

Office for
**Budget
Responsibility**

Rhagolwg trethi Cymreig
Welsh taxes outlook

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Pwyllgor Cyfrifoldeb Cyllidebol / Budget Responsibility Committee

9 Ionawr / 9 January 2020

Outline

- Background: the Office for Budget Responsibility
- UK economy and fiscal forecasts: March 2019
- Welsh taxes forecast: December 2019
- Scottish income tax: outturns for 2016-17 and 2017-18
- Understanding Welsh income tax revenue
- Conclusions

The Office for Budget Responsibility

The remit of the OBR

- **Five initial tasks:**
 - Medium-term economic and fiscal forecasts
 - Assessment of progress against fiscal targets
 - Scrutiny of tax and welfare measure costings
 - Long-term and balance sheet analysis
 - Evaluation of past forecast accuracy
- **Additional tasks:**
 - Forecasting devolved tax receipts (since 2012)
 - Regular report on trends in welfare spending (since 2014)
 - Regular fiscal risks report (since 2017)
- **But no policy advice**

The OBR and Welsh taxes

- **Forecasting devolved taxes in Wales**
 - Forecasts produced since 2014
 - From this year: official independent forecaster for Welsh Govt
 - Build on the work by Bangor University
 - Transparent about judgements, uncertainty and process
 - Central forecasts, but will inevitably differ from outturn

