



# **Empowerment and Responsibility: Financial Powers to Strengthen Wales**

## **Executive Summary**

November 2012



**Commission on Devolution in Wales  
Comisiwn ar Ddatganoli yng Nghymru**

# Executive Summary

## Introduction

The establishment of the Commission on Devolution in Wales was a commitment in the UK Government's Coalition Agreement. The Commission was launched on 11 October 2011, with the support of the Welsh Government and the three opposition parties in the National Assembly for Wales.

In this summary we set out how we have gone about our work, how we have drawn upon the evidence presented to us, the principles which underpin our thinking, and the recommendations we have reached as a result.

## Our Commission (Chapter 1)

Our remit is divided into two parts. During Part I, we have been asked to consider the National Assembly for Wales's current financial powers in relation to taxation and borrowing and report by Autumn 2012. Our terms of reference for Part I were:

*"To review the case for the devolution of fiscal powers to the National Assembly for Wales and to recommend a package of powers that would improve the financial accountability of the Assembly, which are consistent with the United Kingdom's fiscal objectives and are likely to have a wide degree of support."*

Following the publication of this report we will begin work on Part II, reviewing the current non-financial powers of the National Assembly for Wales. We will report on Part II by Spring 2014.

Consideration of the Holtham Commission's proposals for funding reform in Wales and Welsh Ministers' existing borrowing powers was excluded from our terms of reference. These issues are being taken forward through a separate bilateral process between the UK and Welsh Governments.

The Secretary of State for Wales appointed Paul Silk to chair the Commission. In addition, two other members were appointed independently of political parties, Dyfrig John CBE and Professor Noel Lloyd CBE.

Each of the political parties in the National Assembly for Wales also nominated a member to the Commission. They are: Professor Nick Bourne, the Welsh Conservative nominee; Sue Essex, the Welsh Labour nominee; Dr Eurfyl ap Gwilym, the Plaid Cymru nominee; and Rob Humphreys, the Welsh Liberal Democrat nominee.

## Our method of working

We have approached our task with an open mind, a keenness to engage with the people of Wales and to consider the views of other parts of the United Kingdom, and a commitment to base our thinking on evidence and experience. We have sought to be open, transparent and consensual in our work.

We have heard the views of the public by holding 28 public meetings across Wales and through our questionnaire and opinion poll, the most focussed and in-depth held in Wales on this subject.

We placed our call for evidence on our website, and wrote to hundreds of individuals, businesses and other organisations, inviting them to contribute to our discussions and considerations. We have received invaluable contributions. We have consulted extensively with the Welsh and UK Governments and with Members of the National Assembly for Wales and of both Houses of Parliament. We also visited Scotland and Northern Ireland.

On our website, we published extensive information about our work and meetings, our public engagement, evidence presented to us and our own research and public debates.

We have been fortunate to be able to draw on the final report of the Holtham Commission, which has wide support among the main Welsh political parties. We have also been able to draw on the Commission on Scottish Devolution's Report and on the Scotland Act 2012 that implements many of its proposals, as well as other developments both in Scotland and Northern Ireland.

We are grateful to all those who took the time to give us the benefit of their views and experience. We have drawn on their contributions, as well as our own research, to reach our conclusions. Our agreed report marks the conclusion of our work on the first part of our remit.

## **How Wales is currently funded (Chapter 2)**

Spending by the Welsh Government and Welsh local authorities amounts to well over 50 per cent of identifiable public spending in Wales, with the UK Government responsible for the remainder.

The bulk of the budget of the National Assembly for Wales and the Welsh Government comes from a block grant from the UK Parliament. Changes in this block grant largely reflect spending decisions made by the UK Government for programmes in England that are devolved in Wales, using a mechanism called the Barnett formula. This formula has been used since 1978, long before devolution, to decide how the Welsh Office was funded as a department of the UK Government. It has carried on largely unchanged from that time. Once the block grant is transferred, it is up to the Welsh Government, with the National Assembly's approval, to decide how it will be spent.

