRC’s IT platform and increasingly sophisticated cybersecurity systems and processes.

42. HMRC remains confident of delivering devolution of the taxation of land transactions and disposals to landfill sites within the upper limit of £2m. It estimates the work will be completed by January 2019.

43. Up to 14 December 2018, HMRC has invoiced the Welsh Government for £1,490,759 to implement the transition to LTT and LDT in Wales.

Steps to be taken towards implementation in 2019

44. The successful transition of the majority of operations relating to the devolved taxes took effect from 1 April 2018.

45. The final phase of IT delivery will be completed in January 2019. This will implement a means of transferring LTT data from the WRA to the Valuation Office Agency (VOA). As this is the final element of the project to be delivered, upon completion of the IT delivery HMRC will close the project and the WRA will take full responsibility for management of these devolved taxes.

46. HMRC will continue to work with the WRA to refine the information sharing agreement and develop the joint approach to compliance on the devolved taxes to enable continued collaboration.

CHAPTER 4

BORROWING POWERS

47. The provisions in the Wales Act 2014 enable Welsh Ministers to borrow for the following purposes from April 2018:

- The Act retains the Welsh Government's existing in-year current borrowing powers of up to £500m, whereby Welsh Ministers can borrow from the National Loans Fund (NLF) via the Secretary of State for Wales in order to provide a working balance to the Welsh Consolidated Fund (WCF) or to manage in-year volatility of receipts (where actual income differs from the forecast receipts for that month);
- The Act extends the circumstances under which the Welsh Government can access current borrowing. This enables the Welsh Government to borrow across years to deal with differences between the full year forecast and outturn receipts for devolved taxes. This across years borrowing must again be from the NLF via the Secretary of State for Wales, can be up to £200m each year (within the existing £500m overall cap) and must be repaid within 4 years;
- The Act provides for the Welsh Government to borrow up to £500m to fund capital investment. This borrowing can be from the NLF or from commercial banks. Within the overall limit, HM Treasury has agreed that the Welsh Government can borrow up to £125 million each year (from April 2018 onwards) and could access borrowing powers to proceed with improvements to the M4 (should it choose to do so). The amounts that the Welsh Government can borrow for this purpose prior to 2018-19 are subject to HM Treasury consent.

Steps towards implementation

48. The UK and Welsh Governments have agreed further detail on the Welsh Government's borrowing powers in the Welsh Government's fiscal framework⁴, which was agreed in December 2016.

49. The fiscal framework agreement sets out that:

- The Welsh Government's overall capital borrowing limit will increase from the £500m provided for in the Wales Act 2014, to £1bn from 2018-19 onwards. The Welsh Government's annual capital borrowing limit will increase to £150m from 2019-20;
- The Welsh Government can borrow for capital expenditure from the National Loans Fund, or through a commercial loan – and following implementation of the UK Government's St David's Day announcement, the Welsh Government can also issue bonds; and

⁴https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/578836/Wales_Fiscal_Framework_Agreement_Dec_2016_2.pdf

- The Welsh Government's resource borrowing powers will remain as set out in the Wales Act 2014, and the Welsh Government now have access to additional budget management tools through the creation of a new Wales Reserve from April 2018 (see 'Other Activities Towards Implementation' in chapter 7).
50. The UK government legislated in the Wales Act 2017 to increase the Welsh Government's capital borrowing limit to £1bn; the MoU is being finalised.
51. At Autumn Budget 2018, the UK government announced a review of the Welsh Government's borrowing powers to support the delivery of M4 improvements, which could increase the capital borrowing cap by up to £300m.
52. The UK Government has made an Order under section 121(4) of the Government of Wales Act 2006 to amend 121(1A) of that Act to provide that, in addition to being able to borrow by loan, Welsh Ministers can also issue bonds. These powers came into force on 1 December 2018.

CHAPTER 5

POWER TO CREATE NEW TAXES

53. With the agreement of both governments, further existing taxes can be devolved through secondary legislation and the Assembly can be granted powers to introduce new Wales-specific taxes. These powers provide the Assembly with a means of achieving policy outcomes, as well as potentially raising additional revenues. The Command Paper published alongside the Wales Bill in 2013 has further details on new tax proposals.

Steps towards implementation

54. In January 2018 UK and Welsh Government Ministers agreed a process for assessing any Welsh Government proposals for new Wales-specific taxes. The process for giving the Assembly new tax powers is governed by the Joint Exchequer Committee (JEC)⁵ and managed by the officials group which supports it (JEC(O)):