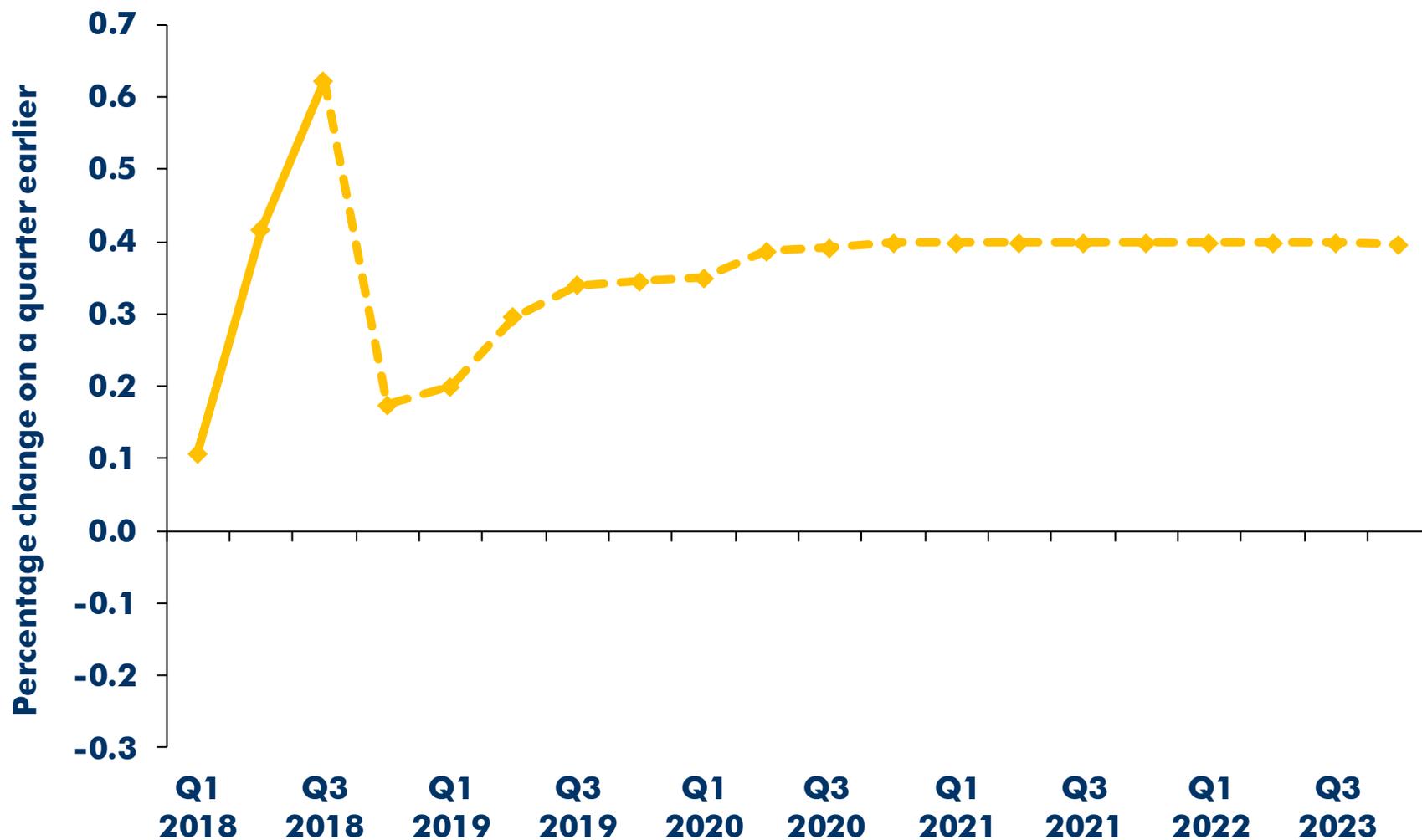
March 2019 *EFO*

UK economy forecast

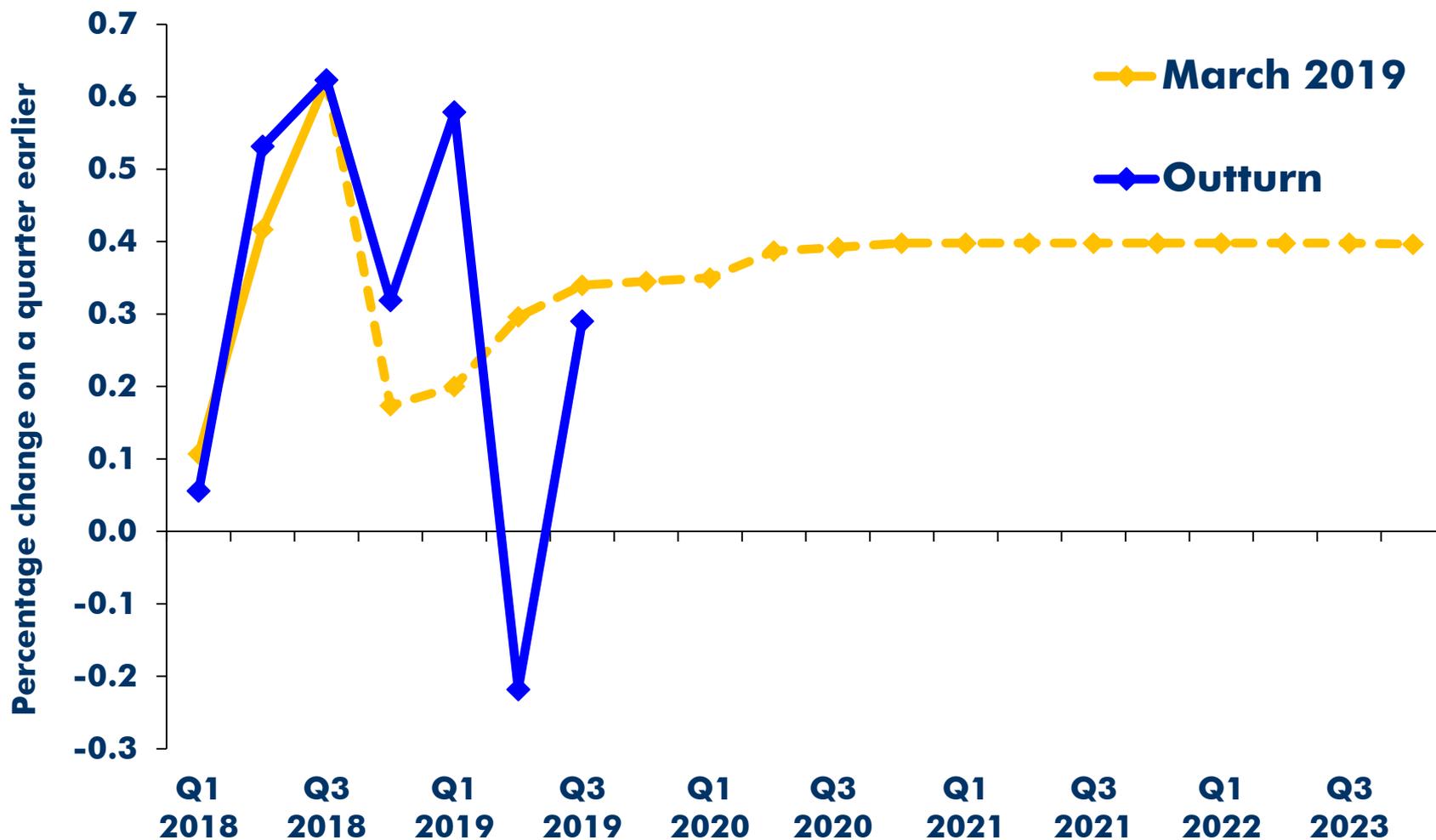
UK economy forecast: summary

	Percentage change on previous year, unless otherwise stated					
	18-19	19-20	20-21	21-22	22-23	23-24
Real GDP	1.4	1.2	1.5	1.6	1.6	1.6
Nominal GDP	3.1	3.2	3.4	3.5	3.6	3.6
CPI	2.3	2.0	1.9	2.0	2.0	2.0
Wages and salaries	4.1	3.1	3.5	3.5	3.4	3.5
Non-oil profits	2.9	2.2	3.0	3.3	3.6	3.6
House prices	2.8	0.2	2.2	3.9	4.1	4.2
Property transactions (000s)	1,194	1,180	1,247	1,291	1,328	1,362

