

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

# Seventh and Final 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 Senedd pursuant to Section 23(1)(c) of  
the Wales Act 2014

May 2021



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## Foreword



This is the final report on the implementation of the devolution of tax and borrowing powers under Part 2 of the Wales Act 2014.

Implementing Welsh Rates of Income Tax and creating devolved taxes has placed greater accountability at the heart of the Welsh devolution settlement with the Welsh Government becoming responsible for raising more of the money it spends.

Over the last seven years this work has delivered the transition from Stamp Duty Land Tax and Landfill Tax in Wales to Land Transaction Tax and Landfill Disposals Tax respectively, as well as the introduction of Welsh Rates of Income Tax. The successful implementation of fiscal devolution stands as testament to the positive collaboration between the UK Government and the Welsh Government and means that Welsh devolution is stronger as a result.

**RT HON SIMON HART MP  
SECRETARY OF STATE FOR WALES**

## Introduction

1. This is the seventh and final report on the implementation of Part 2 of the Wales Act 2014 since the Act gained Royal Assent on 17 December 2014. 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.
2. The financial provisions have been implemented over a number of years. Stamp Duty Land Tax and Landfill Tax were devolved in line with the timetable set out in the Command Paper<sup>1</sup> which accompanied the publication of the Wales Bill in March 2014. The agreement of the Fiscal Framework for Wales enabled the introduction of Welsh Rates of Income Tax (WRIT) from April 2019. All provisions in Part 2 have been fully implemented and no further work is therefore necessary.
3. In order that both Parliament and the Senedd Cymru / Welsh Parliament (the “Senedd”) 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 Senedd 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 Senedd, and to report themselves to the Senedd 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.
4. Section 23(4) of the Wales Act 2014 requires the final report to be made on, or as soon as practicable after, the first anniversary of the end of the financial year in which the last measures in Part 2 were implemented.
5. Section 23(7) of the Wales Act 2014 sets out a number of requirements on the content of the annual reports. These requirements are set out in Annex A alongside the detailed list of paragraphs which address each of them. The Sixth Annual Report, published in December 2020, detailed the final

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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)

work to implement Part 2 and no further work has been necessary in the intervening period. This report therefore briefly summarises the steps to implementation that are set out in greater detail in previous reports.

### Welsh Rates of Income Tax

6. WRIT came into effect on 6 April 2019, with income tax customers resident in Wales now paying Welsh rates set by the Welsh Government and the Senedd in the Welsh Rate Resolution<sup>2</sup>. This took a significant amount of joint working by HMRC and the Welsh Government since the Wales Act 2014, including to identify Welsh taxpayers and communicate changes to them. The detail of this work is set out in previous reports. As this section has been fully implemented, no additional steps have been taken since the sixth report published in December 2020.
7. The overall cost of implementing WRIT was £7.95m. This does not include the ongoing costs of operating WRIT, which HMRC will continue to recharge to the Welsh Government. As of 8 December 2020, HMRC has invoiced the Welsh Government £7.79m to implement WRIT.
8. Operating costs are estimated to be in the region of £550,000 for 2020-21.

### Welsh Taxes on Land Transactions and Disposals to Landfill

9. 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.
10. In summer 2017, the Senedd 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.
11. 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. As detailed in previous reports, the Project Board oversaw IT changes, a joint communications plan, the implementation of robust business readiness measures and the acceptance of a joint data sharing agreement between HMRC and the Welsh Revenue Authority (WRA). The Project Board closed in July 2019 on completion of the work.

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<sup>2</sup> The Welsh Rate Resolutions are approved by the Senedd before the start of each tax year (15 January 2019 for the 2019-20 tax year, 3 March 2020 for the 2020-21 tax year and 9 March 2021 for the 2021-22 tax year). Each set the income tax rates in Wales at the same level as in the rest of the UK (excl. Scotland).

12. The Welsh Revenue Authority (WRA) has full responsibility for management of these devolved taxes. HMRC continues to collaborate with WRA, sharing information and developing joint compliance approaches.

### Borrowing Powers

13. 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).

