

## Agenda – Finance Committee

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Meeting Venue:

Committee Room 1 – Senedd

Meeting date: 9 January 2019

Meeting time: 09.00

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

[SeneddFinance@assembly.wales](mailto:SeneddFinance@assembly.wales)

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### **1 Introductions, apologies, substitutions and declarations of interest**

[09.00]

### **2 Paper(s) to note**

[09.00]

(Pages 1 – 7)

#### **2.1 PTN1 – Letter from the Llywydd to the First Minister– Legislating for Brexit – 4 December 2018**

(Pages 8 – 9)

#### **2.2 PTN2 – Letter from the Chair of the Petitions Committee – Petition P-05-803 – 11 December 2018**

(Page 10)

#### **2.3 PTN3 – Letter from the Minister for Education – ALN transformation programme – 12 December 2018**

(Pages 11 – 13)

#### **2.4 PTN4 – Letter from the Ombudsman – Response to the Finance Committee report on Estimates 2019-20 – 18 December 2018**

(Pages 14 – 16)

### **3 Devolution of fiscal powers to Wales: Evidence session 1 (Minister for Finance and Trefnydd)**

[09.00–10.00]

(Pages 17 – 50)

Rebecca Evans AM, Minister for Finance and Trefnydd

Andrew Jeffreys, Director, Welsh Treasury

Liz Matthews, Income tax policy and delivery lead



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Paper 1 – Fourth annual report by Welsh Ministers on the implementation and operation of Part 2 (Finance) of the Wales Act 2014

**4 Devolution of fiscal powers to Wales: Evidence session 2 (Welsh Revenue Authority)**

[10.00–10.40]

(Pages 51 – 60)

Dyfed Alsop, Chief Executive, Welsh Revenue Authority

Kathryn Bishop, Chair, Welsh Revenue Authority

**5 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of this meeting**

[10.40]

**6 Devolution of fiscal powers to Wales: Consideration of Evidence**

[10.40–11.00]

(Pages 61 – 86)

Paper 2 – The UK Government's Fourth Annual Report on the Implementation and Operation of Part 2 (Finance) of the Wales Act 2014

**7 Funding of directly funded bodies**

[11.00–11.10]

(Pages 87 – 90)

Paper 3 – Draft letters to the Minister for Finance and Trefnydd and directly funded bodies

**8 Public Services Ombudsman for Wales 2nd Supplementary Budget 2018–19**

[11.10–11.20]

(Pages 91 – 92)

Paper 4 – Public Services Ombudsman for Wales 2nd Supplementary Budget 2018–19 Explanatory Memorandum

**9 Assembly Commission Supplementary Budget 2018–19**

[11.20–11.30]

(Pages 93 – 108)

Paper 5 – Letter from the Commissioner and Supplementary Budget 2018–19 Explanatory Memorandum

Paper 6 – Letter from the Commissioner – Remuneration Board underspend  
2018–19

## Concise Minutes – Finance Committee

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Meeting Venue:

Committee Room 1 – Senedd

Meeting date: Wednesday, 21 November  
2018

Meeting time: 09.01 – 11.44

This meeting can be viewed  
on [Senedd TV](#) at:

<http://senedd.tv/en/5133>

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### Attendance

Category	Names
Assembly Members:	Llyr Gruffydd AM (Chair) Rhun ap Iorwerth AM Neil Hamilton AM Mike Hedges AM Jane Hutt AM Nick Ramsay AM David Rees AM
Witnesses:	Mark Drakeford AM, Cabinet Secretary for Finance Andrew Jeffreys, Welsh Government Margaret Davies, Welsh Government
Committee Staff:	Bethan Davies (Clerk) Georgina Owen (Deputy Clerk) Martin Jennings (Researcher)

## 1 Introductions, apologies, substitutions and declarations of interest

### 1.1 The Chair welcomed Members to the meeting.



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## **2 Paper(s) to note**

2.1 The papers were noted.

2.1 PTN1 – Letter from the Cabinet Secretary for Finance – Second Supplementary Budget 2018–19 – 12 November 2018

2.2 PTN2 – Letter from Paul Davies AM – Autism (Wales) Bill – 15 November 2018

## **3 Welsh Government Draft Budget 2019–20: Evidence session with the Cabinet Secretary for Finance**

3.1 The Committee took evidence from Mark Drakeford AM, Cabinet Secretary for Finance; Andrew Jeffreys, Director, Welsh Treasury, Welsh Government; and Margaret Davies, Deputy Director, Strategic Budgeting, Welsh Government.

## **4 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting and the meetings on 22 and 29 November 2018**

4.1 The motion was agreed.

## **5 Welsh Government Draft Budget 2019–20: Consideration of evidence**

5.1 The Committee considered the evidence received.

# Concise Minutes – Finance Committee

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Meeting Venue:

Committee Room 4 – Tŷ Hywel

Meeting date: Thursday, 22 November  
2018

Meeting time: 13.32 – 14.19

This meeting can be viewed  
on [Senedd TV](#) at:

<http://senedd.tv/en/5394>

## Private

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### Attendance

Category	Names
Assembly Members:	Llyr Gruffydd AM (Chair) Rhun ap Iorwerth AM Neil Hamilton AM Jane Hutt AM Nick Ramsay AM David Rees AM
Committee Staff:	Bethan Davies (Clerk) Georgina Owen (Deputy Clerk) Martin Jennings (Researcher) Owen Holzinger (Researcher) Christian Tipples (Researcher)

## 1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Mike Hedges AM.



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## **2 Welsh Government Draft Budget 2019–20: Consideration of draft report**

2.1 The Committee agreed the report with changes.

# Concise Minutes – Finance Committee

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Meeting Venue:

Committee Room 5 – Tŷ Hywel

Meeting date: Thursday, 29 November  
2018

Meeting time: 09.15 – 11.07

This meeting can be viewed  
on [Senedd TV](#) at:

<http://senedd.tv/en/5141>

## Private

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### Attendance

Category	Names
Assembly Members:	Llyr Gruffydd AM (Chair) Jane Hutt AM David Rees AM
Witnesses:	Andrew Jeffreys, Welsh Government Steve Davies, Welsh Government
Committee Staff:	Bethan Davies (Clerk) Georgina Owen (Deputy Clerk) Martin Jennings (Researcher) Joanne McCarthy (Researcher) Christian Tipples (Researcher) Gareth Howells (Legal Adviser)

## 1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Mike Hedges AM, Neil Hamilton AM, Rhun ap Iorwerth AM and Nick Ramsay AM.



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## **2 Paper(s) to note**

2.1 The papers were noted.

2.1 PTN1 – Letter from the Cabinet Secretary for Finance: UK Autumn Budget 2018 – Consequentials to the Wales DEL – 19 November 2018

2.2 PTN2 – Letter from the Assembly Commission: Voluntary Exit Scheme 2018 – 20 November 2018

2.3 PTN3 – Letter from the Cabinet Secretary for Finance – Vacant Land Tax – 20 November 2018

## **3 Mutual Investment Model: Technical Briefing**

3.1 The Committee received a technical briefing on the Mutual Investment Model from Welsh Government officials, Andrew Jeffreys, Director, Welsh Treasury; and Steve Davies, Deputy Director, Innovative Finance.

3.2 The Committee agreed to consider the capital funding strategy of the Welsh Government in due course.

## **4 Autism (Wales) Bill: Consideration of draft report**

## **5 Public Services Ombudsman (Wales) Bill: Consideration of proposed amendments at Stage 2**

5.1 The Committee considered and agreed the proposed amendments that it will table to the Public Services Ombudsman (Wales) Bill at Stage 2.

## **6 Financial implications of the forthcoming Senedd and Elections (Wales) Bill**

6.1 The Committee agreed to appoint an Independent Advisor to assist with its financial scrutiny of the forthcoming Senedd and Elections (Wales) Bill.

## **7 Funding of directly funded bodies**

7.1 The Committee agreed to write to directly funded bodies and the Welsh Government seeking views on the direction and guidance provided by the Committee when setting their estimates.

## **8 Consideration of forward work programme**

8.1 The Committee considered its forward work programme.

## **9 The Landfill Disposals Tax (Tax Rates) (Wales) (Amendment) Regulations 2018**

9.1 The Committee noted the statutory instrument.

Rt Hon Carwyn Jones AM  
First Minister of Wales  
Welsh Government  
Cardiff Bay  
CF99 1NA

Your ref:  
Our ref: EJ/CE

4 December 2018

Dear Carwyn

At the Chairs' Forum meeting, on 28 November 2018, we discussed the role of the Assembly and its committees in scrutinising Brexit-related legislation. Chairs raised an emerging concern about the role of the Assembly in the process of legislating for Brexit.

Chairs reported that the Welsh Government has sought delegated powers for Welsh Ministers in a number of Brexit-related UK Bills, rather than bringing forward its own Bills for scrutiny by the Assembly. In terms of the subordinate legislation needed to correct the statute book ahead of leaving the European Union, I understand that you have agreed to a significant proportion of this legislation being made by UK Ministers, using concurrent powers on behalf of Welsh Ministers.