Real GDP growth

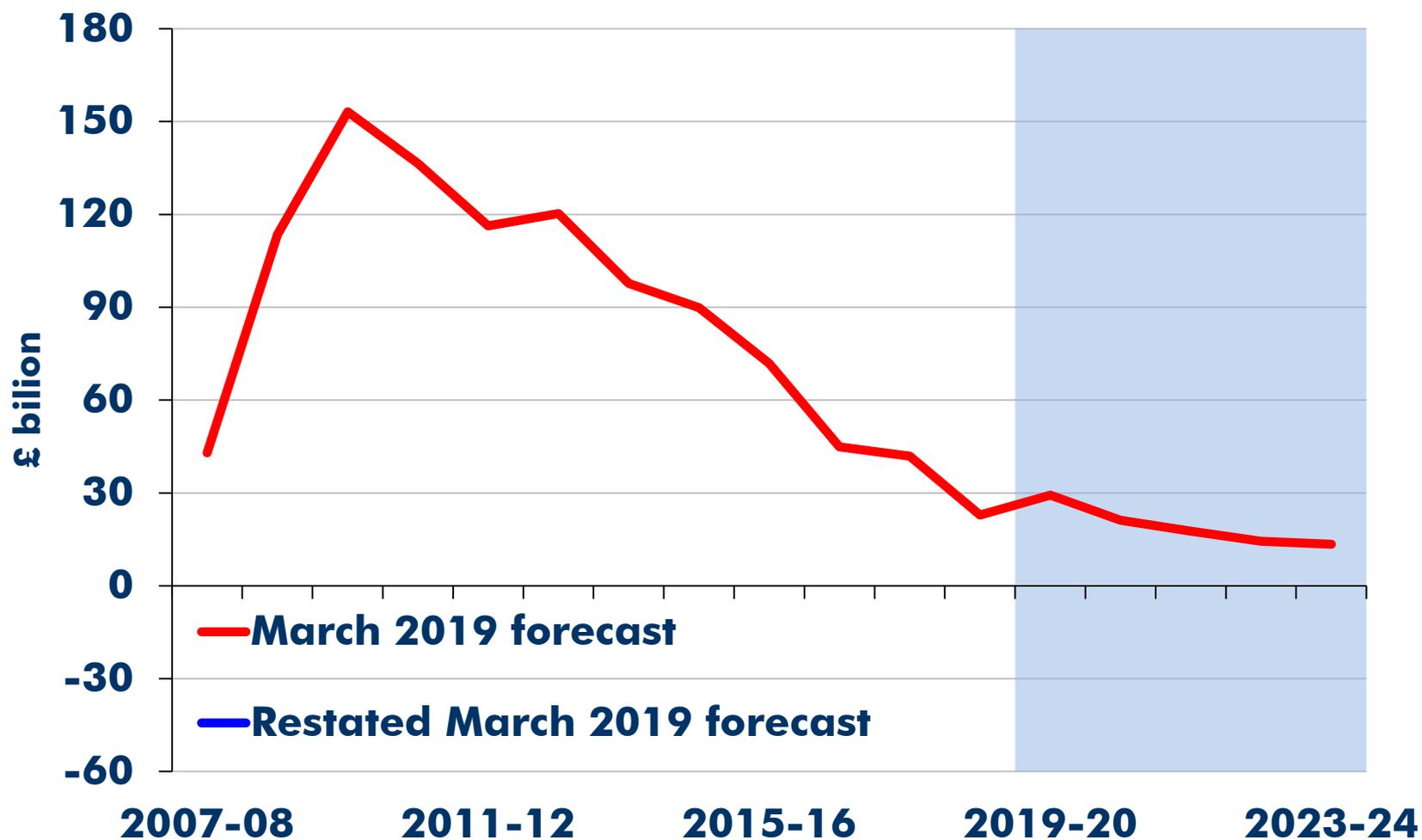


Real GDP growth

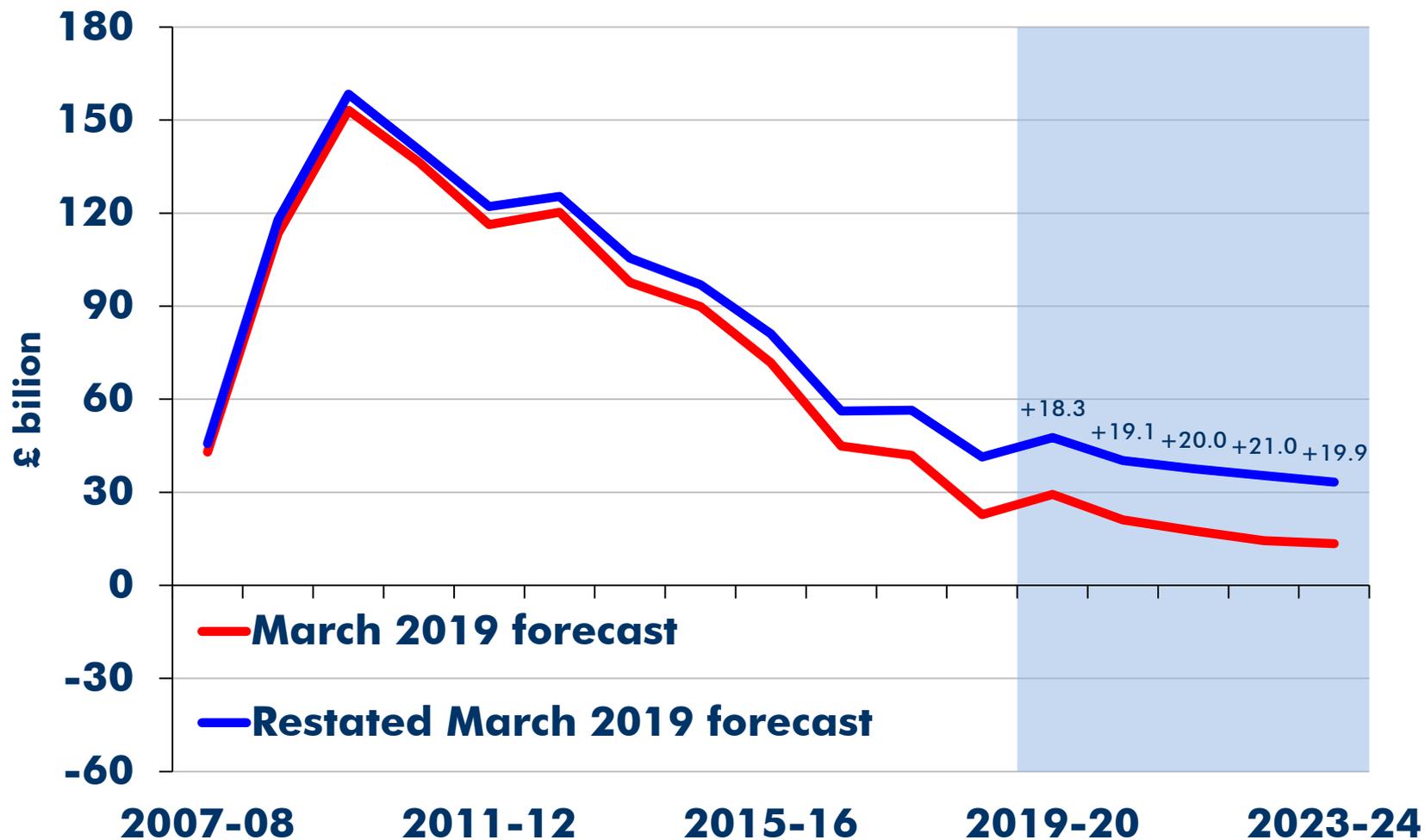


Restated March 2019 UK fiscal forecast

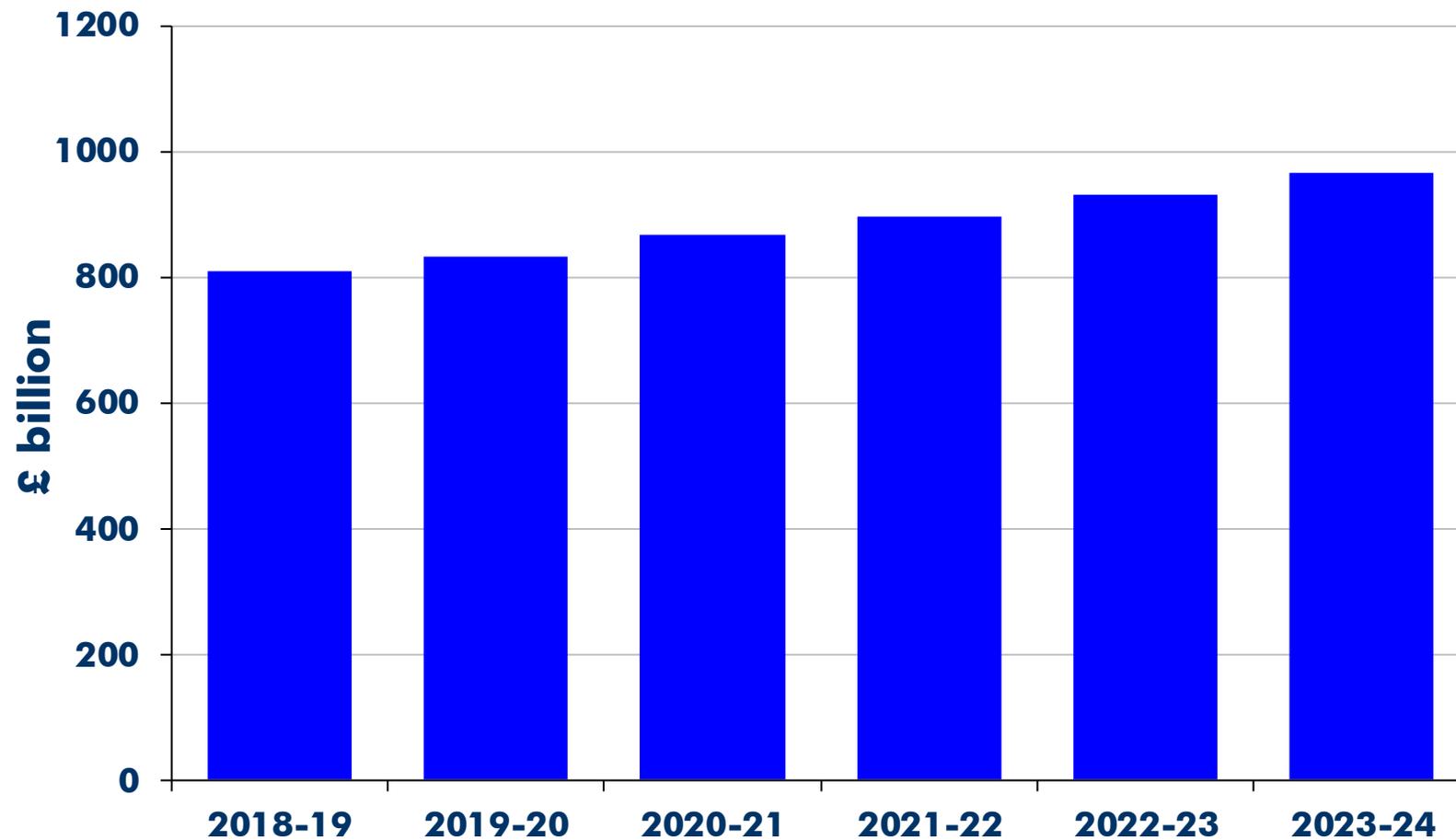
Budget deficit: March



