



Llywodraeth Cymru
Welsh Government

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Welsh Ministers' First Annual Report on the Implementation and Operation of Part 2 (Finance) of the Wales Act 2014

The first annual report by the Welsh Ministers on the implementation and operation of Part 2 (Finance) of the Wales Act 2014, laid before the National Assembly for Wales, and presented to the Secretary of State for Wales to lay before each House of Parliament, pursuant to Section 23 of the Wales Act 2014.

December 2015

Welsh Government first Annual Report on the implementation and operation of Part 2 (Finance) of the Wales Act 2014

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Foreword

This year has seen significant progress made towards the implementation of Wales' new tax and borrowing powers, which have been provided by Part 2 of the Wales Act 2014. There has been substantial engagement and consultation with businesses and other organisations, representatives of the Third Sector, tax experts and professionals, as well as with the National Assembly's Finance Committee and we have cleared an important milestone with the introduction of the first Welsh tax bill - the Tax Collection and Management (Wales) Bill.

The Wales Act 2014 (the "Act")¹, which gained Royal Assent in December 2014, sets out a range of new tax and borrowing powers for Wales, including full devolution of Stamp Duty Land Tax and Landfill Tax, borrowing to support capital investment and to manage budgetary fluctuations arising from tax devolution, powers to create new devolved taxes on a case by case basis (subject to the agreement of the National Assembly and both Houses of Parliament), partial devolution of income tax (if supported by the people of Wales in a referendum²), and the ability to legislate for the Assembly's budgetary procedures. The target date for implementing the majority of the new powers is April 2018.

Under section 23 of the Act, the Welsh Ministers and the Secretary of State for Wales are 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.³

The provisions in the Act will bring about an important change to the way that public services are funded in Wales. I see three main benefits:

- the ability to create better taxes, developed to meet Welsh needs and adaptable to our changing circumstances and priorities;
- greater flexibility and better control over the budget for Welsh public services, enabling us to invest in our critical infrastructure, while improving accountability and providing greater clarity about how our expenditure is financed;
- the ability to retain the taxes paid in Wales as our economy recovers - tackling avoidance, ensuring that those who are due to pay do pay.

As we approach the first anniversary of the Wales Act 2014, the Welsh Government is on track to implement the new provisions. A major programme of work is underway, built on the four key principles which drive the Welsh Government's approach to tax policy - our approach will:

- be fair to businesses or individuals who pay taxes;
- be simple with clear rules which seek to minimise compliance and administration costs;
- support growth and jobs, which will in turn help tackle poverty; and
- provide stability and certainty to tax payers, with changes subject to proper consultation with stakeholders.

¹ The Wales Act 2014 amends the Government of Wales Act 2006 and is available on the Gov.UK website: <http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

² In the Spending Review 2015, the Chancellor announced that the UK Government would legislate to remove the requirement for a referendum, however he did not indicate what process would replace it.

³ The Wales Act 2014 gained Royal Assent on 17 December 2014. Three of the sections in Part 2 are not required to be included in the annual reports: s.10 'Welsh taxpayers for social security or child support purposes', s.11 'Amendments to the definition of a Scottish taxpayer', and s.22 'Budgetary procedures'; however the Welsh Ministers have decided to include progress towards delivering s.22 in this report.

I am placing particular emphasis on close engagement with stakeholders - for example through public consultations on tax collection and management, Land Transaction Tax and Landfill Disposals Tax, through my Tax Advisory Group, Tax Forum and Technical Experts Groups, through events arranged for specific stakeholder groups, and through working with the Finance Committee of the National Assembly. I am also committed to providing regular updates on progress to the Assembly and, as the programme develops, increasingly to the wider public, aiming to cater for different levels of interest and expertise.

The new fiscal powers give us the opportunity to reshape taxes in Wales to better meet our needs and circumstances. However, we should not seek to introduce "change for change's sake". I am acutely aware of how closely integrated the economies of Wales and England are - and of how many people travel across the border between our countries daily - so much more so than between Scotland and England. The Welsh tax regime will not be operating in a vacuum; we should pay particular attention to potential cross border issues that could impact on our businesses, employees and the wider community.