Whilst I, and the Chairs' Forum, understand that you have made these decisions on the grounds of efficiency for the governments involved in the process, the concern expressed by Chairs is that this comes at a cost of the Assembly's role and therefore Members' ability to effectively represent the interests of the people of Wales in the process of legislating for Brexit.

In representing the views expressed to me by Chairs, and acting in the interests of the Assembly's position in the Brexit process, I have concerns that the cumulative effect of these Welsh Government decisions is an inadvertent bypassing of the Assembly's role.

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



**Elin Jones AC, Llywydd**

Cynulliad Cenedlaethol Cymru

**Elin Jones AM, Presiding Officer**

National Assembly for Wales

I am sure that you would agree that the scrutiny of legislation that falls within the competence of the Assembly or Welsh Ministers, particularly relating to important areas of policy affecting citizens, benefits from far greater Wales-specific scrutiny when considered by the Assembly.

The limited opportunity for scrutiny offered by legislative consent conventions and associated procedures is incomparable with the Assembly's full legislative scrutiny processes.

Further, legislative scrutiny by the Assembly offers a more accessible and transparent process for Welsh stakeholders and the public, and also ensures the law is made in both of our official languages.

Just as you have striven to ensure a role for the Welsh Government in the Brexit process, I must ensure that the Assembly, and its Members, are enabled to play the full role they were elected to perform.

I understand that Assembly committees are planning to undertake further work in this area and I am sure that they will continue to raise issues with you and the Welsh Ministers.

In the meantime, I ask that you consider the concerns that have been raised and I would be grateful for your thoughts on how you might ensure that the Welsh Government does all it can to enable the Assembly to play its full part in legislating for Brexit.

I have copied this letter to Chairs of the Assembly's committees, the Leader of the House, and the Cabinet Secretary for Finance (in light of his role in the Brexit process).

Yours sincerely

Elin Jones AM  
Llywydd



## Agenda Item 2.2

Llyr Gruffydd AM  
Chair, Finance Committee  
National Assembly for Wales  
Tŷ Hywel  
Cardiff Bay  
CF99 1NA

11 December 2018

Dear Llyr

**Petition P-05-803 Our natural world is being poisoned by single use plastics...it's time to introduce a tax!**

The Petitions Committee is currently considering the above petition. At our meeting on 27 November, Members agreed that I should write to you to share the details of the petition for your information.

All information relating to the petition can be found at:


<http://senedd.assembly.wales/mglIssueHistoryHome.aspx?Ild=21276&Opt=0>

In addition to this, we also agreed to take the following actions:

- keep a watching brief on the development of proposals for taxes in this area, including the UK Government's forthcoming Resources and Waste Strategy; and
- return to this, and other petitions under consideration relating to single use plastics, once the Committee has further information about actions being taken on this subject.

I hope that this information is helpful.

Yours sincerely



David J Rowlands AC/AM  
Cadeirydd/Chair



**Kirsty Williams AC/AM**  
**Ysgrifennydd y Cabinet dros Addysg**  
**Cabinet Secretary for Education**



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref MA-(P)-KW-4504-18

Lynne Neagle AM  
Chair, Children, Young People and Education Committee  
National Assembly for Wales  
Ty Hywel  
Cardiff Bay  
CF99 1NA  
[SeneddCYPE@assembly.wales](mailto:SeneddCYPE@assembly.wales)

cc Llyr Griffiths AM  
Chair  
Finance Committee  
[SeneddFinance@assembly.wales](mailto:SeneddFinance@assembly.wales)

cc Mick Antoniw AM  
Chair  
Constitutional and Legislative Affairs Committee  
[SeneddCLA@assembly.wales](mailto:SeneddCLA@assembly.wales)

12<sup>th</sup> December 2018

Dear Lynne,

During your committee's scrutiny of the Additional Learning Needs and Education Tribunal (Wales) Bill, a commitment was made to provide regular updates on the Additional Learning Needs (ALN) transformation programme. This letter is the fifth of these updates.

## 1. Legislation and statutory guidance

In my previous update, I informed you that the next iteration of the draft Additional Learning Needs Code ("the ALN Code") would be available for consultation later this year. I am therefore pleased to have written to you earlier this week as a statutory consultee announcing the launch of a public consultation on the draft ALN Code under the Additional Learning Needs and Education Tribunal (Wales) Act 2018 ("the Act"). The consultation also seeks views on draft regulations relating to the Education Tribunal for Wales and ALN Co-ordinators, and the policy intent for a number of other proposed regulations. In addition, it seeks views on proposed

Bae Caerdydd • Cardiff Bay  
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CF99 1NA

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:  
0300 0604400

[Gohebiaeth.Kirsty.Williams@llyw.cymru](mailto:Gohebiaeth.Kirsty.Williams@llyw.cymru)  
[Correspondence.Kirsty.Williams@gov.wales](mailto:Correspondence.Kirsty.Williams@gov.wales)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

revisions to the Social Services and Well-being (Wales) Act 2014 Part 6 Code of Practice – Looked After and Accommodated Children, that have been primarily made relating to looked after children with ALN.

As per my previous letter, it is crucial that you provide your views to ensure that our proposals are manageable and fair to those who must discharge functions under the new legislative framework, as well as just and equitable for learners with ALN who need the right support to help them achieve their full potential.

In January 2019 both a children/young people's version and an easy read version of the consultation will be published. This will provide children and young people, and those who may benefit from an easy read version with an opportunity to engage with the consultation.

## **2. Implementation/ transition support**

In September 2018, the ALN Transformation Leads submitted their regional and further education implementation plans. The plans set out how each region are supporting the early years sector, local authorities, health boards and further education institutions in Wales, to prepare for implementation of the new system. Funding is being used to roll out multi agency training programmes, create post 16 provision maps across Wales, scope the role of the Early Years ALN lead officer, support the role of the Designated Education Clinical Lead Officer (DECLO) and help raise awareness of the ALN transformation programme amongst stakeholders.

Progress and review sessions will take place in January to monitor the development of all projects across Wales.

We are continuing to meet with the ALN transformation leadership group on a bi-monthly basis. The group are helping to develop and consistently apply implementation approaches across Wales and are crucial in driving forward the work of the transformation leads and wider transformation programme. .

## **3. Workforce Development**

The consultation on the draft Code seeks your views on the draft ALNCo regulations (in part 3 of the consultation document). The intention is to use the regulation making power under section 60 of the 2018 Act to ensure that the ALNCo role is undertaken in a consistent and effective way in every school and further education institution in Wales, and supports the delivery of the ALN system and the overarching objectives of the 2018 Act.

The ALNCo role is fundamental to the success of the new ALN system and we are committed to supporting this workforce through professional learning. Officials continue to work with local authorities and regional education consortia to develop an ALNCo professional learning offer.

The Welsh Government currently awards a grant to Cardiff University, which pays fees and bursaries for 10 students per year on their three year Doctorate in Educational Psychology professional training programme. I have decided to continue

with this arrangement and strengthen it by linking a minimum number of bursaries to students who can already, or have the potential to work through the medium of Welsh, and by encouraging students to stay and work in Wales immediately after graduation.

#### **4. Awareness Raising**

In February, we will be hosting a series of stakeholder events across Wales. Each event will provide stakeholders with an update on the ALN transformation programme and will include workshops on specific aspects of the draft ALN Code. Details of the events will be available in due course.

We will also be organising workshops specifically for children, young people and their families, to contribute their views on these proposals.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kirsty Williams', written in a cursive style.

**Kirsty Williams AC/AM**

Ysgrifennydd y Cabinet dros Addysg  
Cabinet Secretary for Education

## Agenda Item 2.4



Our ref: NB/mm

Ask for: Marilyn Morgan

Your ref:



01656 641150

Date: 18 December 2018



Marilyn.morgan@ombudsman-wales.org.uk

Llyr Gruffydd AM  
Chair  
Finance Committee  
National Assembly for Wales

**By Email Only:**  
SeneddFinance@Assembly.Wales

Dear Llyr

### Finance Estimates 2019-20

Thank you for your letter dated 21 November. I am delighted that you will be the Member in Charge of the new PSOW legislation and I look forward to working with you too. In your letter you refer to the Committee wishing to have my formal response to the recommendations of the report. I have the following responses and observations to make:

**Recommendation 1 – Focus on statutory functions and considering/investigating complaints.** I have always focussed PSOW resources on statutory functions and in dealing with complaints. Analysis in my most recent annual report shows that, in 2017/18, 98.8% of my resources were dedicated to statutory functions and duties, with 1.2% related to the work on the new PSOW Bill.

The improvement work, identified in my Annual Report and Accounts, has a statutory basis and includes making recommendations for systemic improvement where a complaint shows this is appropriate, following-up my recommendations to secure compliance, publishing my reports in the public interest, publishing Casebooks of complaint summaries and learning points, preparing and publishing annual letters and general engagement with public and representative bodies to secure improvement in complaint handling. These elements of improvement work are integral to the consideration and investigation of complaints.