1. The Welsh Government notifies HMT Ministers of intention to seek new Assembly tax powers. This comprises official level soundings, before Ministerial discussion through JEC;
2. The Welsh Government produces a proposal for discussion at JEC(O) / JEC as appropriate: Officials identify what is required to support the proposal and agree a programme of work (including a timetable). This will include a draft Order and evidence to allow the proposals to be assessed (see step 6);
3. The agreed work is carried out;
4. The Welsh Government makes a formal request for new tax powers to the UK Government (including the draft Order and supporting evidence/data);
5. The UK Government consults publicly on the proposal to give the Assembly the proposed new tax power, in line with the UK tax policymaking process. Although there would be no need to follow the UK tax cycle, it could be convenient to announce the consultation on the devolution of powers at Budget and confirm a decision on whether to do so at the following Budget;
6. The UK Government assesses the proposal and evidence. Further information on this process is available in the Wales Bill Command Paper;
7. The proposal is revised / amended, with additional evidence produced, as necessary. This is followed by discussion at JEC (O) / JEC before formal Ministerial agreement;

⁵ The Welsh Joint Exchequer Committee (JEC) is an intergovernmental ministerial forum for Welsh Ministers and UK Government Ministers to oversee the transfer of financial powers. The JEC met for the first time on 20 October 2014.

8. The Draft Order is laid before and approved, by affirmative resolution, by each House of Parliament, and by the Assembly. An Order in Council is then made by HMRC;
9. The Welsh Government exercises its new powers according to its normal processes of policymaking, legislation and implementation.

55. The Welsh Government notified the Assembly of its intention to propose a Vacant Land Tax in February 2018 and wrote to Treasury Ministers in March 2018 to inform the UK Government of the Welsh Government's intention to formally start the Wales Act 2014 process.

CHAPTER 6

EFFECT OF NEW POWERS ON THE WELSH BLOCK GRANT

56. A fundamental principle of tax devolution is that an element of the block grant is exchanged for the ability to levy taxes. The UK and Welsh Governments agreed a fiscal framework in December 2016 to underpin the Welsh Government's new funding arrangements, including block grant adjustments for tax devolution, and their interaction with the Barnett formula and Welsh Government's funding floor.

57. The Welsh Government's fiscal framework provides for the following block grant funding arrangements:

- since April 2018, a needs-based factor has been included in the Barnett formula, to determine changes to Welsh Government block grant funding in relation to spending devolution;
- this needs-based factor is set at 115%, based on the range suggested by the Holtham Commission and the funding floor set at the UK government's Spending Review in 2015;
- while relative Welsh Government funding per head remains above 115%, a transitional factor of 105% is used;
- changes to block grant funding in relation to tax devolution are determined through the Comparable model;
- the mechanism for adjusting the block grant includes an initial baseline deduction, to reflect tax revenues forgone by the UK government at the point of devolution; and then subsequent indexation via the Comparable model, based on changes in corresponding UK government tax revenues;
- the Comparable model has been applied to Stamp Duty Land Tax, Landfill Tax, and each band of Income Tax.

58. The fiscal framework also provides for treatment of policy spillover effects, where the policy decision of one government has an impact on the tax or spending of the other. It was agreed in the framework that the UK and Welsh Governments:

- would account for all direct effects, either through a block grant adjustment or separately once identified. These are financial effects that directly and mechanically occur as a result of one government's policy decision, before any associated behavioural change;
- would only account for behavioural effects in exceptional circumstances, where the effects are material and demonstrable, and both governments agree that it is appropriate to do so. These are financial effects that result from people changing behaviour following a policy decision; and

- would not account for second round effects. These are the wider economic impacts that may result more indirectly from policy decisions.

Steps towards implementation

59. The UK government applied adjustments for tax devolution to the Welsh Government's block grant at Autumn Budget 2018, using the agreed arrangements set out in the fiscal framework. Referring to old UK Tax, should this reference the new devolved tax. Same in table.

60. This included adjustments for Landfill Tax, Stamp Duty Land Tax and Welsh Rates of Income Tax. There were further additions for the needs-based factor in the Barnett formula in relation to spending decisions from 2018-19 onwards.

61. Tax adjustments resulted in the following changes to the Welsh block grant:

£m nominal	2018-19	2019-20
Total deductions for Tax	268	2,334
<i>of which:</i>		
<i>SDLT</i>	<i>242</i>	<i>252</i>
<i>LfT</i>	<i>27</i>	<i>23</i>
<i>Total Welsh Rates of Income Tax</i>	<i>-</i>	<i>2,059</i>
<i>of which:</i>		
<i>Basic Rate of Income Tax</i>	<i>-</i>	<i>1,778</i>
<i>Higher Rate of Income Tax</i>	<i>-</i>	<i>237</i>
<i>Additional Rate of Income Tax</i>	<i>-</i>	<i>44</i>

Table 1: The Welsh Government's updated block grant adjustments, including indicative figures for 2019-20.

62. The UK and Welsh Governments agreed that if the Welsh Government set all three rates of Income Tax to match the rest of the UK, the adjustment for Welsh Rates of Income Tax will have no impact on the Welsh Government's spending power in 2019-20.