The past year has laid a strong foundation for the work ahead. This report sets out the key developments as we progress towards implementation of the new Welsh tax and borrowing powers.

A handwritten signature in black ink that reads "Jane Hutt". The signature is written in a cursive, flowing style.

Jane Hutt AM
Minister for Finance and Government Business

Purpose of this report

The Wales Act 2014⁴ mainly comprises of provisions relating to finance (such as devolution of taxes and borrowing powers) and constitutional matters (for example Assembly elections and membership of the Assembly).

Section 23 of the Act requires separate annual progress reports to be produced by the Welsh Ministers and by the Secretary of State for Wales on the financial provisions contained in Part 2 of the Act. 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 is implemented. Specifically, the Act specifies that the reports should provide the following information:

- (a) a summary of the steps taken towards implementation of Part 2;
- (b) a summary of the steps that should be taken towards the implementation;
- (c) an assessment of the operation of the provisions of Part 2 that have been implemented;
- (d) an assessment of the operation of 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 the 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.

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

In accordance with Section 23 of the Wales Act 2014, copies of this report will be laid before the National Assembly and sent to the Secretary of State for Wales.

⁴ The Wales Act 2014 is available on the Gov.UK website:
<http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

Devolved taxes

1. This section describes the progress made towards implementing the powers to devolve fully Stamp Duty Land Tax (SDLT) and Landfill Tax (LFT) to Wales, and the further work that is planned. It refers to the steps taken towards establishing arrangements for collecting and managing the devolved taxes, including the possible future role of HMRC, the impacts on the Welsh block grant and the opportunity for new devolved taxes in the future.
2. The Command Paper issued by the UK Government alongside the Wales Bill, in March 2014, confirmed that the UK taxes being devolved to Wales would be 'switched off' from April 2018.⁵ At that point, the new Welsh replacement taxes would be introduced, with the revenue passing to the Welsh Government (instead of the UK Government, as at present), and a corresponding reduction being made to the Welsh block grant.
3. The key areas of activity leading to that stage can be summarised as:
 - designing replacement Welsh taxes;
 - establishing arrangements for collecting and managing the devolved taxes; and
 - agreeing the size of the block grant adjustment.

Designing replacement Welsh taxes

4. In November 2014, the Minister for Finance and Government Business published four key principles which would underlie the Welsh Government's approach to tax policy. The approach would:
 - be fair to businesses or individuals who pay taxes;
 - be simple with clear rules which seek to minimise compliance and administration costs;
 - support growth and jobs, which will in turn help tackle poverty; and
 - provide stability and certainty to tax payers, with changes subject to proper consultation with stakeholders.
5. Devolved tax policy and strategy will be set by Welsh Ministers, however to inform this process, the Welsh Government has established a Ministerial Tax Advisory Group (TAG), a Tax Forum and Technical Expert Groups, drawing in a wide range of expertise. Further details of the TAG and Tax Forum are provided in Annex 1.
6. In early 2015, the Minister for Finance and Government Business announced that the Welsh Government would replace Stamp Duty Land Tax with Land Transaction Tax (LTT), and replace Landfill Tax with Landfill Disposals Tax (LDT).⁶
7. The consultation on a Land Transaction Tax was published in February 2015 and ran until May 2015. The Welsh Government received 38 responses to the consultation from a range of stakeholders, including businesses, tax and law professionals, and wider stakeholders. The Welsh Government published the consultation responses

⁵ 'Wales Bill: financial empowerment and accountability' Cm 8838, para 16. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294421/Wales_Bill_Command_Paper_-_English.pdf

⁶ Ministerial Written Statements issued 15 January 2015 and 4 February 2015: <http://gov.wales/about/cabinet/cabinetstatements/2015/landtax/?lang=en>
<http://gov.wales/about/cabinet/cabinetstatements/2015/landfilldisposalstax/?lang=en>

and analysis on 15 September, alongside a Written Statement by the Minister for Finance and Government Business which noted that the key message for stakeholders was the importance of consistency with SDLT.