The Committee will be aware that it was the Finance Committee which last year recommended that I expand the additional targeted improvement activity undertaken by my improvement officers. In my evidence session I explained that this element of our improvement work was limited, and that casework pressures and resource constraints had meant that I had not been able to expand it. In view of the Committee's Recommendations 1 and 4, coupled with caseload and financial pressures, I will reduce the targeted work of my improvement officers in 2019/20.

**Recommendation 2 – Budget headings, basis for resources sought and links to objectives.** This is accepted fully.

**Recommendation 3 – Accounting treatment of leases.** This is accepted fully and my officials have already started to look in detail at this matter. However, we have recently been informed by Welsh Government Finance and the WAO that the implementation of IFRS16 (Leases) has been postponed until 2020-21 for the Public Sector.

**Recommendation 4 - The creation of a Learning and Improvement Officer.**

Clearly individual staffing decisions are a matter for me as an independent corporation sole, and I remain committed to the principle of promoting improvement and learning from complaints, as well as investigating them and reaching a finding. However, given the Committee's stated view on improvement work and the revised timetable for new legislation which will support such learning and improvement, I have reflected on this and am content not to progress this proposed appointment.

**Recommendation 5 – Details of staff costs.** I am mindful of the independent, arms-length nature of my role and the requirement that an Ombudsman is visibly and demonstrably independent. In that I context I trust that you will appreciate that, although the Finance Committee considers and makes recommendations on the level of funding provided, the detail of the staffing structure I put in place is a matter for me. Recent events have also made for genuine difficulties in being as precise as I would like to be. That said, I accept the recommendation in principle and I will, of course, provide more detail on my overall staffing costs in future submissions.

**Conclusion 1 – Supplementary budget submission for new powers.** This is accepted and welcomed.

**Conclusion 2 – Reference to Welsh Block.** I am afraid that there appears to be some confusion on this matter which I would like to clarify. My office does not base our estimates on the previous year's increase. Our estimates are based upon a "bottom-up" assessment of need. However, the Finance Committee last year made it clear that our budget growth should not exceed growth in the block - in effect placing a ceiling on our estimate. Given the timing of our budget estimate it is impossible for us to refer to the growth in the budget for the following year (I understand this is even now not clear) and we have therefore referred to the most recent official and confirmed figures. I hope this clarifies the matter logically.

**Conclusion 3 – Aligning directly funded bodies' budgets and the Welsh Block.**

This conclusion is welcomed, not least given my remarks about Conclusion 2. My staff have since met with Welsh Government Finance officials to discuss reference to the Block in compiling budgets for directly funded bodies. They too have concerns over the suitability of using the Block and have agreed to look at alternative methods, particularly as the budget for the following year is unavailable when both the Assembly Commission and PSOW submit their Estimates.

Thank you for giving me the opportunity to respond.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nick Bennett', with a stylized flourish at the end.

**Nick Bennett**  
Ombudsman

**Mark Drakeford AC/AM**  
Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref MA-P/MD/4033/18

Llyr Gruffydd AM  
Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

11 December 2018

Dear Llyr

I enclose a copy of the latest report by Welsh Ministers about the implementation and operation of Part 2 of the Wales Act 2014.

The report, which I laid before the Assembly today, summarises the important work completed over the past year.

The Secretary of State for Wales is due to send me a copy of his report about the implementation of the Wales Act 2014, which I will then lay before the Assembly.

Best wishes,

**Mark Drakeford AC/AM**  
Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance





Llywodraeth Cymru  
Welsh Government

# **The fourth annual report by Welsh Ministers about the implementation and operation of Part 2 (Finance) of the Wales Act 2014**

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Laid before the National Assembly for Wales and presented to  
Parliament, pursuant to Section 23 of the Wales Act 2014

December 2018

## **Content**

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## Foreword



The last 12 months has seen the culmination of more than five years' work on the development of the first Welsh taxes of the modern era – land transaction tax and landfill disposals tax. The smooth and efficient introduction of the taxes on 1 April 2018, which are managed and collected by the new Welsh Revenue Authority (WRA), is in part a testimony to the quality of the advice provided by the many organisations and individuals who have assisted the Welsh Government, and latterly the WRA, through the processes of design and systems testing. I am grateful for this support.

We are on schedule for the introduction of Welsh rates of income tax on 6 April 2019. HMRC is responsible for administering and collecting the Welsh rates of income tax – as it is currently for income tax. The Welsh Government has been working closely with HMRC and the Department for Work and Pensions to ensure Wales' unique circumstances are considered and reflected in the new arrangements. In October, I announced the first Welsh rates of income tax and the National Assembly will be voting on these as part of the final Budget process.

Welsh rates of income tax will be the final element of the financial provisions in the Wales Act 2014 to be introduced. This will bring to a close a period of significant change for Wales, moving from a position where our budget was determined wholly by the UK Government via a block grant, to one where some 20% of our budget is raised through Welsh tax powers.

I would like to thank the National Assembly for its scrutiny of the implementation of the Wales Act 2014 financial provisions. I look forward to continuing to work with the National Assembly – and with stakeholders and tax experts across Wales – as we complete the phased introduction of taxes and focus on the development of a distinctively Welsh tax policy, ensuring we have a principled approach, which works with our wider policy ambitions to tackle the issues of importance for Wales.

A handwritten signature in dark ink that reads "Mark Drakeford".

Mark Drakeford AM  
Cabinet Secretary for Finance

December 2018

## Introduction

Under section 23 of the Wales Act 2014<sup>1</sup>, 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 fourth 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.*

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).

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.

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2014/29/contents/enacted>

## Welsh taxes and the Welsh Revenue Authority

### 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. 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<sup>2</sup>.

### 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.

The Treasury exercised the powers contained in sections 16 and 19 of the Wales Act 2014 to make an order<sup>3</sup> to dis-apply stamp duty land tax and UK landfill tax in Wales on 1 April 2018.

## Welsh taxes

1. The Welsh Tax Acts<sup>4</sup> came into force on 1 April 2018, enabling the Welsh Revenue Authority (WRA) to begin collecting the two fully devolved Welsh taxes – land transaction tax and landfill disposals tax – on 1 April 2018.
2. The rates and bands for these two Welsh taxes were announced by the Welsh Government as part of the Budget process 2018-19. Indicative rates were published in the 2017 *Welsh Tax Policy Report* on 3 October 2017, alongside the outline draft Budget, to aid scrutiny of the Welsh Government's tax and spending decisions and to provide an early indication for taxpayers. Following an assessment of the effects for Wales of changes to stamp duty land tax made by the UK Government in its Autumn Budget 2017, the Welsh Government announced revised land transaction tax rates on 11 December 2017<sup>5</sup>.

<sup>2</sup> *Wales Bill: financial empowerment and accountability* Cm 8838, para 16:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294470/Wales\\_Bill\\_Command\\_Paper\\_-\\_English.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf)

<sup>3</sup> Wales Act 2014, Sections 16 and 19 (Disapplication of UK Stamp Duty Land Tax and UK Landfill Tax) (Appointed Date) Order 2018 (S.I. 2018/214).

<sup>4</sup> The Welsh Tax Acts consist of the Tax Collection and Management (Wales) Act 2016, the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 and the Landfill Disposals Tax (Wales) Act 2017.

<sup>5</sup> Rates and bands for land transaction tax and landfill disposals tax are published here:

Land transaction tax:

3. The regulations to bring into effect the rates and bands for land transaction tax<sup>6</sup> and landfill disposals tax<sup>7</sup> were agreed by the National Assembly on 30 January 2018 and have applied since the taxes came into force on 1 April 2018.
4. The rates and bands for land transaction tax will remain in place until amended. The Government's intention is that the rates of landfill disposals tax will increase in line with inflation in 2019-20, maintaining consistency with the UK Government's approach to landfill tax rates. The regulations setting the new landfill disposals tax rates were laid on 26 November, for consideration by the National Assembly in early 2019.
5. Information about tax returns and revenue raised by the Welsh taxes is published regularly by the WRA<sup>8</sup>. The latest landfill disposals tax data, covering the period 1 April to 30 September 2018, show £25.3m of tax revenue is due to the WRA from disposals to landfill. The latest land transaction tax data, covering the period 1 April to 31 October 2018, show £131.7m revenue is due to the WRA as a result of land transaction tax.
6. The HMRC-led tax devolution programme board oversaw the transition from stamp duty land tax and landfill tax to land transaction tax and landfill disposals tax, respectively. It is also overseeing the Welsh rates of income tax project – see paragraph 18). The director of the Welsh Treasury and the deputy director of tax strategy, policy and engagement are members of the tax devolution programme board, which provides a route for the resolution of project-level challenges, and is overseeing the transition to business-as-usual arrangements in the Welsh Government's relationship with HMRC.
7. HMRC has confirmed the annual rebate to the Welsh Government as a result of no longer operating stamp duty land tax and landfill tax in Wales is £172,473. The stamp duty land tax/landfill tax transition project is due for closure in 2018-19, subject to completion of the final IT changes by HMRC.
8. Regulations introduced in the last year are listed at appendix 1.