The Welsh Government and National Assembly for Wales cannot change the size of the Welsh budget. The Welsh Government has wide spending powers, but it does not have tax powers, apart from local taxation - it sets the level of non-domestic rates and influences rates of council tax.

Wales, along with most other parts of the United Kingdom, receives more in spending than it raises in taxation. This characteristic of fiscal transfers is important for the economic success of the Union and is maintained in our proposals.

## **Principles of fiscal devolution (Chapter 3)**

In international terms, while there is no single best devolved funding model, the National Assembly for Wales is unusual, if not unique, in having legislative and spending powers but not tax and borrowing powers. Other similar 'sub-national' governments in other countries have these powers.

We have considered what the principles should be for assessing a funding system and, from evidence received, we decided these to be: accountability; autonomy; cooperation and constructive engagement between the UK Government and the devolved administrations;

economic incentivisation; efficiency; empowerment; equity; fiscal discipline; simplicity; stability, predictability and sustainability; and transparency.

We believe that any change in the system of funding for Wales should be judged against these principles, with particular emphasis on accountability, empowerment, efficiency, economic incentivisation and equity. Changes to the way in which the Welsh Government is funded should benefit Wales and therefore the United Kingdom.

These principles have underpinned the recommendations we have reached throughout this report, while recognising that it may be difficult to meet all the principles to the same extent.

### **What funding model should be in place?**

We have then turned to possible models for funding the Welsh Government and assessed these against our principles. The four most common models are the existing block grant system; block grant plus assignment of tax receipts without devolving the power to vary tax rates; block grant plus some tax devolution; and moving towards full fiscal devolution where spending in Wales would be determined by taxes raised in Wales.

In assessing these models, we have had regard to our terms of reference, which asked us to suggest how to improve the financial accountability of the National Assembly for Wales. The existing system has certain strengths. The freedom which the Welsh Government has in how to spend the money it receives has provided some financial accountability for the devolved institutions.

But the present system also has shortcomings. Most significant to our remit is the shortcoming that, because the budget comes largely in a grant from the UK Parliament, the Welsh Government and National Assembly for Wales are not accountable to the Welsh electorate for how revenue is raised in the same way that they are for how it is spent. This is unlike local authorities in the United Kingdom or devolved governments overseas. We believe changes to the existing system could deliver greater responsibility and empowerment to the Welsh Government.

We believe the block grant alone, or with assigned taxes, does not provide sufficient financial accountability and empowerment. Fuller fiscal autonomy would remove the fiscal transfer on which the successful Union is based. We have therefore concluded that a combination of block grant with some tax devolution would be best for Wales.

### **Which taxes should be devolved? (Chapters 4 and 5)**

We have then considered which taxes should be devolved. We have assessed any potential benefits of devolving specific taxes, focussing on the principles discussed above, as well as the potential consequences and costs, including cross-border impacts if tax rates were different in Wales, administrative consequences and the interaction between the devolution of tax powers and the block grant.

There is a range of smaller taxes that, if devolved, while only going a limited way to increasing financial accountability would better empower the National Assembly for Wales to deliver policy objectives in devolved areas. We have therefore recommended that Stamp Duty Land Tax, landfill tax and (subject to on-going state aid discussions) aggregates levy should be devolved to the Welsh Government. We have also recommended the devolution of long haul rates of Air Passenger

Duty, and consideration of full devolution in the future. We do this in the context of the wider consideration of regional airport developments across the United Kingdom associated with the independent commission on airport capacity, chaired by Sir Howard Davies.

In addition, we have recommended that business rates should be fully devolved to the Welsh Government in the same way as in Scotland and Northern Ireland, provided the UK Government and Welsh Government agree the appropriate adjustment to the Welsh block grant.