8. The majority of consultation respondents highlighted the positive impact of the SDLT marginal rate system, introduced by the UK Government for residential property in December 2014, which followed the decision by Scottish Government to use a marginal rate system for Land and Buildings Transaction Tax. This supported the decision that the Welsh Ministers had already made to tax residential property on a marginal basis under LTT.
9. The Minister also confirmed that the current SDLT approach to partnerships, trusts and companies, and reliefs and exemptions would be broadly retained. The consultation responses highlighted that these were well understood by the Welsh business community, and would provide the consistency that businesses desire. Furthermore, it will also assist a smooth transition for the property market, enabling individuals and businesses to plan confidently for the future.
10. It was also confirmed that the Welsh Government, further to consultation on the likely value of an overarching tax avoidance rule for the new devolved taxes, would develop a Welsh tax avoidance rule in relation to the two devolved taxes. This would provide a clear message and tool to deter and tackle any tax avoidance. This will be for the next Government to consider as they introduce the tax specific legislation after the next election.
11. The consultation on a Landfill Disposals Tax ran from February to May 2015. Nearly 300 responses were received, from the waste industry (including Landfill Site Operators), environmental bodies and the third sector as well as tax experts. The Welsh Government published the consultation responses and analysis on 15 September, alongside a Written Statement by the Minister for Finance and Government Business.
12. Consultation responses highlighted the potential impact on 'waste tourism' of material differences between the tax rates charged in Wales and England. There were a number of other areas where consistency in treatment of landfill tax would be important for Landfill Sites Operators and the wider waste industry.
13. The key area where the Welsh Government is looking to improve upon the current Landfill Tax is the intention to re-align the balance of risk so that the consequences of not complying outweigh the profit to be made from illegal waste activity. There was strong support amongst consultation respondents for extending the definition of a landfill site to include illegal deposits of waste within the scope of the tax.
14. Over half of the consultation responses were in relation to community well-being, and the Minister announced her intention to allocate a proportion of LDT revenue to community wellbeing initiatives that have an environmental focus and will include biodiversity and waste minimisation projects. This could be achieved through a LDT Community Scheme (LDT CS). The Welsh Government is exploring the development of such a scheme, both ensuring that it aligns with the goals of the Well-being of Future Generations (Wales) Act 2015, and considering options for simplifying administration, and seeking to maximise the amount of funding reaching communities.

15. It is anticipated that legislation to introduce the new taxes will be brought forward by the new Welsh Government after the Assembly elections in May 2016. Decisions on tax rates and bands will to be made closer to April 2018, when the economic position at the time can be taken into consideration.

Establishing arrangements for collecting and managing the devolved taxes

16. The Welsh Government consulted on the collection and management of devolved taxes in Wales from September to December 2014, to seek views on its proposals for administering devolved taxes. In February 2015 the Minister for Finance and Government Business issued a summary of responses to the White Paper, and on 13 July 2015 the Minister introduced the Tax Collection and Management (Wales) Bill into the National Assembly. The Bill provides for the establishment of a new non-Ministerial department, the Welsh Revenue Authority (WRA), which will be legally responsible for the collection and management of the new devolved taxes. This will be operationally separate from the Welsh Ministers to ensure that taxpayers' information is managed confidentially and appropriately. The Welsh Ministers will retain strategic oversight of the organisation to ensure that it collects Welsh devolved taxes in line with the Ministers' strategic preferences. The Bill also provides that the WRA may delegate any of its functions to any body by way of regulations made by the Welsh Ministers.
17. The Bill also provides for the corporate structure of the WRA, and its links to the National Assembly, Auditor General for Wales, and Public Services Ombudsman for Wales. It requires the WRA to produce and consult upon a Charter of standards and values for the taxpayer and tax authority.
18. The Bill confers powers and duties to enable it to collect and manage devolved taxes which are consistent with other UK tax authorities (HMRC and Revenue Scotland). These include:
 - the submission of tax returns and the duty to keep records by taxpayers;
 - the undertaking of enquiries and assessments to determine the amount of devolved tax due;
 - the levying of penalties and, in certain circumstances, to pay interest;
 - the rights of review and appeal;
 - powers of civil investigation and enforcement, allowing the WRA to require information and to access and inspect premises.
19. Scrutiny of the Bill began on 17 September 2015 and is being undertaken by the National Assembly's Finance Committee⁷. The Welsh Government is hopeful of securing Royal Assent for the Bill by April 2016.
20. The Welsh Government is keen to ensure that Welsh devolved taxpayers, businesses and professionals, and communities, are aware of the move to these new taxes, and fully engage in the development of them. The Minister for Finance and Government Business will be publishing a Treasury paper on Welsh taxes in early 2016, to begin the process of wider engagement on tax devolution, taxpayer culture

