‘A Process, not an event’: Fiscal Devolution, Brexit & beyond...

Mike Usher
Sector Lead for Health & Central Government
Wales Audit Office
Lots to think about...

- The economic outlook (including Brexit...)
- The changing devolution landscape
- Welsh Public finances
- Fiscal devolution to Wales
- Developments in public sector accounting
The big picture:

- Demographic pressures and rising public expectations
- Falling public expenditure and service deficiencies
- Continuing austerity: to 2025 and beyond...
- UK devolution = “a process, not an event...”
- Both Brexit and the Wales Act 2014 are game-changers!
“Brexit...means Brexit!”

But what might it mean for Wales?
There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know.

— Donald Rumsfeld
Brexit means...Brexit!

But what might it mean for Wales?

What we know...
• Loss of EU Structural Funds
• Loss of EU Agricultural Funds
• Likely replacement with Welsh (or UK?) equivalents [but ££’s = ??]

‘Known unknowns’...!
• Incorporation of EU Regulations into UK law?
• HMG / WG discussions over legislative competence?

Increasing Uncertainty!

• Economic impacts??
• Workforce impacts??
• Social impacts??
• UK v Wales differential effects??
+ the ‘Unknown unknowns’...!
Welsh public finances

- The Welsh Budget ‘cake’...
Where are we now?

Public spending per head (2014-15)

- £8,638
- £8,913
- £9,904
- £10,374
- £11,106
Welsh Budget 2017/18

Total budget* £14.9bn

- Health, wellbeing and sport: £7.3bn - up 3.6%
- Local government (inc schools): £3.4bn - up 1.5%
- Economy and infrastructure: £1.3bn - up 14.3%
- Education: £1.6bn - down 1.9%
- Communities and children: £708m - down 3.6%
- Environment and rural affairs: £368m - down 4.8%
- Central services/administration: £296m - down 8.4%

Source: Welsh Government
* figures include capital and revenue funding combined and do not include business rate income
Fiscal Devolution

- What is ‘Fiscal Devolution’?
- What’s happening - and when?
- What risks and opportunities does this present for Wales?
The challenges of Fiscal Devolution
The Welsh tax landscape is changing rapidly...

- **Already happened:**
  - Non-Domestic Rating devolution

- **Starting in April 2018:**
  - Stamp Duty Land Tax = **Land Transaction Tax**
  - Landfill Tax = **Landfill Disposal Tax**

- **Coming by 2021?**
  - Welsh Local Income Tax

- **Possible other devolved taxes?**
  - Air Passenger Duty
  - Aggregates Levy

- **Unlikely ever to be devolved?**
  - Corporation Tax, VAT, Inheritance Tax, Excise Duties
Wales Act 2014

- Provides for:
  - Devolution of some tax powers to Wales
  - Creation of the Welsh Revenue Authority & ‘Welsh Treasury’

Non-Domestic Rating devolution

- Took effect on 1 April 2015 (no primary legislation needed)
- Previous National Non-Domestic Rating (NNDR) combined ‘pool’ for England and Wales was abolished
- Wales-only NDR ‘pool’ now in place, operated by the WG
Land Transaction Tax (LTT)

- The replacement for Stamp Duty
- Commences April 2018
- Will be levied on all Welsh commercial and residential property transactions
- Thresholds, rates etc all to be determined by the Finance Minister
- Volatile tax revenue stream = highly dependent on economic cycle
  - 2006-07 = £235 million
  - 2012-13 = £105 million
- Barnett consequential adjustment = annual?
- Scope for use as WFG policy lever?
Landfill Disposals Tax (LDT)

- The replacement for Landfill Tax
- Commences April 2018
- Will be levied on all Welsh landfill site operators (not waste tippers)
  - Currently 19 operators, likely to be only 8-9 by 2018
- Rates / waste categories to be determined by the Finance Minister
- Stable tax revenue stream
  - 2012-13 = £50 million
- 1-off Barnett consequential adjustment?
- WRA collection agent = NRW
- Scope for use as WFG policy lever
- New grant scheme for local communities
Welsh Local Income Tax (WLIT)

- Legal power already exists for 10p in £ of income tax to be devolved to Wales (as has happened in Scotland from April 2016)
- ‘Lockstep’ provision has been removed via the Wales Act 2014
- George Osborne announced intention to repeal WLIT referendum requirement (and provision for this is included in the Wales Bill)
- UK Govt contends that ‘fair funding’ for Wales will be provided
- Subject to passage of the Wales Bill, the UK Govt could confer WLIT powers on Wales during this Assembly term!
Welsh Local Income Tax (WLIT)

- If WLIT is devolved to Wales:
  - Everyone in Wales suddenly becomes interested in tax policy!
  - Around £2.5 billion of existing £15 billion Welsh block will instead be raised via WLIT – big discussions over Barnett adjustments are likely for several years between HMG and WG
  - WRA responsible for assessment and collection (via HMRC)
  - Who is a ‘Welsh’ taxpayer – beware the Monaco ex-pat effect??
  - WG will need a significantly enhanced Treasury function
    - Fiscal policy, forecasting
    - NAW budget scrutiny process will need to be enhanced

- And...Welsh politics becomes a lot more interesting!
Policies and Consequences

Lower earners pay 42% of the income tax collected in all the UK.

Lower earners pay 55% of the income tax collected in Wales.
What happens / might happen next?

- Chancellor’s Autumn Statement = 23 November 2016
- WG 17-18 Budget Motion = December 2016
- Wales Act 2016 (or 2017?)
- EU Article 50 is triggered = 31 March 2017?
- ‘Welsh Fiscal Framework’ agreed between WG and HMT = 2017?
- Fiscal Devolution = 1 April 2018
- ‘Brexit means Brexit’ = 1 April 2019...???
- Faster Closing of LG Accounts = 2018-19 onwards
- Local Income Tax devolution to Wales = 2020-21 ??
Any questions?

Thank you for coming, and enjoy the rest of the day!
For further information on this topic, please contact:

Mike Usher
mike.usher@audit.wales
029 2032 0573