63. The application of the Barnett needs-based factor to the consequentials from the Autumn Budget 2018 will result in the following additions to the Welsh Government's block grant:

£m	2018-19	2019-20	2020-21
RDEL	2.6	20.2	-
CDEL	2.5	0.1	0.2
Financial Transactions Capital	0.0	0.0	0.4
Total additions from Barnett needs-based factor	5.1	20.3	0.6

Table 2: The Welsh Government's block grant additions resulting from the Barnett needs-based factor at Autumn Budget 2018.

CHAPTER 7

OTHER ACTIVITIES TOWARDS IMPLEMENTATION

Wales Reserve

64. The Command Paper (footnote 1) set out that the UK Government will provide the Welsh Government with the ability to pay surplus funding into a cash reserve to help manage the volatility in its budget resulting from its new tax powers.
65. The Welsh Government's fiscal framework set out further details for a new Wales Reserve, which will combine their cash reserve and access to the Budget Exchange facility.
66. The Wales Reserve became operational alongside the devolution of SDLT and Landfill Tax in April 2018. There will be no annual limit for payments into the Wales Reserve, which will be able to hold up to £350m in aggregate. The Welsh Government will have an annual drawdown limit from their Reserve of £125m for resource, and £50m for capital.
67. The total held in the Wales Reserve excludes £90 million of Financial Transitions Capital allocated at Autumn Budget 2017 for the financial year 2017-18. HM Treasury have agreed the allocation can be carried forward into 2019-20 outside the normal reserve process.

£m	November 2018
Resource	271.0
Capital excluding Financial Transactions	53.6
Financial Transactions Capital	0.9
Total Reserve	325.6

Table 3: Wales Reserve total

CHAPTER 8

OTHER REPORTING REQUIREMENTS

68. In addition to the areas covered in previous chapters (steps taken towards implementation, steps yet to be taken and effect of provisions on the block grant), section 23 of the Wales Act 2014 requires annual reports on Part 2 of the Act to include:

- an assessment of the operation of the provisions of Part 2 that have been implemented;
- 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 Part 2;
- a statement of the effect of Part 2 on the amount of any payments made by the Secretary of State under section 118 of the Government of Wales Act 2006 (payments into the Welsh Consolidated Fund); and
- 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.

69. This report is the fourth following the Act receiving Royal Assent in December 2014. It should be noted that, in accordance with section 29(2)(b) of the Act, all provisions of Part 2 came into force two months after enactment with the exception of the sections relating to the WRIT and borrowing by Welsh Ministers.

70. Section 17 of the Wales Act 2017 removed the requirement for a referendum before the implementation of WRIT. This section came into force two months after Royal Assent of the Act, on 31 March 2017. The Treasury will bring forward an Order to implement WRIT from 2019-20.

71. HM Treasury made regulations bringing into force section 20 (borrowing by the Welsh Ministers) from 1 January 2017. Section 18 of the Wales Act 2017 amended section 122A of the Government of Wales Act 2006 to double the Welsh Government's capital borrowing cap from £500 million to £1 billion. This section also came into force on 31 March 2017.

72. As set out in the fiscal framework, the annual limit on the amount of capital expenditure will also be increased. Alongside the introduction of WRIT, the annual limit will be set at 15% of the overall borrowing cap, which is equivalent to £150 million a year.

CONCLUSION

73. Section 23 of the Wales Act 2014 stipulates that the Annual Report on the implementation and operation of Part 2 of that Act should be laid on or before the anniversary of the date on which Royal Assent was received (17 December 2014).
74. This year has seen further progress towards full implementation of the Wales Act 2014. The UK government has worked closely with the Welsh Government to ensure the necessary arrangements were in place to manage the transition to devolved taxes as Stamp Duty Land Tax and Landfill Tax were replaced with Land Transaction Tax and Landfill Disposals Tax in Wales from 1 April 2018.
75. The removal of the referendum on income tax and the agreement of the appropriate block grant adjustment has enabled the devolution of Welsh Rates of Income Tax from 2019-20 and this year has seen considerable action taken by the UK and Welsh Governments to ensure the smooth and efficient introduction of WRIT from April next year.
76. The fiscal framework agreed between the UK and Welsh Governments sets out how the Welsh Government's block grant will be adjusted to take account of tax devolution. In addition, the Wales Act 2017 also made provision in relation the tax and borrowing powers of the Welsh Government.
77. The next annual report on the implementation of Part 2 of the Wales Act 2014 will be published, in accordance with Section 23(3)(b) of the Act, before 17 December 2019.

Annex A – Reporting Requirements in the Wales Act 2014 and where they are addressed in this report

1. *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,*

Chapter 2: Paragraphs 11-24
Chapter 3: Paragraphs 37-43
Chapter 4: Paragraphs 48-51
Chapter 5: Paragraphs 53 & 54
Chapter 6: Paragraphs 58-62

2. *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,*

Chapter 2: Paragraphs 25-29
Chapter 3: Paragraphs 44-46

3. *an assessment of the operation of the provisions of this Part that have been implemented,*

see Chapter 8

4. *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,*

see Chapter 8

5. *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*

see Chapter 8

6. *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.*

see Chapter 8