## **Welsh Revenue Authority (WRA)**

9. The Cabinet Secretary for Finance issued the WRA with its first remit letter on 19 December 2018. This outlined three key priorities:

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<https://gov.wales/funding/fiscal-reform/welsh-taxes/land-transaction-tax/?lang=en>

Landfill disposals tax:

<https://gov.wales/funding/fiscal-reform/welsh-taxes/landfill-disposals-tax/?lang=en>

Cabinet statement (December 2017) about changes to land transaction tax rates and bands:

<https://gov.wales/about/cabinet/cabinetstatements/2017/lttratesandbands/?lang=en>

Further information about rate setting for the Welsh taxes is provided in the *Welsh tax policy report 2017* (October 2017) and the *Welsh tax policy report - devolved taxes update* (January 2018):

<https://gov.wales/funding/fiscal-reform/tax-policy-framework/?lang=en>

<sup>6</sup> The Land Transaction Tax (Tax Bands and Tax Rates) (Wales) Regulations 2018 (S.I. 2018/128).

<sup>7</sup> The Landfill Disposals Tax (Tax Rates) (Wales) Regulations 2018 (S.I. 2018/131).

<sup>8</sup> Latest land transaction tax data:

<https://beta.gov.wales/land-transaction-tax-statistics>

Landfill disposals tax data:

<https://beta.gov.wales/landfill-disposals-tax-statistics>

- 1) Devolved tax collection – enabling people to pay the right amount of tax at the right time;
  - 2) Managing the devolved tax system to help deter and tackle tax evasion and tax avoidance;
  - 3) Public service delivery – leading improvements to the administration of devolved taxation across Wales.
10. The WRA's charter was launched for consultation in November 2017, attracting more than 120 responses and resulting in *Our Charter*, which was published on 29 March 2018<sup>9</sup>. *Our Charter* sets out how the WRA will work in partnership to deliver a fair tax system for Wales, with shared responsibilities, values and behaviours, which are responsive, bilingual, accurate, efficient, engaging, fair, supportive and secure.
  11. The WRA's first corporate plan<sup>10</sup>, which was published on 27 April 2018, covers one year and focuses on the three priorities in the remit letter from the Cabinet Secretary for Finance.
  12. The WRA's corporate plan introduces *Our Approach*, a set of principles, which establish a Welsh way of doing tax and defines tax administration as a collective endeavour for the benefit of all, prioritising working together to ensure the right amount of tax is paid at the right time. It recognises different approaches will be necessary, depending on the circumstances.
  13. The emphasis of *Our Approach* is about supporting taxpayers to get it right first time, focusing efforts and resource to ensure more of the tax due is collected when it should be, rather than resourcing queries and investigations after the fact. The WRA put *Our Approach* into practice early. Extensive engagement with conveyancers in Wales and England and Welsh landfill site operators was key to ensuring a smooth transition to the new taxes.
  14. The WRA's corporate technology is cloud based, ensuring staff can work and collaborate in real-time in any location while maintaining high levels of security. The WRA's tax management system, which went live on 1 April 2018, is also a cloud venture, allowing more than 1,500 organisations to submit tax returns online.

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<sup>9</sup> WRA *Our charter*.

<https://beta.gov.wales/welsh-revenue-authority/our-charter>

<sup>10</sup> WRA corporate plan 2018-19:

<https://beta.gov.wales/sites/default/files/publications/2018-04/180430-wra-corporate-plan-a.pdf>

## Welsh rates of income tax

Sections 8 to 11 of the Wales Act 2014 provide for Welsh basic, higher and additional rates of income tax to be set by the National Assembly by way of resolution, and further define "Welsh taxpayers".

The Wales Act 2014, when originally enacted, made provision for a referendum to be held in Wales about whether the income tax provisions set out in the Act should come into force. These provisions in relation to a referendum were subsequently removed by section 17 of the Wales Act 2017<sup>11</sup>.

The Welsh Government's fiscal framework, which was agreed by the Welsh and UK governments in December 2016, confirmed the Welsh Government would introduce Welsh rates of income tax in 2019-20, subject to removal of the requirement for a referendum.

15. As set out in the fiscal framework, agreed by the Welsh and UK governments in 2016, Welsh rates of income tax will be introduced on 6 April 2019. For non-savings non-dividend income, the UK Government will reduce each of the three rates of income tax – basic, higher and additional rates – paid by Welsh taxpayers<sup>12</sup> by 10p. The National Assembly will then decide the Welsh rates, which will be added to the reduced UK rates.
16. HMRC will be responsible for the collection and management of Welsh rates of income tax. In competence and legal terms this remains a UK tax, as will the associated arrangements for all allowances and reliefs (including the personal allowance), the tax thresholds and bands. The UK Government will continue to retain the revenues from income tax on savings and dividend income from taxpayers in Wales.
17. In the outline draft Budget, the Welsh Government proposed setting the Welsh rates of income tax for 2019-20 at 10p. This will mean the rates of income tax paid by Welsh taxpayers will be the same as those paid by English and Northern Irish taxpayers. The National Assembly will vote on the rates as part of the final Budget process in early 2019.
18. The preparations for Welsh rates of income tax are being overseen by a cross-government Welsh rates of income tax project board, comprising officials from the Welsh Government, HMRC, HM Treasury, the Wales Office and the Department for Work and Pensions. Its main objectives are to:
  - Accurately identify Welsh income taxpayers;
  - Notify taxpayers and employers of changes resulting from Welsh rates of income tax;
  - Assign new tax codes for Welsh income taxpayers about all relevant HMRC systems (including ensuring effective data exchange between relevant HMRC and Department for Work and Pensions systems).

<sup>11</sup> The Wales Act 2017 received Royal Assent 31 January 2017:  
<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

<sup>12</sup> Welsh taxpayers are defined in the Wales Act 2014 s.8 'Welsh rates of income tax', however in most cases they will be people who are resident in Wales:  
<http://www.legislation.gov.uk/ukpga/2014/29/section/8/enacted>



19. HMRC has undertaken extensive work to identify all income tax payers (around 1.35m people) living in Wales who will be subject to Welsh rates of income tax from 6 April 2019. This has resulted in the development of a database of Welsh taxpayers, which will be maintained and continually updated to ensure taxpayers are paying the relevant rates of income tax depending on where they live.
20. HMRC issued a notification letter to all income taxpayers and relevant HMRC customers living in Wales (just over 2m people in total) in November 2018 to inform them of the new arrangements. The letter included a flyer from the Welsh Government with further information about the changes.
21. HMRC and Welsh Government are working jointly on communications and engagement about Welsh rates of income tax to ensure maximum impact across operational and customer channels and increased levels of awareness and understanding amongst citizens in Wales.
22. Research has been commissioned to provide a baseline level of awareness, which will be measured again in March 2019. User testing has also been carried out to ensure clarity of messaging and to test a wider narrative, which has been developed to provide context and strategic direction for communications and engagement beyond April 2019.
23. In December 2018, the UK Government is due to lay regulations to enable Welsh rates of income tax to be implemented: The Devolved Income Tax Rates (Consequential Amendments) Order 2018 and The Income Tax (Pay As You Earn) (Amendment No.2) Regulations 2018.
24. HMRC has refined its high-level estimate for the total costs of implementing the necessary changes to its systems for the introduction of Welsh rates of income tax to between £7.5m and £9.5m over the period 2017-18 to 2019-20. The Department for Work and Pensions has estimated the cost of making system changes to cover Jobseekers' Allowance, Universal Credit and pensions will be less than £200k, to be incurred in 2018-19.

## Ability to create a new Welsh tax

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 of the Houses 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 in areas of devolved responsibility.

The Command paper issued by the UK Government alongside the Wales Bill (March 2014) provides further detail about how Welsh Government proposals for new taxes would, in the first instance, be assessed by the UK Government.

25. In February 2018, the Cabinet Secretary for Finance announced how he would progress the four shortlisted new tax ideas, which he announced in October 2017 – a vacant land tax; a levy to fund social care; a disposable plastic tax and a tourism tax<sup>13</sup>. The vacant land tax will be used to test the mechanism for introducing new taxes but work is continuing on the other three ideas<sup>14</sup>.

### Vacant land tax and the intergovernmental process for new taxes

26. The Welsh Government has worked with the UK Government and the National Assembly to agree how the process to devolve competence for a new tax will be managed. The Welsh Government and HM Treasury have agreed a process by which the Welsh Government will make, and the UK Government will consider, a proposal prior to consideration of a draft Order by the Houses of Parliament.
27. The process agreed by the Welsh Government and HM Treasury for giving the National Assembly new tax powers is governed by a Joint Exchequer Committee (JEC), led by the Cabinet Secretary for Finance and the Chief Secretary to the Treasury and supported by Welsh Government and UK Government officials (JEC(O)). There are nine stages, described below<sup>15</sup>.
- 1) The Welsh Government notifies HMT Ministers of its intention to seek a new National Assembly tax power:
    - Official level soundings, leading to
    - Ministerial discussion at JEC
  - 2) The Welsh Government produces proposal:
    - Officials identify what is required to support the proposal and agree programme of work (including timetable) to produce it.