⁷ Further information is on the National Assembly's website at:
<http://senedd.assembly.wales/mglIssueHistoryHome.aspx?lId=12989>

and to support the new Welsh Revenue Authority in the development of a Taxpayers' Charter for publication prior to April 2018.

Cost of collecting and managing devolved taxes

21. The UK Government has confirmed that it is not prepared to transfer to Wales the funding that would be required to pay for the administration of Wales' new fiscal responsibilities. The additional cost of establishing and operating the collection and management arrangements for devolved taxes will therefore fall to the Welsh Government.
22. Following consultation, including consideration of an inquiry by the Finance Committee of the National Assembly in May 2015, the Minister for Finance and Government Business announced her *preferred* approach to collecting and managing the devolved taxes on 30 June 2015.
 - For Land Transaction Tax: the WRA would work with HMRC - HMRC undertaking transactional and routine compliance work, and the WRA the complex compliance, avoidance and enforcement work.
 - For Landfill Disposals Tax: the WRA would work with Natural Resources Wales (NRW) - NRW undertaking compliance and enforcement functions, and the WRA the collection and management activity.
23. A final decision on these arrangements for 2018 will be taken after the May 2016 elections, and the Minister indicated that all arrangements should be reviewed after three to five years of operation (2021-23).
24. The Finance Committee recommended in its Inquiry that the Welsh Government should provide six monthly updates on progress on implementation of the Welsh Revenue Authority. This report provides the first of those updates.
25. On 4 November 2015, the Minister for Finance and Government Business wrote to the Assembly Finance Committee with an initial estimate of the costs of the collection and management arrangements for the devolved taxes. These comprised set-up costs of £4.8m-£6.3m over the period 2016/17 to 2018/19, and operating costs of £2.8m-£4m per year, beginning in 2018-19. The Minister confirmed that the cost estimates would be refined in discussion with HMRC and NRW in relation to service standards, ICT issues, and policy decisions agreed in the passage of the bills for Land Transaction Tax and Landfill Disposals Tax. The Minister confirmed that she anticipated that the next Welsh Government would update the Finance Committee on a regular basis, particularly in the context of the six-monthly implementation reports.

Agreeing the size of the block grant adjustment

26. By 2018, the yield from the two UK taxes that are due to be replaced by new Welsh taxes is likely to be around £300m. A corresponding reduction to the Welsh block grant - an 'offset' - will therefore need to be agreed beforehand.
27. The principles that would underlie the forthcoming discussions between the Welsh Government and UK Government on calculating the offset were considered at the first meeting of the Joint Exchequer Committee (see below), 20 October 2014. More in-depth talks on this will take place in the coming year.

Creating additional devolved taxes

28. The Act⁸ provides for 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 a resolution of, each House of Parliament and the National Assembly.
29. The Wales Bill Command paper issued by the UK Government in 2014⁹ sets out the criteria against which the UK Government would assess any proposal for a new tax. The Welsh Government has no plans at this time to develop proposals for a new devolved tax.

Joint Exchequer Committee

30. As described in the Wales Bill Command Paper, the Welsh Government and UK Government have established a Joint Exchequer Committee (JEC), in order to provide Ministerial oversight of the devolution of fiscal powers. The membership of the JEC comprises the Welsh Minister for Finance, the Secretary of State for Wales, the Chief Secretary to the Treasury and the Financial Secretary to the Treasury. The JEC met for the first, and so far only, time on 20 October 2014.
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⁸ The Wales Act 2014 amended the Government of Wales Act 2006 by inserting section 116C - Power to add new devolved taxes.