However, for the financial accountability and empowerment of the National Assembly for Wales to be improved sufficiently, it should be responsible for raising a more substantial proportion of its spending. It should be responsible for a tax that most people pay and are conscious of, so that decisions made by the National Assembly for Wales are ones in which most people have a stake. Of the four larger taxes (corporation tax, Value Added Tax, National Insurance Contributions and income tax), we have concluded that income tax would be appropriate for partial devolution. As in Scotland, the taxation of income on savings and dividends should not be devolved.

We have recommended that the Welsh Government should share responsibility for income tax at all rates with the UK Government. The most straightforward way for this to happen is for the UK Government to decide the structure of income tax, including the personal allowances and the income thresholds to which income tax rates are applied. The UK Government would then reduce each rate of income tax that applies in Wales by ten pence in the pound, and also reduce the grant to the Welsh Government by an equivalent amount.

The National Assembly for Wales would then vote to decide the level of Welsh income tax for each rate (currently basic, higher and additional) individually. This could restore the 10p that was deducted (to restore the status quo) or different rates could be applied to each rate. The power to individually vary income tax rates that are applied to each band in Wales is essential to the design of the devolved income tax system in Wales. If the tax rates were raised, the Welsh budget would be higher; and if they were reduced, the Welsh budget would be lower.

Over time the revenue from the devolved Welsh income tax may increase more or less than the block grant depending on whether the Welsh income tax base grows faster or slower than the rest of the United Kingdom. Recent trends have been favourable for Wales; and devolving the responsibility for powers over income tax would further incentivise the Welsh Government to improve the performance of the Welsh economy. In this context we have recommended that the block grant adjustment mechanism in the Holtham report (the indexed deduction method), which has been adopted by the UK Government in Scotland, should be applied in Wales.

We have considered carefully the arguments which we have heard against devolving income tax. There are, for example, concerns about the porous border with England. If income tax were devolved as we propose, the Welsh Government would need to consider carefully any cross-border impacts in setting Welsh income tax rates, but we think that any such impacts should be manageable under our proposed system.

In summary we believe that our income tax proposals will create a fairer public finance system for Wales by enabling the size of the Welsh budget to be decided in Wales and by giving Wales a share of increased tax revenues when the Welsh economy performs better than the UK average.

We have not recommended that corporation tax be devolved, as the costs would outweigh the benefits – unless it is devolved in Scotland and Northern Ireland, in which case devolution would also need to be offered to Wales. We have, however, recommended that the Welsh Government should be able to introduce more Enterprise Zones in Wales that benefit from increased capital allowances than its population based share, provided the Welsh Government bears the cost.

We have also made a number of detailed recommendations on how devolved taxation should be administered, on future UK taxes and on a power enabling the Welsh Government to introduce innovative Welsh taxes if it wishes, similar to the power in the Scotland Act.

While these recommendations will reduce the National Assembly's reliance on the grant from the UK Parliament, the grant will still provide a substantial share of its funding. We think that this is right because it reflects the principle of the Union that taxes are pooled together and shared out in the form of a grant.

The intergovernmental talks between the UK and Welsh Governments have been considering the basis of this grant, referred to as 'fair funding'. We welcome these talks. 'Fair funding' is outside our terms of reference, but we have recommended that the transfer of income tax powers to the Welsh Government should be conditional on resolving the issues of fair funding in a way which is agreed by the UK and Welsh Governments.

## **Borrowing (Chapter 6)**

At present, the Welsh Government can only borrow from HM Treasury to manage its cash flow. Its capital expenditure, like its current expenditure, is determined by the Barnett formula (with the exception of presently unused capital borrowing powers inherited from the Welsh Development Agency - these are beyond our remit and are being considered in the intergovernmental talks).

The tax powers we have recommended will give the Welsh Government some control over its total spending, but to be fully accountable for its spending decisions it should be able to influence the total of its capital spending in any one year as well. So we have recommended the Welsh Government has the capacity to borrow for capital investment on a prudent basis subject to limits agreed with HM Treasury. Borrowing does not, of course, increase the total that is available to spend in the long run because it has to be repaid, with interest. But it does provide useful flexibility for the Welsh Government to manage major capital investment projects and, like the Scottish Government's borrowing powers, can be managed within the United Kingdom's overall macro-economic framework.