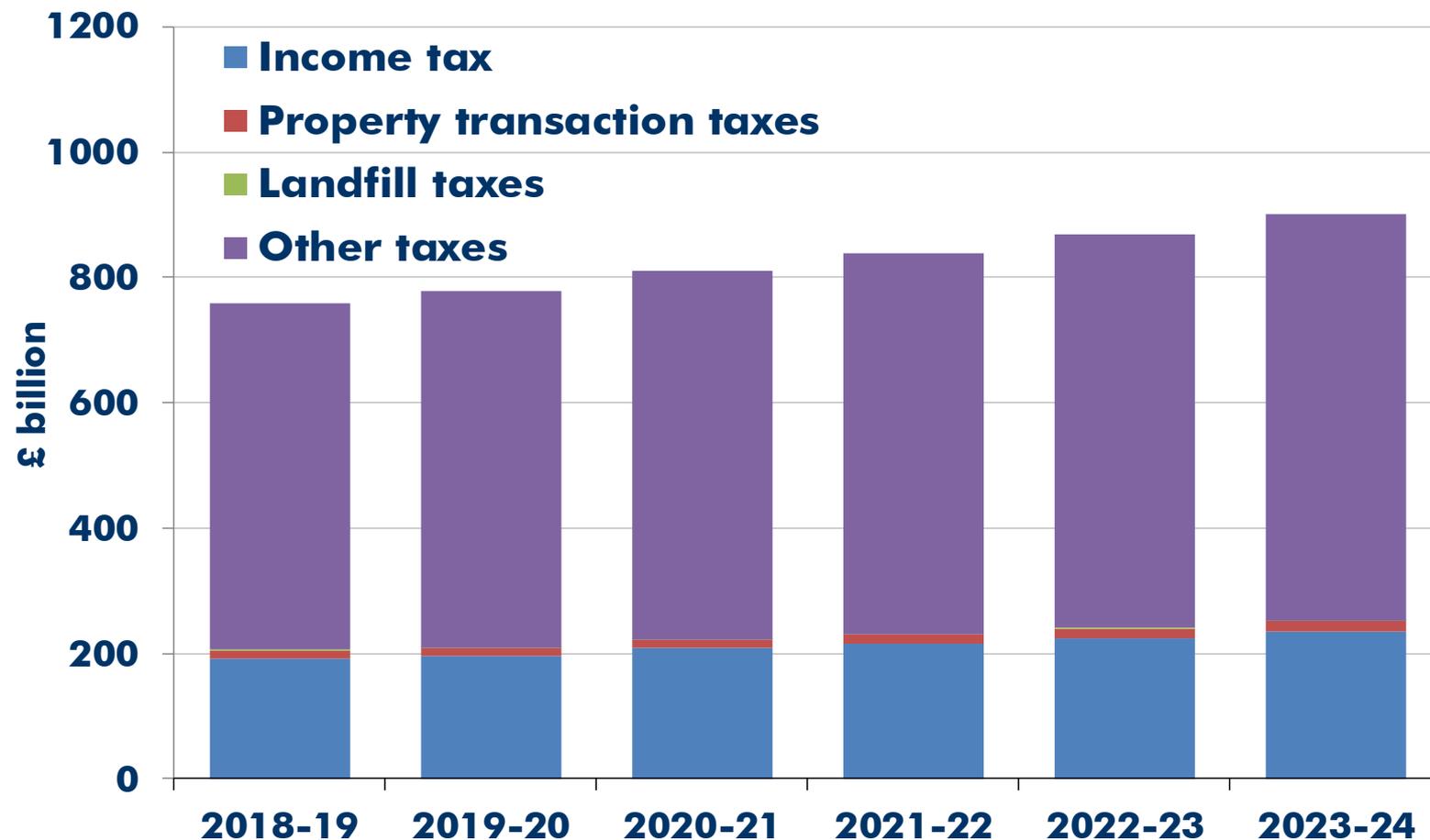
Budget deficit: March restated



Receipts

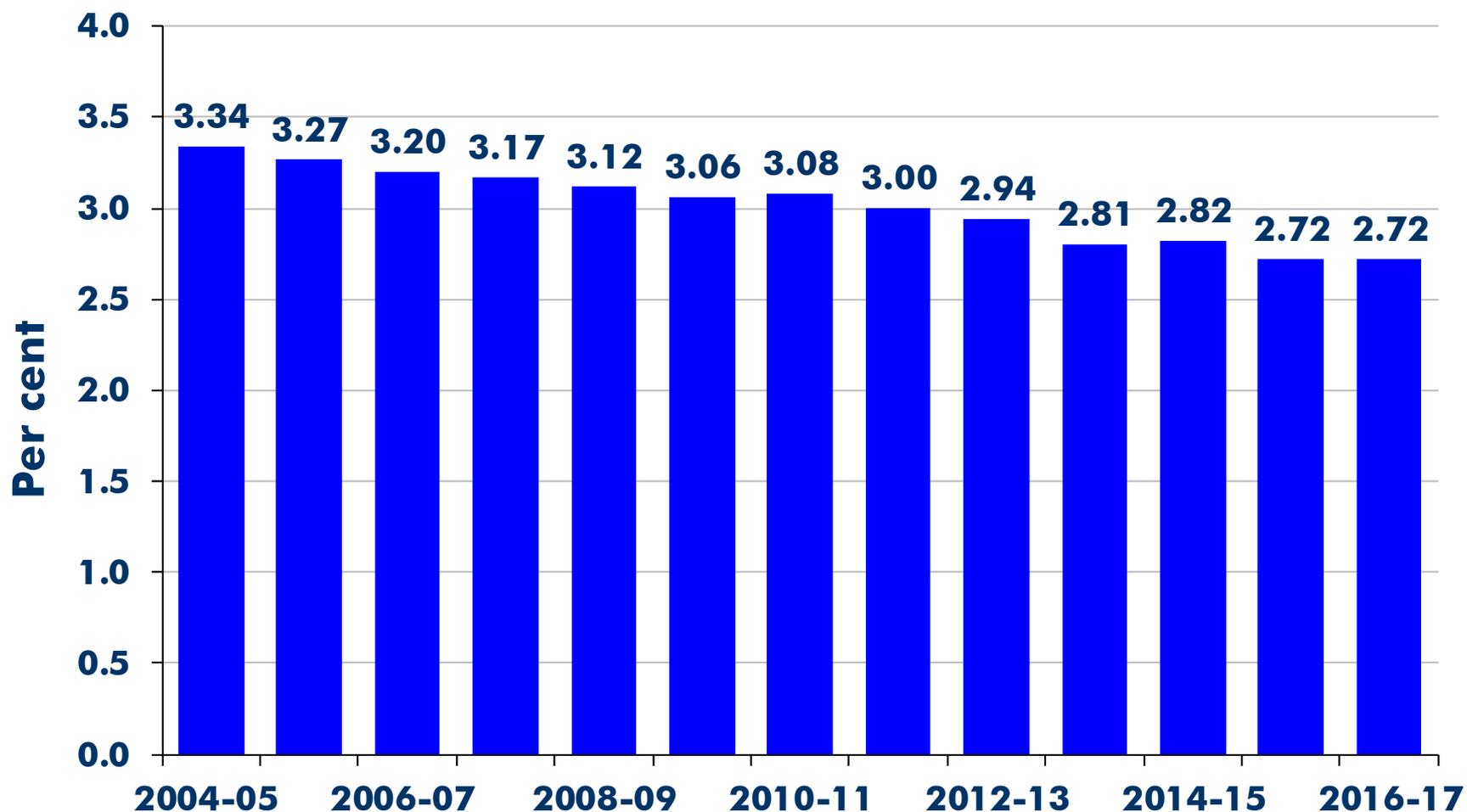


Receipts

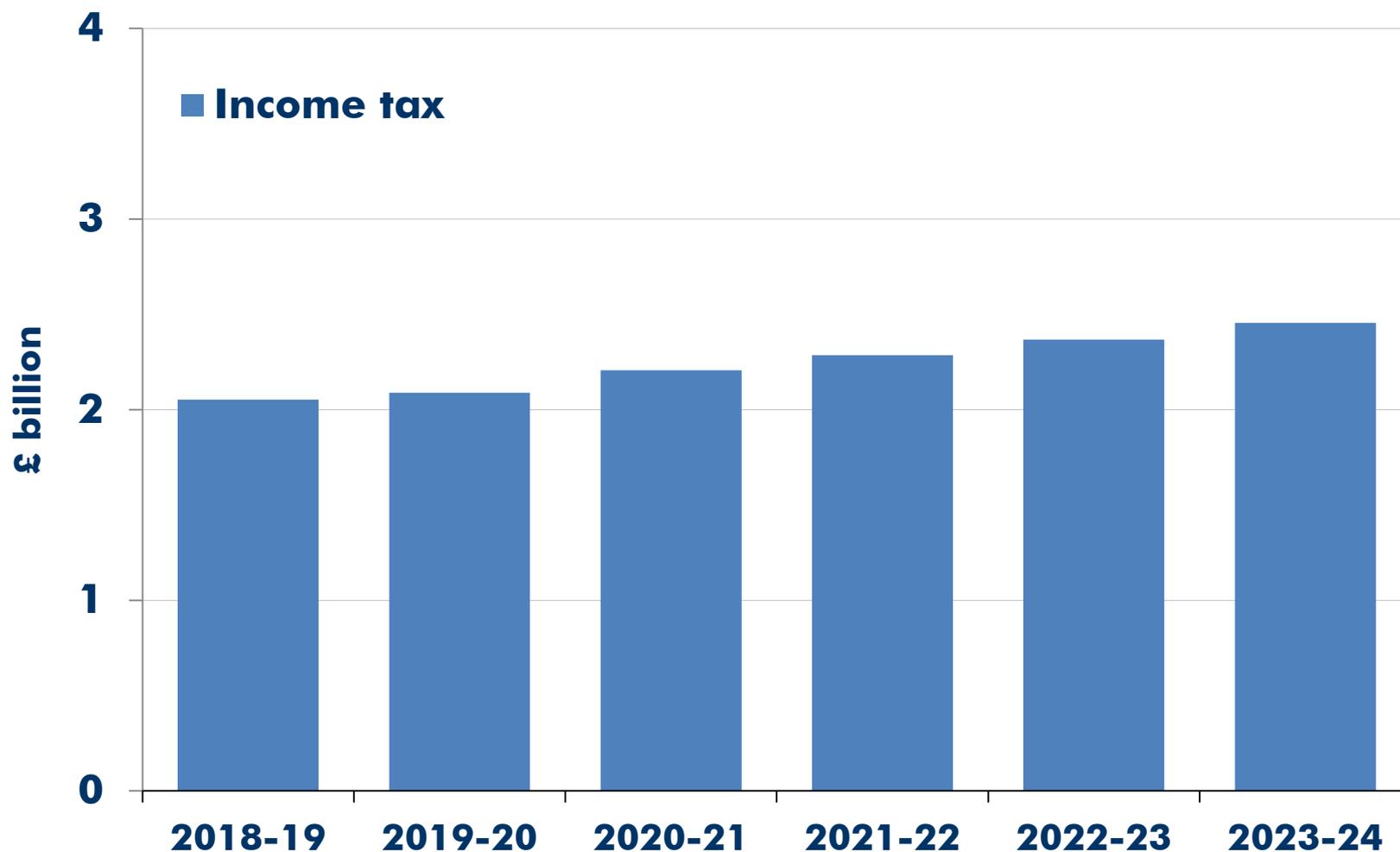


December 2019 Welsh taxes outlook