⁹ 'Wales Bill: financial empowerment and accountability' Cm 8838, page 22. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294421/Wales_Bill_Command_Paper_-_English.pdf

Borrowing

31. This section describes the progress made to implement the new Welsh borrowing powers (sections 20-21 of the Wales Act 2014).
32. The new borrowing powers will be implemented by way of a Commencement Order made by the Treasury alongside the devolution of Stamp Duty Land Tax and Landfill Tax, which is planned for April 2018. However, in the Command Paper accompanying publication of the Wales Bill, the UK Government has agreed that the Welsh Government can use its existing, more limited, borrowing powers to proceed with improvements to the M4 (should it choose to do so).

Capital Borrowing

33. Section 20 of the Act will enable the Welsh Ministers to borrow, subject to the approval of HM Treasury, up to a total of £500 million to meet capital expenditure. Within that limit, the Wales Bill 2014 Command Paper allows the Welsh Government to borrow up to £125 million per annum. The Wales Bill 2014 Command Paper¹⁰ restricts the sources of borrowing to the National Loans Fund (via the UK Government) or commercial banks, while noting that the UK Government is prepared to consider the case for Wales to issue bonds.
34. Section 20 (5) of the Act provides for the Secretary of State for Wales, by order and with the consent of HM Treasury, to vary the means by which the Welsh Ministers may borrow money. The UK Government's 'St. David's Day Process' Command Paper, issued in February 2015, agreed to add the option of bond financing.¹¹ This will need to be enacted before the capital borrowing powers become available in April 2018.
35. Section 21 provides for the repeal of the borrowing powers in Schedule 3 of the Welsh Development Agency Act 1975. This borrowing power (inherited by the Welsh Ministers following the merger of the Welsh Development Agency with the National Assembly for Wales) is of no practical use, as any income raised in this way could pass directly to the UK Consolidated Fund. The UK Government has, however, agreed to allow the Welsh Government to borrow under this power for the purposes of funding improvements to the M4 in south-east Wales until the new borrowing powers come into effect (in April 2018).
36. The Welsh Government is considering options on the approach for implementation of capital borrowing powers and the mechanisms and processes that will be 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.

¹⁰ "Wales Bill: financial empowerment and accountability" published in March 2014:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf

¹¹ 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>

37. The UK Government has committed to 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. A review is now due following the Spending Review 2015.

Revenue Borrowing

38. Section 20 of the Act enables the Welsh Ministers to borrow up to £500 million to manage cash-flow - helping to smooth fluctuations in tax receipts and address temporary mismatches between tax and spending. Within the limit, the Wales Bill 2014 Command Paper allows the Welsh Government to borrow up to £200 million per annum.
 39. The Wales Bill 2014 Command Paper also outlines the operation of a new Cash Reserve, which will assist the Welsh Government in managing volatility by providing a mechanism for saving 'surplus revenues' - i.e. 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 remaining surplus can either be paid into a cash reserve or used to finance additional public spending on devolved matters.
 40. As part of the adjustment made to enable the full devolution to Wales of Non-Domestic Rates (April 2015), the UK government added £98.5 million to the Welsh Government's new Cash Reserve. This will be available to use to address future volatility in devolved taxes.
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Income tax

41. Sections 12 - 14 of the Wales Act 2014 provide for the Assembly to vote on a resolution proposing a referendum on the partial devolution of income tax to Wales. If passed, then 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 tax payers and provide for the Assembly to set income tax rates in Wales. In the Spending Review 2015¹², the Chancellor announced that the UK Government would legislate to remove the requirement for a referendum, however he did not indicate what process would replace it.
42. The National Assembly has not called for a referendum on income tax devolution, and the Welsh Government has not undertaken work to prepare for a referendum or for the devolution of income tax. Any developments towards the introduction of Welsh rates of income tax will therefore be a matter for a future Assembly.