In addition, the Welsh Government should be given similar powers to the Scottish Government over borrowing for current spending to manage the volatility of tax receipts under the new funding system.

We have also recommended that the UK and Welsh Governments should work together to promote other innovative ways of increasing investment in Wales, although we do not believe that new powers are required in these areas.

## **Further improving financial accountability (Chapter 7)**

We have also made a number of recommendations about how financial accountability can be improved through ways other than devolving tax and borrowing powers. It was clear from the evidence we received that people would like to see better information on the Welsh public finances, economy and public services; the strengthening of institutional arrangements for devolved funding; improvements to the way public spending is planned and controlled in Wales; and greater transparency.

We have recommended a series of measures which aim to achieve this. These include improved tax and other financial data for Wales; consideration of a possible wider role for the Office for Budget Responsibility on the public finances and economy of Wales; strengthened consultation and working arrangements between institutions; and improvements to the Welsh public spending system.

## **Implementation (Chapter 8)**

Our recommendations represent significant changes and therefore need to be introduced on a step-by-step basis.

We believe a new Wales Bill should be introduced in this Parliament to take forward the recommendations we make which require legislation. Changes which do not require legislation should be introduced as soon as possible.

The devolution of income tax represents a fundamental constitutional shift in powers from London to Cardiff. We believe that the devolution of income tax should be subject to a referendum. The provision for this referendum should be contained in the Act which devolves tax and borrowing powers.

Institutional arrangements need to be strengthened. We recommend a number of possible ways of achieving this such as setting up a Welsh Treasury function in the Welsh Government and building the National Assembly for Wales's capacity for financial scrutiny.

## **The overall impact and looking to the future (Chapter 9)**

Throughout our work, we have worked as a team and we are satisfied our package of recommendations meets the Commission's remit.

The package would result in changes that are significant, rational and practical. Taken together these recommendations would create a Welsh tax and borrowing system for the first time. They would mean that around a quarter of the Welsh budget would be funded by taxes decided and raised in Wales. In our view that would provide real financial accountability, empowerment, fiscal responsibility and choice for the National Assembly for Wales.

The taxation and other proposals we have made should be kept under review as circumstances change. Particularly important in this context will be the outcome of the Scottish referendum on independence.

We believe the package we recommend meets the fiscal principles that we adopted:

- it would strengthen accountability by empowering the National Assembly for Wales to set its own budget, so linking taxation and representation at the Welsh level as well as the UK level;



- it would promote efficiency and growth by providing additional levers and incentives to strengthen the Welsh economy and to develop other devolved policies;
- it would promote equity and fairness by ensuring Welsh spending is related in some measure to Welsh taxation, by enabling the National Assembly for Wales to develop a Welsh tax system that accords with the Assembly's democratic mandate, and by providing Wales with borrowing powers following those in Scotland and Northern Ireland;
- it would promote a funding settlement based on the principles of agreement and mutual consent;
- it would promote the principle of fiscal discipline by maintaining fiscal credibility at the United Kingdom and Welsh levels, and would maintain a stable and predictable funding system;
- it would promote the principle of transparency in the operation of the new system; and
- It would promote the principle of simplicity by avoiding devolution in more complex areas of the tax system while offering the opportunity for the Welsh Government to introduce more simple devolved taxes.

We have ensured that our recommendations are firmly based on the available evidence, and we have drawn extensively on the wide range of views presented to us through all the methods we have used to garner opinion.

We have assessed the impact of our recommendations on Wales and other parts of the United Kingdom. We believe they will strengthen the Welsh economy and business, and benefit all parts of Wales and the United Kingdom as a whole.

Central to our work has been a desire to secure a wide degree of support. This report has been agreed by the whole Commission and we commend it to the UK Government for speedy implementation in consultation with the Welsh Government.

## RECOMMENDATIONS

We set out below the recommendations we have made in the order they appear in the main report.