<sup>13</sup> Cabinet statement about new tax ideas (13 February 2018):  
<https://gov.wales/newsroom/finance1/2018/180213-vacant-land-tax-idea-to-be-used-to-test-wales-act-powers/?lang=en>

<sup>14</sup> Further details about a vacant land tax and the other new tax ideas are provided in the Welsh Government's Welsh tax policy report 2018 (October 2018), page 17:  
<https://gov.wales/docs/caecd/publications/181003-welsh-tax-policy-report-en.pdf>

<sup>15</sup> A summary of key stages of the intergovernmental process is available here:  
<https://gov.wales/docs/caecd/publications/180213-developing-infographic-en.pdf>

- This will include a draft Order and evidence to allow the proposals to be assessed (see step six)
  - Discussion at JEC(O)/JEC
- 3) Agreed work is carried out.
  - 4) The Welsh Government makes a formal request for the 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 National Assembly the proposed new tax power, in line with UK tax policy-making policy:
    - Although there would be no need to follow the UK tax cycle, it could be convenient to announce consultation on devolution of powers at the Budget and confirm a decision about whether to do so at the next Budget;
    - The consultation could also seek views to help inform the Welsh Government's case to the National Assembly that the National Assembly has the right competence (under step eight).
  - 6) The UK Government assesses proposal and evidence:
    - Some further detail is set out in the Wales Bill 2014 Command paper.
  - 7) Proposal finalised:
    - Proposal revised/amended, additional evidence produced, as necessary
    - Discussion at JEC(O)/JEC
    - Ministerial agreement
  - 8) Legislation:
    - Draft Order laid before and approved, by affirmative resolution, by each House of Parliament and by the National Assembly
    - Order in Council made by HMRC
  - 9) The Welsh Government exercises new powers according to its normal processes of policy-making, legislation and implementation.
28. The National Assembly has agreed an amended Standing Order by which an Order in Council under section 116C of the Government of Wales Act 2006, as amended by the Wales Act 2014, will be considered.
  29. In preparation for the devolution of competence, the Welsh Government has begun working with stakeholders to further understand the issues with vacant land in Wales and to begin to formulate policy options. A reference group of key stakeholders, drawn from the private, public and third sectors, is supporting this work.

### **Social care levy**

30. An inter-Ministerial group on paying for social care has been established, chaired by the Minister for Children, Older People and Social Care, and including the Cabinet Secretary for Finance, Cabinet Secretary for Health and Social Services, Cabinet

Secretary for Local Government and Public Services and the Minister for Housing and Regeneration<sup>16</sup>.

31. As part of its remit, the inter-Ministerial group will consider the independent report *Paying for Social Care*, by Professor Gerald Holtham, which provides an indicative economic analysis of a system of enhanced social insurance which could help fund social care for older people in Wales<sup>17</sup>. Under Professor Holtham's proposal, proceeds from the levy would be placed in a ring-fenced fund, which could provide additional help for the immediate care needs of the population as well as cover for the expected increases in the demand for care from future generations.

### **Disposable plastics tax**

32. Following the Welsh Government's announcement about work to explore a disposable plastics tax, the UK Government announced a call for evidence – *Tackling the Plastic Problem*. The Welsh Government worked with the UK Government to encourage organisations in Wales to contribute evidence and to consider the 162,000 responses. The Welsh Government is working with Welsh businesses, experts and the wider stakeholder community to ensure Welsh interests and needs are reflected in the development of the UK Government's proposals<sup>18</sup>.
33. In the UK Autumn Budget 2018, the Chancellor confirmed UK Government plans to introduce a tax on the production and import of plastic packaging from April 2022, alongside already-planned reforms to the packaging producer responsibility system. Both will be subject to consultation soon. The UK Government also concluded a levy on all cups at this time would not be effective in encouraging widespread reuse, as businesses are already taking steps to limit their environmental impact. However, the UK Government also committed to return to the issue if insufficient progress is made.
34. The Welsh Government is assessing the detail of the UK Government's approach to consider the best way forward and to ensure the Welsh Government continues to be a part of the process, while garnering the views of Welsh stakeholders to inform responses to future consultations on the UK Government's proposals.

### **Tourism tax**

35. The Welsh Government is exploring ways in which local authorities could be given permissive powers to develop and implement a local tourism tax, working with the tourism sector and with local government to begin examine the possible impact of a local tourism tax and the merits and concerns the tourism sector has expressed about this idea<sup>19</sup>.

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<sup>16</sup> Further information about a social care levy is provided in the Welsh Government's Welsh tax policy report 2018 (October 2018), page 19:

<https://gov.wales/docs/caecd/publications/181003-welsh-tax-policy-report-en.pdf>

<sup>17</sup> Professor Gerald Holtham's independent report to the Welsh Government *Paying for Social Care* (June 2018):

<https://beta.gov.wales/written-statement-paying-social-care-independent-report-professor-gerald-holtham>

<sup>18</sup> Further information about a disposable plastics levy is provided in the Welsh Government's Welsh tax policy report 2018 (October 2018), page 22:

<https://gov.wales/docs/caecd/publications/181003-welsh-tax-policy-report-en.pdf>

<sup>19</sup> Further information about a tourism tax is provided in the Welsh Government's Welsh tax policy report 2018 (October 2018), page 24:

<https://gov.wales/docs/caecd/publications/181003-welsh-tax-policy-report-en.pdf>

36. This work has identified how the needs and effects of tourism vary significantly across Wales and some key policy considerations, including the relationship between a tourism tax and VAT on tourist accommodation; how local tourism taxes would interact with other key policy areas, such as local taxes and existing regulatory pressures. The intention is to continue working through these issues in partnership with the industry and local authorities.

## Borrowing

Sections 20 and 21 of the Wales Act 2014 repealed the borrowing power under the Welsh Development Agency Act 1975 and extended the Welsh Ministers' borrowing power under section 121 of the Government of Wales Act 2006, with effect from 1 January 2017. It enables 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.

### 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.

In February 2015, following intergovernmental and cross-party talks, the UK Government agreed to extend the Welsh Government's borrowing powers to include the issue of bonds<sup>20</sup>.

The Wales Act 2017 amended section 122A of the Government of Wales Act 2006 to raise the Welsh Ministers capital borrowing limit from £500 million to £1 billion.

## Capital borrowing

37. Under the fiscal framework, agreed between the Welsh and UK governments in December 2016, the annual capital borrowing limit will increase from £125m to £150m when Welsh rates of income tax are introduced in April 2019.

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<sup>20</sup> Command Paper *Powers for a purpose: towards a lasting devolution settlement for Wales* (Cm 9020), 27 February 2015, chapter 4, p51:  
<https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

38. The Welsh Government plans to make use of up to £250m of capital borrowing over the next two years (£125m per annum in 2019-20 and 2020-21). The remaining £50m (£25m per annum in 2019-20 and 2020-21) will be held in reserve.
39. The take-up of planned borrowing will be carefully considered during each budget period and will only be used when all available conventional, cheaper sources of capital financing have been exhausted.
40. In response to a request from the Welsh Government<sup>21</sup>, the UK Government has introduced the Government of Wales Act 2006 (Variation of Borrowing Power) Order 2018, which came into force on 1 December 2018.

### **Revenue borrowing and the Wales Reserve**

41. Given the block grant offset methodology agreed for income tax as part of the fiscal framework, the Welsh Government expects the £500m revenue borrowing limit provided by the Wales Act 2014 to be sufficient to cover fluctuations in the revenue stream from devolved tax powers.
42. The Wales Reserve was introduced from April 2018, enabling unspent resources from tax receipts and the block grant to be stored for future years. The Wales Reserve is capped at £350m and annual drawdowns limited to £125m for revenue spending and £50m for capital spending. There are no annual limits for payments into the reserve.
43. £98.5m was added to the Wales Reserve as part of the adjustment made to enable the full devolution to Wales of non-domestic rates from April 2015. A further £227.1m has been added to the Wales Reserve as a result of underspends in 2017-18.

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<sup>21</sup> Cabinet statement about Welsh Government bonds (October 2018):  
<https://beta.gov.wales/written-statement-welsh-government-bonds>

## Block grant adjustment and forecasting

### Block grant adjustment

44. The methodologies for adjusting the Welsh block grant following the devolution of tax powers were agreed as part of the fiscal framework<sup>22</sup>. The adjustment for 2018-19, relating to the introduction of land transaction tax and landfill disposals tax and the end of stamp duty land tax and landfill tax in Wales, has been revised on the basis of the forecasts in the *Economic and Fiscal Outlook* (October 2018) by the Office for Budget Responsibility (OBR)<sup>23</sup>. The adjustments for 2019-20 will be based on that forecast, including that to accompany the introduction of the Welsh rates of income tax. The income tax adjustment will be set equal to the revenues from the Welsh rates in this first, transitional year. The UK Government is planning to publish details of the revised adjustments later in the year.
45. The Welsh Government is carrying out analytical work to establish how forestalling behaviour affected stamp duty land tax and land transaction tax revenues over the transition period. The Welsh and UK governments are in discussions about the extent to which the block grant adjustment should allow for this behavioural effect. As a one-off behavioural spill-over effect of the devolution of taxes to Wales, the Welsh Government expects the block grant adjustment to be recalculated to take into consideration the impact of forestalling.
46. As specified in the fiscal framework, as the Welsh Government is setting the Welsh rates of income tax for 2019-20 at 10p (equivalent to the reduction being made by HM Treasury), the block grant adjustment for the Welsh Government for 2019-20 will be equal to the receipts.