Link to fair funding for Wales

43. The first report by the UK Government's Commission on Devolution in Wales (or 'Silk Commission'), which provided the basis for much of Part 2 of the Wales Act 2014, included the recommendation that "transfer of income tax powers to the Welsh Government should be conditional upon resolving the issue of fair funding in a way that is agreed by both the Welsh and UK Governments".¹³ This followed the work of the Independent Commission on Funding and Finance for Wales ('Holtham Commission'), which identified that since the start of devolution the Barnett formula, which is used to calculate devolved public spending, had without justification reduced relative spending per head in Wales compared to the average for England, and was likely to continue to do so whenever spending on devolved policies increased. This phenomenon, which is a simple reflection of how the formula operates, is known as 'convergence', or the 'Barnett Squeeze'.¹⁴ The Silk Commission's recommendation to link income tax devolution to resolution of the funding issue is supported by the Welsh Government and by all Parties in the National Assembly.¹⁵

¹² Spending Review and Autumn Statement 2015 (page 57):

<https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents>

¹³ The first report by the Commission on Devolution in Wales (or 'Silk Commission') 'Empowerment and responsibility: financial powers to strengthen Wales' (2012):

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

¹⁴ The Independent Commission on Funding and Finance for Wales ('Holtham Commission') issued two reports (2009 and 2010):

<http://gov.wales/funding/financereform/reports/?lang=en>

¹⁵ Debate on 'Future of Devolution for Wales' - see National Assembly for Wales Record of Proceedings for 21 October 2014:

<http://www.assembly.wales/en/bus-home/pages/rop.aspx?meetingid=2756&language=en&assembly=4&c=Record%20of%20Proceedings&startDt=20/10/2014&keyword=NDM5605>

44. On 27 February 2015, following talks with the Welsh Government and with all other Parties in the Assembly, the UK Government announced that it would introduce a funding floor for Wales, although it did not provide any details - committing to agree this at the next Spending Review.¹⁶
 45. In the Spending Review 2015, the UK Government announced that the funding floor for Wales would be set at 115% of average spend in England for the duration of the Spending Review (i.e. up to the end of 2019-20). This funding floor would then be reset at the next Spending Review. This does not, of course, address the long-term funding of Wales and leaves open the risk of renewed convergence once spending again increases.
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¹⁶ This commitment is set out in the UK Government's Command Paper 'Powers for a purpose: towards a lasting devolution settlement for Wales' (Chapter 4, page 50): <https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

Budgetary procedures

46. A report on progress towards establishing new budgetary procedures for the Assembly (section 22) is not required under the Wales Act 2014, however the Welsh Government considers it appropriate to review progress.
47. Implementing the financial provisions of the Wales Act 2014 requires changes to the budgetary procedures in Wales. The Finance Committee reported on its inquiry into 'Best Practice Budget Processes' in March 2015 and its recommendations have been helpful in developing the new procedures.
48. It has been agreed that changes to the budgetary procedures for the 2018-19 Budget will be implemented through the revision of Standing Orders and the Budget Protocol agreement between the Welsh Government and the Finance Committee. Introduction of legislation, such as a Financial Framework Bill incorporating both budgetary and accountability arrangements, will be considered in the context of the future devolution settlement.
49. The Welsh Government is working with the Assembly Commission to develop revised budgetary procedures. As well as incorporating the necessary changes required as a result of devolved taxation and borrowing powers under the Wales Act 2014, this will also consider the timescale within which scrutiny and approval of the budget takes place and the possibility of moving to a 2-stage budgetary process.
50. The Welsh Government is continuing its work to improve its approach to budgets and, particularly, the transparency and presentation of its proposals. In addition to the changes arising from the Wales Act 2014, implementation of the Well-being of Future Generations (Wales) Act 2015 requires reform to the way in which the Welsh Government plans, budgets and reports on performance. This is a further opportunity to clarify the alignment between indicators, outcomes and budget decisions, and it is vital that there is a line of sight between the goals and priorities of the Government and the plans of the public bodies that it funds.
51. Further improvements include aligning the Welsh Government's annual budget motion and consolidated accounts with that of HM Treasury's budget boundary. The implications of this are currently under consideration and the Welsh Government will engage with the Auditor General for Wales and Wales Audit Office in due course.