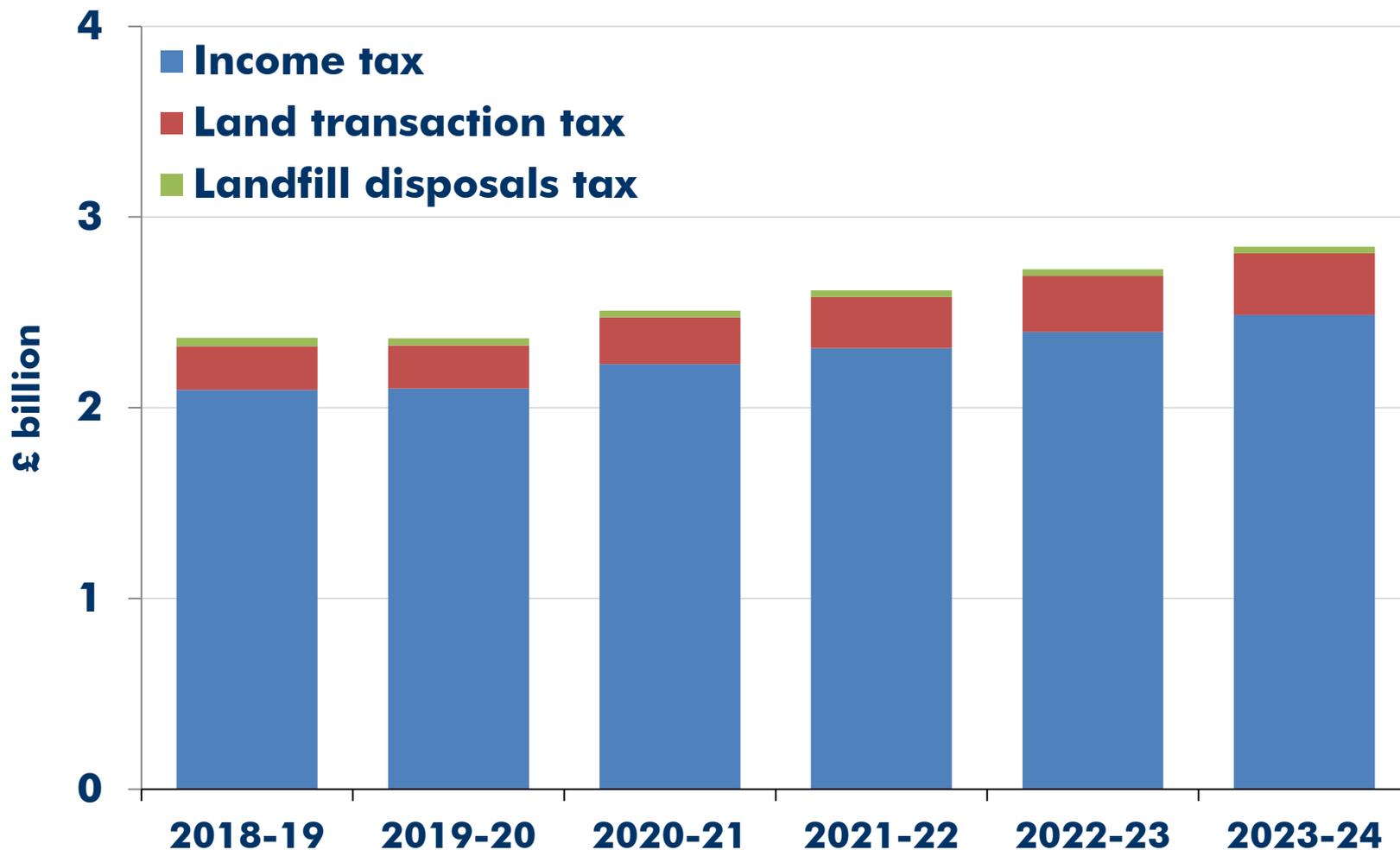
Welsh share of income tax



Welsh devolved taxes forecast



Welsh devolved taxes forecast



Sources of forecast risk

Income tax data

- First year WRIT liabilities (summer of 2021)
- Survey of Personal Incomes (SPI) currently 2016-17
- Real-Time Information (RTI) PAYE: tax and earnings
- UK-level income tax monthly receipts

Policy costings behavioural effects

- Cross-border migration and residency: English-Welsh border

Land transaction tax and land disposals tax

- Highly concentrated tax bases

Operations

- HMRC income tax 'C' flagging operations: How will they evolve?
- WRA: Compliance activities and evolution of tax gaps