### Forecasting

47. As part of the fiscal framework agreement, the Welsh Government committed to introducing arrangements for the independent production of revenue forecasts for devolved taxes. In the short-term, it was agreed the Welsh Government would produce its own independently assured forecasts, while putting in place longer-term arrangements.
48. Bangor Business School provided independent assurance of the Welsh Government's forecasts for land transaction tax and landfill disposals tax revenues as part of the 2018-19 Budget process<sup>24</sup>. The same arrangements are in place for the 2019-20 Budget, but the scope has been extended to include assurance of the Welsh Government's forecast methodology for Welsh rates of income tax. An independent scrutiny and assurance report was published alongside the draft outline Budget on 2 October<sup>25</sup>. A further report will accompany the final Budget on 18 December.

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<sup>22</sup> Information about the Welsh Government's fiscal framework, including the agreement, is published here: <https://gov.wales/funding/fiscal-reform/framework/?lang=en>

<sup>23</sup> [https://cdn.obr.uk/EFO\\_October-2018.pdf](https://cdn.obr.uk/EFO_October-2018.pdf)

<sup>24</sup> Bangor University *Independent scrutiny and assurance of devolved tax forecasts for Wales* (December 2017 update):

<https://beta.gov.wales/sites/default/files/bangor-final-report.pdf>

<sup>25</sup> Bangor University *Independent scrutiny and assurance of devolved tax forecasts for Wales* (October 2018) is available as a supporting document here:

<https://beta.gov.wales/sites/default/files/publications/2018-10/bangor-report-2018.pdf>



49. The Cabinet Secretary for Finance announced in July that the Welsh Government will enter into an arrangement with the OBR for the provision of Welsh tax revenue forecasts for the 2020-21 Budget and beyond<sup>26</sup>. The new arrangement with the OBR will formally start on 1 April 2019.
50. In support of the delivery of the Welsh Government's Budget, the OBR will produce two reports. These will include forecasts for Welsh taxes – land transaction tax and landfill tax – and Welsh rates of income tax, which will be based on the OBR's most recent macro-economic forecasts and any relevant specific data for Wales. The OBR's forecast will also take account of any Welsh Government tax policy changes. These reports will be published alongside the Welsh Government's outline draft Budget and the final Budget.
51. In addition, as part of the new arrangements, the OBR will increase its presence in Wales by engaging more substantially with interested organisations and individuals, including the National Assembly's Finance Committee. This will provide a link between the publication of the OBR's *Economic and Fiscal Outlook* in the Spring and the Welsh Government's draft Budget.
52. An updated Memorandum of Understanding and accompanying terms of reference will be published by the end of the 2018-19 financial year. The arrangements will be reviewed by the Welsh Government and the OBR after the first year.

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<sup>26</sup> Cabinet statement about the arrangement with Office for Budget Responsibility:  
<https://beta.gov.wales/written-statement-provision-welsh-tax-forecasts-office-budget-responsibility>

## Appendix 1: Regulations

Statutory instruments made since 16 December 2017.

### Made under powers in the Tax Collection and Management (Wales) Act 2016

- i. The Tax Collection and Management (Landfill Disposals Tax Records) (Wales) Regulations 2018
- ii. The Tax Collection and Management (Reimbursement Arrangements) (Wales) Regulations 2018
- iii. The Tax Collection and Management (Wales) Act 2016 (Consequential and Supplemental Provisions) Regulations 2018
- iv. The Tax Collection and Management (Wales) Act 2016 (Supplemental Provision) Regulations 2018

### Made under powers in the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017

- i. The Land Transaction Tax (Administration) (Wales) Regulations 2018
- ii. The Land Transaction Tax (Specified Amount of Relevant Rent) (Wales) Regulations 2018
- iii. The Land Transaction Tax (Tax Bands and Tax Rates) (Wales) Regulations 2018
- iv. The Land Transaction Tax (Transitional Provisions) (Wales) Regulations 2018
- v. The Land Transaction Tax (Transitional Provisions) (Wales) (Amendment) Regulations 2018
- vi. The Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 (Amendment to Schedule 5) Regulations 2018

### Made under powers in the Landfill Disposals Tax (Wales) Act 2017

- i. The Landfill Disposals Tax (Tax Rates) (Wales) Regulations 2018
- ii. The Landfill Disposals Tax (Wales) Act 2017 (Site Restoration Relief) (Amendment) Regulations 2018
- iii. The Landfill Disposals Tax (Administration) (Wales) Regulations 2018

### Made under other powers

- i. The Welsh Revenue Authority (Powers to Investigate Criminal Offences) Regulations 2018
- ii. The Proceeds of Crime Act 2002 (References to Welsh Revenue Authority Financial Investigators) Order 2018
- iii. The Proceeds of Crime Act 2002 (References to Welsh Revenue Authority Financial Investigators) (Amendment) Order 2018
- iv. The Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) (Amendment) (Wales) Order 2018

## Appendix 2: Engagement

### Tax Advisory Group (TAG)

The Tax Advisory Group (TAG) provides strategic advice to Welsh Ministers about tax policy and administration and considers the impact new policies may have on people in Wales. Its membership represents a broad range of perspectives and expertise to ensure the needs of people are represented at the highest level.

The group is chaired by the Cabinet Secretary for Finance 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<sup>27</sup>*

Andrew Evans, Geldards LLP

Frank Haskew, Institute of Chartered Accountants in England and Wales

Councillor Anthony Hunt, Welsh Local Government Association

Ben Francis, Federation of Small Business

Robert Lloyd Griffiths, Institute of Directors

Martin Mansfield, Wales TUC

Ruth Marks, Wales Council for Voluntary Action

David Phillips, Institute for Fiscal Studies

Kay Powell, the Law Society

Ian Price, CBI Wales

Leighton Reed, Broomfield & Alexander Ltd, representing the Institute of Chartered Accountants in England and Wales

Dr Victoria Winckler, the Bevan Foundation

Further information about the TAG is available on the Welsh Government's website<sup>28</sup>.

### Welsh Revenue Authority Tax Forum

The Welsh Revenue Authority (WRA) tax forum, chaired by the WRA's chief executive, is held at least twice a year in locations across Wales. It provides an opportunity for the WRA to engage with tax professionals using the two devolved Welsh taxes (land transaction tax and landfill disposals tax), sharing information and providing training to solicitors, conveyancers and landfill site operators and helping the WRA to identify areas for improvement. Discussion topics have included digital tax systems, guidance, technical matters and customer services.

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<sup>27</sup> Membership as at 1 December 2018.

<sup>28</sup> <https://beta.gov.wales/tax-advisory-group-wales>

The tax forum is integral to the WRA's *Our Approach*, which explains how it works collaboratively with representatives, partner organisations, taxpayers and the public to ensure taxes are collected efficiently and effectively.

The WRA also disseminates information to stakeholders, encouraging them to contribute to a survey on the WRA website or by emailing: [haveyoursay@wra.gov.wales](mailto:haveyoursay@wra.gov.wales). Other communication channels and forums have been established by the WRA, including bilingual Twitter feeds: @WRAtweet. A range of information is available on the WRA website, including guidance and corporate reports: [gov.wales/wra](http://gov.wales/wra). WRA news updates are provided in the WRA's corporate e-newsletter, which can be accessed via the WRA website.

### **Other ways to keep in touch**

The Welsh Treasury works with organisations in Wales to engage with stakeholders as we develop tax policy and to cascade content through to memberships and networks. If you would be interested in a contribution from Welsh Treasury on any aspect of fiscal devolution please contact us at: [WelshTreasury@gov.wales](mailto:WelshTreasury@gov.wales)

The social media campaign #mytaxmywales introduces wider messaging illustrating the link between taxes in Wales and spend on public services in Wales. Tax devolution in Wales is promoted on social media through a Welsh Treasury twitter account @WelshTreasury: <https://twitter.com/WelshTreasury> and with the hashtag: #welshtaxes

The Welsh Treasury pages on the Welsh Government website offer further information about tax devolution in Wales, including publications to view or download – both formal publications as well as factsheets and leaflets: [gov.wales/welshtaxes](http://gov.wales/welshtaxes)

A range of communications tools, including infographics, Twitter cards, Survey Monkey and Doopoll are used to communicate and engage with stakeholders. A video illustrating tax and spend in Wales is available on the Welsh Government You Tube channel<sup>29</sup>.