### Chapter 3

- R.1.** The current funding arrangements for the Welsh Government do not meet the requirements of a mature democracy and are anomalous in an international context. The funding model of a block grant and some devolved taxes best meets sound principles for funding the Welsh Government. We therefore recommend that part of the budget for the Welsh Government should be funded from devolved taxation under its control.

### Chapter 4

- R.2.** Business rates should be fully devolved, subject to the Welsh and UK Governments agreeing the details and assessing any risks involved.
- R.3.** Stamp Duty Land Tax should be devolved to the Welsh Government with Welsh Ministers given control over all aspects of the tax in Wales. A fixed deduction should be made to the block grant with the value of this agreed between the Welsh and UK Governments taking due consideration of the volatility of receipts.



- R.4. Landfill tax should be devolved to the Welsh Government with Welsh Ministers given control over all aspects of the tax in Wales. A fixed deduction should be made to the block grant with the value of this agreed between the Welsh and UK Governments taking due consideration of the declining taxable base.
- R.5. Subject to the outcome of discussions between the UK Government and the EU Commission on state aid issues, aggregates levy should be devolved to the Welsh Government, with Welsh Ministers given control over all aspects of the tax in Wales. A fixed deduction should be made to the block grant with the value of this agreed between the Welsh and UK Governments taking due consideration of the declining taxable base.
- R.6. We recommend that APD should be devolved for direct long haul flights initially and recommend that devolving all rates for APD to Wales should be part of the UK Government's future work on aviation taxation, which should include considering the wider case for regional differentiation for APD or airport congestion charging. We recommend that this issue should be considered in the context of the Davies review and any developments in Scotland and Northern Ireland. A fixed deduction should be made to the block grant with the value of this agreed between the Welsh and UK Governments taking due consideration of the forecast tax revenues in Wales.
- R.7. We do not recommend that fuel duty should be devolved. We recommend that in the light of experience of the fuel rebate pilot scheme, the UK Government should assess the extension of the scheme to some rural and remote areas in Wales, subject to EU agreement.
- R.8. We recommend that the following taxes should not be devolved:
- alcohol and excise duties;
  - Vehicle Excise Duty;
  - Capital Gains Tax;
  - Insurance Premium Tax;
  - stamp duty on shares;
  - Inheritance Tax;
  - betting and gaming duties; and
  - Climate Change Levy.
- R.9. We recommend that when the UK Government is considering introducing new taxes in devolved areas of policy, there should be a presumption in favour of devolving powers over the tax to the Welsh Government.
- R.10. Where UK-wide taxes and reliefs are not devolved, we recommend that:
- a. the UK Government should keep under review the scope for introducing tax reliefs which would help to support the Welsh economy in an affordable and cost effective way subject to EU state aid constraints; and
  - b. if the UK Government changes the thresholds and allowances or rates for a tax that is not devolved, which includes an element of geographical targeting (for example, capital allowances in Enterprise Zones in selected areas), then an assessment should be made in consultation with the Welsh Government as to whether the Welsh Government should be able to fund additional coverage.

**R.11.** The National Assembly for Wales should be given a power to legislate with the agreement of the UK Government on a case by case basis to introduce specified taxes and any associated tax credits in Wales. The Welsh Government should retain the revenue from these without a deduction to the block grant. The UK Government should adopt a flexible approach to any proposal for these taxes from the Welsh Government.

## **Chapter 5**

**R.12.** We do not recommend devolving corporation tax to Wales. However, if the UK Government were to agree to devolve corporation tax to both Scotland and Northern Ireland, we recommend that the same powers should be given to Wales.

**R.13.** We recommend that the enhanced capital allowances should be able to be offered within more enterprise zones in Wales subject to state aid rules and provided the Welsh Government pays the incremental cost.

**R.14.** Variation of VAT rates within a member state is prohibited by EU law. We therefore have no option but to rule out the devolution of VAT, although we recognise that there are also other arguments against the devolution of VAT. To make devolved budget adjustments when those adjustments are not the result of the actions of the Welsh Government could be regarded as the opposite of improved accountability. As a result we do not recommend assigning VAT.