14. In December 2016, the Welsh Government's fiscal framework included changes to the Wales Act 2014 capital borrowing arrangements:

- The overall capital borrowing limit was increased from £500m to £1bn (as legislated in Wales Act 2017). The annual capital borrowing limit was also increased to £150m from April 2019; and
- In addition to borrowing from the NLF or commercial banks to fund capital expenditure, the Welsh Government would be able to issue bonds. In December 2018, the UK Government therefore made an Order under section 121(4) of the Government of Wales Act 2006 to amend section 121(1A) of that Act.

### Power to create new taxes

15. With the agreement of both Governments, further powers can be devolved through secondary legislation to enable the Senedd to introduce new Wales-specific taxes. These powers provide the Senedd with a means of achieving policy outcomes, as well as potentially raising additional revenues. The Command Paper published alongside the Wales Bill in 2014 has further details on new tax proposals.



16. As set out in previous reports In January 2018 UK and Welsh Government Ministers agreed a process for assessing any Welsh Government proposals for new Wales-specific taxes<sup>3</sup>. This process is governed by the Joint Exchequer Committee (JEC)<sup>4</sup> and managed by the officials' group which supports it (JEC(O)).

#### *A Vacant Land Tax*

17. The Welsh Government notified the Senedd 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.
18. In line with that process and recognising that final decisions on the merit and design of a devolved tax will only be made by the Welsh Government and Senedd, the Welsh Government and HM Treasury have been working to agree a draft Order and supplementary information so that it can be assessed, notably according to criteria set out in the Command Paper published alongside the Wales Bill in 2014. HM Treasury remains committed to working with the Welsh Government to identify and compile the material needed.

#### Effect of new powers on the Welsh Block Grant

19. The UK government and Welsh Government 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.
20. 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;

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<sup>3</sup> This process was previously set out in the Fourth Annual Report on the Implementation and Operation of Part 2 (Finance) of the Wales Act 2014.

<sup>4</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.

- 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.
21. These arrangements have determined the Welsh Government's block grant funding for 2018-19 onwards. The resulting funding is set out in HM Treasury's annual Block Grant Transparency publication, the most recent of which was published in July 2020 covering funding up to and including Main Estimates 2020-21<sup>5</sup>.

### Other Activities towards Implementation

#### *Wales Reserve*

22. The Wales Reserve became operational alongside the devolution of Stamp Duty Land Tax and Landfill Tax in April 2018. The Wales Reserve can hold £350m in aggregate with no annual cap on payments into the Reserve. The Welsh Government have an annual drawdown limit of £125m resource and £50m capital.

£m	December 2020
Resource	228.6
Capital excluding Financial Transactions	40.2
Financial Transactions Capital	67.1
<b>Total Reserve</b>	<b>335.9</b>

*Wales Reserve total*

### Other Reporting Requirements

23. In addition to the areas covered in previous chapters 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 Senedd 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;

<sup>5</sup> <https://www.gov.uk/government/publications/block-grant-transparency-july-2020>

- 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 Senedd.
24. This report is the seventh 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.
25. 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 brought forward an Order to implement WRIT from 2019-20.
26. 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.
27. As set out in the fiscal framework, the annual limit on the amount of capital expenditure was also increased. Following the introduction of WRIT, the annual limit has been set at 15% of the overall borrowing cap, which is equivalent to £150 million a year.

### Conclusion

28. 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 made on or before the anniversary of the date on which Royal Assent was received (17 December 2014).
29. In accordance with Section 23(4) of the Act, the final annual report on the implementation of Part 2 of the Wales Act 2014 must be made on, or as soon as practicable after the first anniversary following the end of the financial year in which the last of the financial provisions in the Act were introduced.
30. As the last of the financial provisions in the Act were implemented following the successful introduction of Welsh Rates of Income Tax on 6 April 2019, this is the final annual report.

## **Annex A: Reporting Requirements in the Wales Act 2014**

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,*

Paragraph 5

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,*

Paragraph 2

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

Paragraphs 24 - 27

4. *an assessment of the operation of any other powers to devolve taxes to the Senedd 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,*

Paragraphs 24 - 27

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*

Paragraphs 24 - 27

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 Senedd.*

Paragraphs 24 - 27

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