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<sup>29</sup> <https://www.youtube.com/watch?v=MrwinIA4KoY&feature=youtu.be>

## **Appendix 3: Further information**

A range of further information about 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 was 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**

#### *Closed consultations, undertaken prior to development of tax legislation*

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>

#### 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/contents/enacted>

#### Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017

This Act provides for the introduction of a land transaction tax from April 2018 and includes measures to tackle the avoidance of devolved taxes:  
<http://www.legislation.gov.uk/anaw/2017/1/contents>

#### Landfill Disposals Tax (Wales) Act 2017

This Act provides for the introduction of a landfill disposals tax from April 2018:  
<http://www.legislation.gov.uk/anaw/2017/3/contents/enacted>

## Welsh Government tax policy framework, work plans and reports

The Welsh Government's policy approach to Welsh taxes is described in the *Tax Policy Framework*, published June 2017. Annual work plans for 2017 and 2018, and reports from October 2017 and October 2018 describe analysis, findings and emerging conclusions:  
<https://gov.wales/funding/fiscal-reform/tax-policy-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>

### Command Paper: Powers for a purpose: towards a lasting devolution settlement for Wales

Issued in February 2015, this committed the UK Government to 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 to enable the Welsh Government to issue bonds:  
<https://www.gov.uk/government/publications/powers-for-a-purpose-towards-a-lasting-devolution-settlement-for-wales>

### Welsh Government's fiscal framework

Published 19 December 2016, this describes the funding arrangements to support the implementation of the fiscal provisions in the Wales Act 2014 and Wales Act 2017.  
<http://gov.wales/docs/caecd/publications/161219-fiscal-agreement-en.pdf>

### Wales Act 2017

The Wales Act 2017, which removed the requirement for a referendum on Welsh rates of income tax and increased the capital borrowing limit for the Welsh Government, received Royal Assent 31 January 2017:  
<http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

## **Appendix 4: Acronyms used in this report**

GOWA 2006	Government of Wales Act 2006
HMRC	Her Majesty's Revenue and Customs
JEC	Joint Exchequer Committee
JEC (O)	Joint Exchequer Committee (Officials)
OBR	Office for Budget Responsibility
TAG	Tax Advisory Group
WRA	Welsh Revenue Authority

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted



Document is Restricted

## Agenda Item 6

### **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 Paper<sup>1</sup> 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:

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<sup>1</sup> 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](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 WRIT<sup>2</sup>;
  - 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

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<sup>2</sup> 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 Parliamentarians<sup>3</sup>; 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.

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<sup>3</sup> 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 framework<sup>4</sup>, 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

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<sup>4</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/578836/Wales\\_Fiscal\\_Framework\\_Agreement\\_Dec\\_2016\\_2.pdf](https://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)<sup>5</sup> 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;

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<sup>5</sup> 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:

<b>£m nominal</b>	<b>2018-19</b>	<b>2019-20</b>
<b>Total deductions for Tax</b>	<b>268</b>	<b>2,334</b>
<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:

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

*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
<b>Total Reserve</b>	<b>325.6</b>

*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

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## Public Services Ombudsman for Wales

### 2<sup>nd</sup> Supplementary Budget 2018-19

#### Explanatory Memorandum to the Chair of the Finance Committee

## Background

The Public Services Ombudsman for Wales 2018-19 budget was included in the Annual Budget Motion required under Standing Order 20.26, laid on 19<sup>th</sup> December 2017 and amended at the first Supplementary Budget in April 2018. Movement of funds between revenue and capital are requested as follows:

## Capital

### Hardware

The need for investment in an IT infrastructure upgrade, including servers and back up / recovery solutions, has previously been highlighted to Finance Committee. This investment will manage the risks associated with PSOW nearing current server capacity and the lack of an efficient and quick full IT recovery solution.

### Software

Major enhancement to PSOW's case management system will be implemented by March 2019 that improve functionality and reporting.

No additional funding is requested but resource and cash virements from Revenue to Capital DEL.

2 <sup>nd</sup> Supplementary Budget 2018-19	Resource	Cash
	£000s	£000s
Capital DEL	204	204
Revenue DEL	-204	-204
<b>Net resource/cash requirement</b>	<b>-</b>	<b>-</b>

## Public Services Ombudsman for Wales

Supplementary Budget 2018/19	1 <sup>st</sup> Supplementary Budget 2018/19	2 <sup>nd</sup> Supplementary Budget 2018/19	Change
	£'000	£'000	
<b>Capital DEL</b>	25	229	204
<b>Fiscal Revenue DEL</b>			
Salaries and related costs	3,152	3,190	38
Premises	435	375	-60
Computer systems and support	225	160	-65
Office costs	130	110	-20
Advisory and legal fees	300	248	-52
Communications	70	40	-30
Training and recruitment	55	40	-15
Travel and subsistence	40	40	0
Audit fee	20	20	0
<b>Sub total</b>	<b>4,427</b>	<b>4,223</b>	<b>-204</b>
Income	-62	-62	0
<b>Total Fiscal Revenue DEL</b>	<b>4,365</b>	<b>4,161</b>	<b>-204</b>
<b>Non-cash DEL</b>			
Depreciation	70	70	0
<b>Revenue DEL (B+C)</b>	<b>4,435</b>	<b>4,231</b>	<b>-204</b>
<b>Total DEL (A+B+C)</b>	<b>4,460</b>	<b>4,460</b>	<b>0</b>
<b>Annually Managed Expenditure (AME)</b>			
Movement on LGPS	0	0	0
Provisions movement	20	20	0
<b>Total AME</b>	<b>20</b>	<b>20</b>	<b>0</b>
<b>Total Managed Expenditure</b>			
A+B+C+D	<b>4,480</b>	<b>4,480</b>	<b>0</b>
<b>Resources Required</b>	<b>4,480</b>	<b>4,480</b>	<b>0</b>
Depreciation	-70	-70	0
Change in Provisions	-20	-20	0
Other movements in Working Capital	20	20	0
<b>Net Cash Requirement</b>	<b>4,410</b>	<b>4,410</b>	<b>0</b>

Llyr Gruffydd AM  
Chair of Finance Committee  
National Assembly for Wales  
Tŷ Hywel  
Cardiff Bay  
CF99 1NA

18 December 2018

Dear Llyr

I am writing to bring to the Committee's attention the Commission's proposed change to its approved 2018–19 budget through the Supplementary budget process. The Commission is proposing to

- decrease the Annually Managed Expenditure (AME) budget by £0.500million
- decrease the Remuneration Board's Determination for Assembly Members budget by £0.500million.

## The AME Budget

The Commission's AME budget is for the non-cash accounting adjustment in respect of the future financial liability of the Assembly Members' Pension Scheme and is an accounting adjustment rather than a cash requirement.

The actual value of AME cannot be calculated until after 31 March 2019. The Commission therefore seeks a professional estimate of the year end value during the financial year. Actuarial advice received indicates that the liability could be £1.439million which is below the budget. Therefore, the Commission proposes to decrease the AME Budget by £0.500million. This will not impact on service delivery as this budget is managed independently of the Resource Budget.



## The Remuneration Board's Determination for Assembly Members Budget

The Remuneration Board's Determination budget for 2018–19 is set at £16.201million. The November 2018 forecast for this budget line is £14.798million, an underspend of £1.403million.

The 2018–19 budget document, approved by the Assembly, stated that £600k of this underspend would be required to fund priority projects. The majority of this amount has been allocated to priority projects. This leaves a remaining underspend of £803k. Budget meetings with Members' Business Services (MBS) have indicated that there is a high likelihood of £500k of this remaining budget remaining unutilised.

It would not be considered prudent to reduce this budget line by £803k due to the changes being introduced by the Remuneration Board during 2018–19 and the likelihood of unexpected items impacting on this budget e.g. death in service payments and late claims.

Nevertheless, while it would certainly be possible to bring forward priority projects in to this financial year in order to utilise £500k, we are mindful of our commitment regarding any underspend against the Remuneration Board Determination in future years. Accordingly, we are adopting the same principle for the unutilised sum identified this year; we will not draw down the £500k and present this supplementary budget to amend the original laid budget.

The effect on the overall Commission budget for 2018–19 will be as shown in the table below:

	Approved Budget £m	Proposed Supplementary Budget £m	Proposed revised Budget £m
Resource Budget	£37.887		£37.887
Members' budget	£16.201	–£0.500	£15.701
AME Budget	£2.000	–£0.500	£1.500
Total	£56.088	–£1.000	£55.088

In accordance with Standing Order 20.32 the Commission will be laying an explanatory memorandum with this request. A copy of this document is attached for your convenience. If you need further information, please let me know.





Yours sincerely

*Suzy Davies*

Suzy Davies

cc Manon Antoniazzi, Nia Morgan

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



# **Supplementary Budget 2018-19:** Explanatory Memorandum

December 2018



The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales, agrees Welsh taxes and holds the Welsh Government to account.

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**Cardiff Bay**  
**CF99 1NA**

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# **Supplementary Budget 2018-19:** Explanatory Memorandum

December 2018

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## 1. Background

The Commission's **2018-19 Budget** was included in the Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 15 November 2017, following scrutiny by the Assembly's Finance Committee.