**R.15.** We do not recommend that NICs in their current form should be devolved. There is an intrinsic link between contributions and the National Insurance Fund which funds social security benefits. We recommend that the UK Government should give further consideration to regionally differentiated adjustments, such as the employers NICs holiday, to support the labour market within state aid rules. The Welsh Government should be able to fund extra such geographically differentiated adjustments within Wales, if compatible with EU commitments and the UK social security system.

**R.16.** We recommend that the UK and Welsh Governments should share the yield of income tax. The Welsh Government should have responsibility for setting income tax rates in Wales and we recommend the following package:

- a. income tax on savings and distributions should not be devolved to the Welsh Government;
- b. there should be new Welsh rates of income tax, collected by HMRC, which should apply to the basic and higher and additional rates of income tax;
- c. the basic, higher and additional rates of income tax levied by the UK Government in Wales should be reduced initially by 10 pence in the pound. Over time the Welsh Government's share could increase if there is political consensus;
- d. the Welsh Government should be able to vary the basic, higher and additional rates of tax independently;
- e. the Welsh Government should not be restricted in its rate setting above the reduced UK rates;
- f. the block grant adjustment mechanism should be based on the indexed deduction method as advocated by the Holtham Commission and being implemented in Scotland, which automatically incorporates the principle of 'no detriment'; and

g. there should be transitional arrangements following the introduction of income tax devolution, in particular to help manage the transfer of risk.

- R.17.** We recommend that the Office for Budgetary Responsibility (OBR) should produce Welsh income tax forecasts in a similar way to Scotland and the amounts forecast should be assigned to the Welsh Government prior to the introduction of legislation, without any impact on the Welsh Government's spending power.
- R.18.** We recommend that the transfer of income tax powers to the Welsh Government should be conditional upon resolving the issue of fair funding in a way that is agreed by both the Welsh and UK Governments.

## **Chapter 6**

- R.19.** We recommend that Welsh Ministers should be given an additional power to borrow to increase capital investment above the Welsh Government DEL budget. There should be an overall limit to such borrowing, at least proportionate to that in Scotland, whilst taking into consideration the relative lack of exposure to PFI in Wales. The agreed annual profile should provide some flexibility and be subject to review in each spending review. Borrowing should be from the National Loans Fund and commercial sources. We also believe that the Welsh Government should be able to issue its own bonds.
- R.20.** We recommend that new powers for Welsh Ministers to borrow for short term purposes should be introduced to manage cash flow and volatility in taxes when devolved taxes are in place, similar to those in the Scotland Act 2012.
- R.21.** We recommend that the Welsh and UK Governments should work together to promote increased investment in Wales through the variety of funding mechanisms available.

## **Chapter 7**

- R.22.** There is opportunity for improving the availability of information to increase financial accountability, public understanding and transparency, and we recommend the following, subject to a detailed assessment of the costs and benefits involved by the UK Government and Welsh Government as appropriate:
- a. estimates of spending in England on services which are devolved in the case of Wales should be made available to help inform the debate on public finances in Wales;
  - b. consideration should be given to whether the ONS United Kingdom accounts should include a 'sub-national' tier of government spending;
  - c. figures on the amount of tax collected in Wales should be produced. Such figures should also include estimates of the Welsh fiscal balance. This country and regional analysis should be done on a consistent basis across the United Kingdom;
  - d. we encourage the UK Government and the devolved administrations to publish annually key comparative statistics in devolved and non-devolved areas; and
  - e. the Welsh Government should consider whether more information could be published on the economy in Wales including on Welsh GVA or other income measures, as well as on economic forecasting.

