



Llywodraeth Cymru
Welsh Government

Y Pwyllgor Cyllid | Finance Committee
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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

Content	page
Foreword	2
Introduction	3
Land transaction tax	4
Landfill disposals tax	7
Welsh Revenue Authority	9
Borrowing	11
Income tax	13
New devolved taxes	14
Block grant adjustment	15
Budgetary procedures	16
Appendix 1: Engagement	18
Appendix 2: Further information	21
Appendix 3: Acronyms used in this report	23

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 black 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.
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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?Ild=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.
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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