The budget motion provided the Commission with £56.088million of Resource Budget in relation to:

- £37.887million for Assembly services; and
- £16.201million for the Remuneration Board's Determination for Assembly Members.

A further £2.000million was provided for non-cash accounting adjustments in respect of the Assembly Members' Pension Scheme, through the Annually Managed Expenditure budget.

This Explanatory Memorandum is laid in compliance with Standing Order 20.32, in support of changes to be proposed to the Commission's approved budget, via Supplementary Budget Motion.

### 1.1. Explanatory memorandum

The effect of the Commission's supplementary budget will be to decrease Annually Managed Expenditure in line with projections and to decrease the Remuneration Board's Determination for Assembly Members in line with projections.

### 1.2. Annually Managed Expenditure (AME)

The Commission's AME budget is for the **non-cash** accounting adjustment in respect of the future financial liability of the Assembly Members' Pension Scheme. The purpose of this adjustment is to ensure a true and fair view of the Scheme liability is recorded in the balance sheet of the Commission; it does not reflect the monetary sums paid by the Commission into the Scheme. There is no associated cash requirement and making changes to it has no impact on the Commission Resource budget or service delivery.

The final value cannot be calculated until after 31 March, but estimates are requested from professional advisors during the year. Based on calculations reflecting known changes to the discount rate and other variables which impact

on the estimated liabilities of the scheme, the latest estimate is just under £1.500million.

The Commission is therefore proposing a supplementary AME budget of £1.500million in order that there is sufficient contingency to manage any variation from the estimate in the final year-end figures.

### 1.3. Remuneration Board's Determination for Assembly Members

The Remuneration Board is the independent body that determines the pay and remuneration of Members and their staff and the system of financial support needed for Members to fulfil their responsibilities as elected representatives.

The Determination provides funds to cover the expenses associated with being a Member and / or an office holder, for example:

- running an office and engaging with constituents;
- salaries and travel expenses of the support staff;
- residential accommodation in Cardiff for Members whose home is a significant distance away (eligibility criteria apply); and
- support for the Party Groups and policy research.

The final costs cannot be calculated accurately until after 31 March, with forecasts made during the year. Based on current expectations, mainly due to staff vacancies, not all of the funds budgeted for support staff salaries are likely to be called upon.

The Commission is therefore proposing a supplementary budget for the Remuneration Board's Determination for Assembly Members of £15.701million in order that there is sufficient contingency to manage any variation from the estimate in the final year-end figures.

### 1.4. Budget impact

The Supplementary Budget Motion proposes the following:

- a decrease to the AME budget of £0.500million to £1.500million. This does not impact on the cash requirement.
- a decrease to the Remuneration Board's Determination for Assembly Members budget of £0.500million to £15.701million. This reduces the cash requirement by £0.500 million.



## 2. Budget Ambit

This supplementary budget submission is laid in compliance with National Assembly Standing Order 20 to assist in the compilation of the Budget Motion required by Section 126 of the Government of Wales Act 2006. This submission seeks to amend the resource and annually managed expenditure requirements of the Assembly Commission for the year ending 31 March 2019.

The Supplementary Budget Motion authorises the net resources to be used for the services and purposes of Members and Assembly Services. The motion includes the maximum income (or accruing resources) that may be retained for use on those services and purposes instead of being paid into the Welsh Consolidated Fund, and the cash amount that will need to be issued from the Welsh Consolidated Fund to meet the anticipated net amounts falling due for payment by the Commission.

The amended 2018-19 Budget for the Assembly Commission, addressing the revised requirements, is set out in Table 1 below.

Table 1	Revised £000
Resources other than accruing resources for use by the National Assembly for Wales Commission ("the Commission") on resource and capital costs associated with the administration and operation of services to support the National Assembly for Wales ('the Assembly'); promotion of the Assembly including payments to the Electoral Commission and others; payments in respect of the Commissioner for Standards and Remuneration Board; any other payments relating to functions of the Assembly or the Commission.  Resources other than accruing resources for use by the Commission in respect of decisions of the Remuneration Board and expenditure in respect of Assembly Members' Pension provision.	55,088
Accruing resources for retention pursuant to section 120(2) of the Government of Wales Act 2006 and use by the Commission: <ul style="list-style-type: none"> <li>from the disposal of fixed assets and other capital income for use on the purchase or acquisition of fixed assets; or</li> <li>rental income; gifts; grants ; recharges and income from commercial sales and other services provided to the public or others for use on administrative costs of the Assembly.</li> </ul>	300
Amount to be issued from the Welsh Consolidated Fund to meet the anticipated amounts falling due for payment in the year in respect of the above services and purposes less expected retainable receipts and recoverable VAT.	51,538

Table 2 below reconciles the net resource requirement to the cash drawing requirement from the Welsh Consolidated Fund.

<b>Table 2: Cash requirement</b>	<b>£000</b>
	<b>2018-19 Revised</b>
Members' Revenue Requirement	15,701
Commission Revenue Requirement	37,387
Capital Requirement	500
Assembly Members' Pension Provision (AME)	1,500
<b>Subtotal</b>	<b>55,088</b>
<i>Adjustments:</i>	
Depreciation (Non cash)	(2,400)
Movements in provisions	(1,500)
Movement in debtors and creditors	350
<b>Subtotal</b>	<b>(3,550)</b>
<b>Net cash requirement for issue from the Welsh Consolidated Fund</b>	<b>51,538</b>







Llyr Gruffydd AM  
Chair of Finance Committee  
National Assembly for Wales  
Tŷ Hywel  
Cardiff Bay  
CF99 1NA

19 December 2018

Dear Llyr

I am writing in response to the Committee's Report on the Scrutiny of the Assembly Commission Draft Budget 2018–2019. This report was published in October 2017. The report included the following recommendation

**Recommendation 5: *The Committee recommends that the Commission provides an in-year update (before the end of each calendar year) on likely Remuneration Board underspend along with any significant changes to planned projects to be funded using these underspends.***

As requested, we are now providing you with information on the projected underspend in relation to money drawn down to fund the Remuneration Board Determination and to show how this underspend is being utilised by the Assembly Commission during 2018–19.

We will always consider returning any underspend on the overall Commission budget (as was done with a rates rebate in February 2014), if we conclude that we are not able to make efficient, effective use of the available funds to deliver Commission priorities within the financial year.



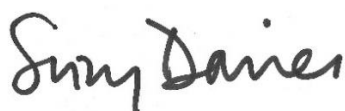
During 2018–19 we have had to address new and significant demands on the Commission’s resources, brought about by Brexit and Assembly Reform. However, we have also experienced a greater than expected underspend on the operational budget resulting from higher levels of staff churn. This has meant that we have been able to deliver our investment priorities and meet new resource demands (within the establishment cap) from the operational budget.

As a result, a supplementary budget has been sent to the Finance Committee for approval, reducing the size of the Remuneration Board’s Determination budget by £0.5m.

I’d also like to take this opportunity to update you on a delay to the introduction of International Financial Reporting Standard (IFRS) 16 – Leases, referred to in the 2019–20 Commission Budget, the Annex provides further detail.

As ever, if there is any further information your Committee would like, please let me know.

Yours sincerely

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

Suzy Davies

cc Assembly Commissioners, Manon Antoniazzi, Nia Morgan



## **Annex: International Financial Reporting Standard (IFRS) 16 – Leases**

The 2019–20 Commission Budget highlighted a possibility for a potential in-year supplementary budget arising from forthcoming changes as a result of IFRS 16 – Leases. The following note was circulated by HM Treasury on 28 November:

### ***IFRS 16 Update***

*As you know, last Thursday 22 November FRAB (Financial Reporting Advisory Board) held a meeting to discuss, among other things, IFRS 16.*

*At that meeting FRAB confirmed HM Treasury's recommendation to defer IFRS 16 to 1 April 2020, and to allow early adoption under limited circumstances (using the criteria recommended by HM Treasury).*

*FRAB also confirmed most of the staff's recommendations regarding the interpretations, adaptations, and application guidance for IFRS 16. HM Treasury will publish this guidance in December 2018. There are two areas where FRAB still needs to confirm decisions: the subsequent measurement of the right-of-use asset, and whether to include guidance for arrangements with nil consideration. The FRAB plan to reach decisions on these areas at their March meeting and HM Treasury will communicate these decisions as soon as they are reached.*

*In their meeting, FRAB emphasised that this deferral would be strictly limited to one year and that they expect entities to continue their implementation efforts throughout 2019. Budgeting guidance will be published in March 2019. They also emphasised the importance of alignment of IFRS 16 implementation across government. To this end, CIPFA/LASAAC have also agreed to defer the effective date of IFRS 16 for one year to 1 April 2020. Moreover, HM Treasury and CIPFA/LASAAC staff will work together to arrive at an answer regarding subsequent measurement of the right-of-use asset.*

This change will now take effect from the start of the 2020–21 financial year. We will not therefore be submitting an in-year supplementary budget during 2019–20 relating to IFRS 16 – Leases.

**Assembly Commission**

**December 2018**

