

Implementation of the financial provisions in the Wales Act 2014

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

Fiscal framework

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

The main features of the fiscal framework are:

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

Tax legislation

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

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

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

Income tax

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

Welsh Revenue Authority (WRA)

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

Capital borrowing

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

New devolved taxes

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

Budgetary procedures

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

Independent scrutiny of forecasts

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

Mark Drakeford
Cabinet Secretary for Finance and Local Government
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