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 and Landfill Tax. The OBR produced forecasts for the first time in December 2014 and has repeated the exercise alongside the March and July 2015 Budgets, and the 2015 Spending Review.
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 has no plans at this stage to establish its own Fiscal Commission, although this will be kept under review as matters progress.

Appendix 1

Tax Advisory Group and Tax Forum

Tax Advisory Group (TAG)

The TAG provides strategic advice to the Welsh Ministers on tax policy and administration and considers the impact that 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 Finance Minister 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 on the wider impact of Welsh tax policy on stakeholders and the economy and social fabric of Wales; and
- to help to improve communication across a range of stakeholders with regards to tax policy and administration to better inform Welsh Government tax consultations and legislation.

Members

Emma Watkins, CBI Wales

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, TUC, Wales

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

Tax Forum

The Welsh Government's Tax Forum engages with relevant professions and representative organisations on 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.

Remit

- to discuss, inform and feedback on the Welsh Government's approach to the devolution of taxes in Wales;
- to provide advice and support on communicating the development of tax policy and administration in Wales;

- to give advice on the wider impact of Welsh tax policy on stakeholders in Wales and;
- 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. Among 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 & Customs
- Institute of Chartered Accountants of England and Wales
- Land Registry
- The Law Society of England & 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

The Minister for Finance and Government Business has also 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 events organised by CBI Wales, the Institute of Directors, the Chartered Institute of Taxation, the Law Society, Federation of Small Businesses and Bangor University.

Annex 2

Acronyms used in this report

HMRC	Her Majesty's Revenue & Customs
JEC	Joint Exchequer Committee
LDT	Landfill Disposals Tax
LfT	Landfill Tax
LTT	Land Transaction Tax
NRW	Natural Resources Wales
OBR	Office for Budget Responsibility
SDLT	Stamp Duty Land Tax
TAG	Tax Advisory Group
WRA	Welsh Revenue Authority

Appendix 3

Further information

A range of further information on tax devolution to Wales is available on the Welsh Government's website and other websites.

Progress in devolving taxes to Wales

The Treasury Papers series - three issued to date - provides more detailed information about the progress in developing devolved taxes, including key facts and figures about the taxes being devolved to Wales and other taxes which have been raised as possible candidates for devolution in the future:

<http://gov.wales/funding/financereform/treasury-papers/?lang=en>

UK legislation and Command Papers

Wales Act 2014 and Wales Bill 2014 Command Paper

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

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

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, among other things, to introduce "a floor in the level of relative funding it provides to the Welsh Government" and to "consider the case and options for devolving further powers to the Assembly over APD":

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

Welsh legislation

Tax Collection and Management (Wales) Bill

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

<http://gov.wales/legislation/programme/assemblybills/tax-collection-and-management/?lang=en>

Land Transaction Tax and a Landfill Disposals Tax

It is anticipated that further Assembly Bills on the two devolved taxes (to replace Stamp Duty Land Tax and Landfill Tax) will be introduced to the National Assembly in 2016.

Public consultations to inform the development of the taxes have been completed and summaries of the responses published:

Land Transaction Tax consultation:

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

Landfill Disposals Tax consultation:

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

Engagement

Tax Advisory Group (TAG)

Chaired by the Minister for Finance & Government Business, the TAG provides strategic advice to the Welsh Government on tax policy and administration:

<http://gov.wales/funding/financereform/tax-advisory-group/?lang=en>

Tax Forum

The Tax Forum discusses, informs and provides feedback on the Welsh Government's approach to the devolution of taxes:

<http://gov.wales/funding/financereform/tax-forum/?lang=en>

Background

Independent Commission on Funding & Finance for Wales ('Holtham Commission')

The two reports (2009 and 2010) and other material published by the commission 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:

<http://gov.wales/funding/financereform/reports/?lang=en>

Joint statement on funding reform

Agreeing the next steps on talks on funding reform, including recognition by the UK Government that there had been convergence in Welsh relative funding since devolution:

<https://www.gov.uk/government/publications/joint-statement-on-funding-reform>

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/>