- R.23.** The following institutional changes should be made to improve financial accountability:
- a. consideration should be given to the OBR or another body having a wider role in either producing or validating information on public finances and the economies of Wales, Scotland and Northern Ireland; and reviewing and auditing technical aspects of the devolved funding system where appropriate;
  - b. changes to the Statement of Funding Policy should be agreed between the UK Government and devolved administrations wherever possible and transparently recorded;
  - c. the current finance ministers' meetings should be formalised;
  - d. the present arrangement whereby the Chief Secretary to the Treasury has attended the National Assembly's Finance Committee to answer questions on the UK Budget should be formalised; and
  - e. more information should be made available on the current scrutiny and accountability of public spending in Wales.
- R.24.** The Welsh Government should be allowed to switch spending from capital to resource spending within the terms of a concordat agreed with HM Treasury, in the light of the Welsh Government's record on budget management and provided the UK Government's fiscal targets are not put at risk.
- R.25.** The UK and Welsh Governments and other devolved administrations should review experience of the devolved budget exchange scheme in the next spending review and agree appropriate flexibility provided the UK Government's fiscal targets are not put at risk.

## **Chapter 8**

- R.26.** Devolution of income tax should be subject to a referendum in Wales. Provision for such a referendum should be contained in the Act which introduces tax and borrowing powers.
- R.27.** A new Wales Bill should be introduced in this Parliament to devolve tax and borrowing powers. A bill to devolve tax and borrowing powers should not wait until the completion of Part II of our work. Changes which do not require legislation should be introduced as soon as possible.
- R.28.** The Welsh Government should set up a Welsh Treasury to manage the new powers we are recommending.
- R.29.** The new funding system will require a strengthening of the institutional arrangements to deal with finance:
- a. a joint Intergovernmental Bilateral Committee on Welsh Fiscal Devolution should be established to meet at least twice a year following the OBR's biannual forecasts to discuss taxation and macroeconomic policy;
  - b. the relationship between HMRC, the Department for Work and Pensions, and the Welsh Government on income tax should be set out in a Memorandum of Understanding, which should be published in advance of implementation;
  - c. for the National Assembly for Wales and Welsh Government, the lines of accountability of HMRC in relation to the Welsh rate of income tax should be similar to those of HMRC to the UK Parliament and Government. An HMRC Additional Accounting Officer should be made specifically accountable for the collection of the Welsh rate of income tax;

- d. the Wales Bill should enable the National Assembly for Wales to compensate HMRC for the net additional costs associated with implementing and maintaining the Welsh rate of income tax. For the taxes that are to be wholly devolved (SDLT and Landfill Tax) and any new taxes, the Assembly will need to agree formal arrangements, for example a contract or accompanying service level agreement, with the body, either new or existing, which they decide to administer the taxes;
  - e. where a varying tax rate could lead to an increase or decrease in liabilities for the UK Government, the principle which is set out in the Statement of Funding policy that ‘the body whose decision leads to the additional cost will meet that cost’ should be adhered to;
  - f. the UK Government should make sure that the Welsh funding system is as transparent as possible with the key components either verified independently or dependent on independent sources. The OBR should be responsible for forecasting Welsh tax receipts, based on data that will include information provided by the Welsh Government. A memorandum of understanding between the OBR, HMRC and HM Treasury should be published in the lead up to implementation alongside more detail on the forecasting methodology. The ‘no detriment’ principle should apply as in Scotland; and
  - g. the UK Government should invite the Comptroller and Auditor General as head of the NAO to prepare a report to the National Assembly for Wales on HMRC’s administration of the Welsh rate of income tax. If the Welsh Government decides to approach HMRC to administer the smaller taxes, and HMRC agree, then it will be up to the Welsh Government to decide how any audit arrangement should work.
- R.30.** The Welsh Government and UK Government should work closely together to use both devolved and non-devolved economic powers to strengthen the Welsh tax base.
- R.31.** These changes should be introduced in a phased way to manage the risks of instability in public finances and of windfall gains or adverse shocks to the Welsh Budget.
- R.32.** The National Assembly for Wales should have legislative control of its own budgetary procedures.
- R.33.** The National Assembly Commission may need to consider modest building-up of capacity for financial scrutiny.