Fiscal framework forecast risks

- Fiscal framework sets net spending power:
 - i.e. after block grant adjustment (BGAs).
- So asymmetric surprises matter:
 - i.e. difference between forecast and outturn for (a) our England & NI forecast that feeds into BGAs matters as much as that for (b) our Welsh taxes forecasts.
- Base year levels not a risk, but growth thereafter is
- And UK spending decisions matter via block grant

**Scottish income
tax outturns:
2016-17 and 2017-18**

First year of outturn: 2016-17

Large downside surprise in 2016-17 outturn:

- Forecast share: 7.08 per cent (£11.4 billion)
 - Outturn share: 6.68 per cent (£10.7 billion)
 - Difference: -0.40 ppt (-£700 million)
-
- 6.3% forecast error on Scottish liabilities versus 0.7% on UK-wide liabilities

First year of outturn: 2016-17

	Scottish share in 2016-17 (per cent)
a) SPI 2015-16 (postcode-based, no adjustment)	7.11
b) SPI 2015-16 (postcode-based, adjusted for population change, used in March 2018 forecast)	7.08
c) SPI 2016-17 (postcode-based)	6.88
d) SPI 2016-17 ('S' flag)	6.83
e) 2016-17 Outturn (used in October 2018 forecast)	6.68
<i>Projection error (c - b)</i>	<i>-0.20</i>
<i>Identification error (d - c)</i>	<i>-0.05</i>
<i>Unknown remaining error (e - d)</i>	<i>-0.15</i>
Total forecast error (e - b)	-0.40

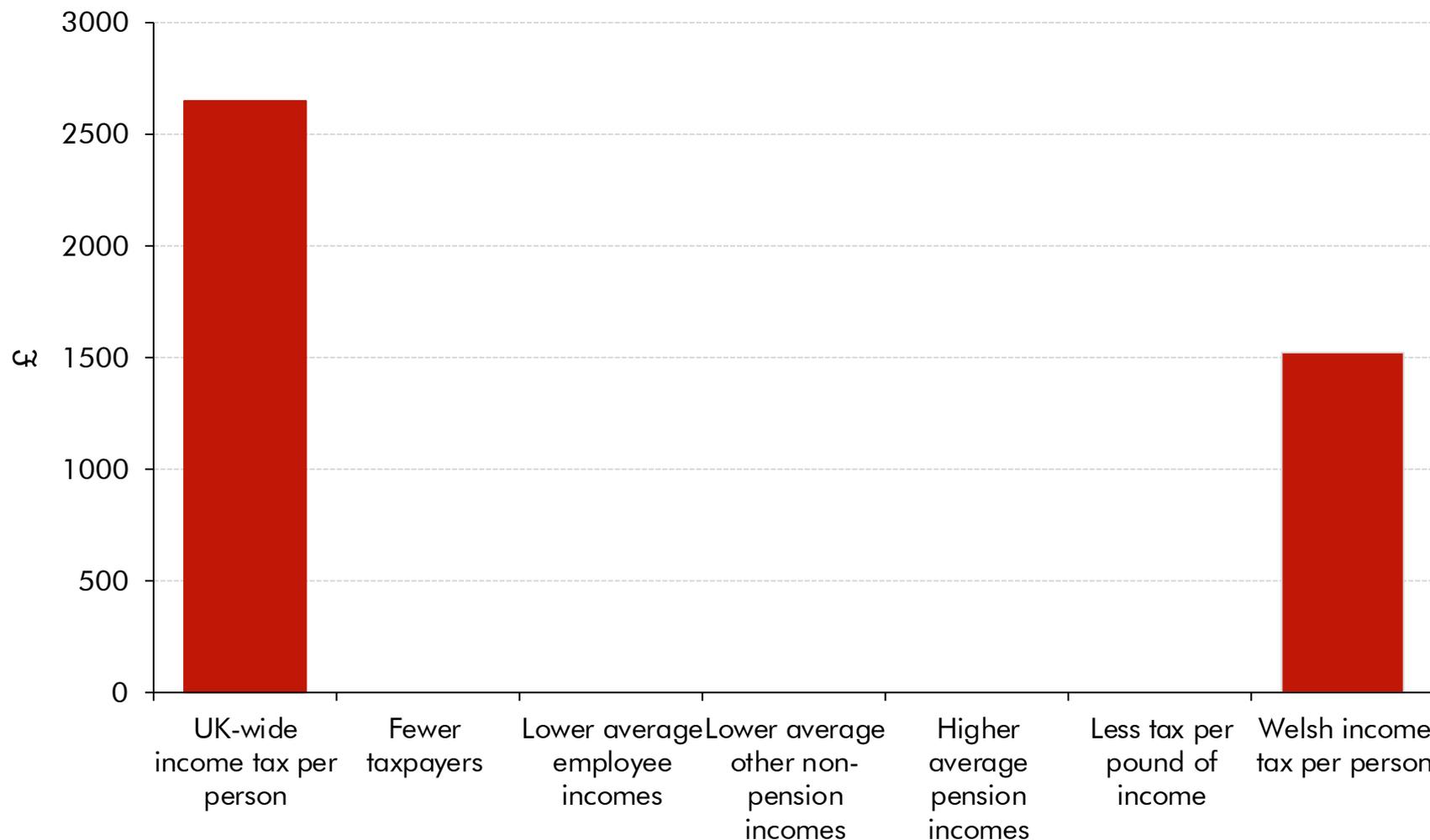
Second year of outturn: 2017-18

Smaller surprise in outturn for 2017-18

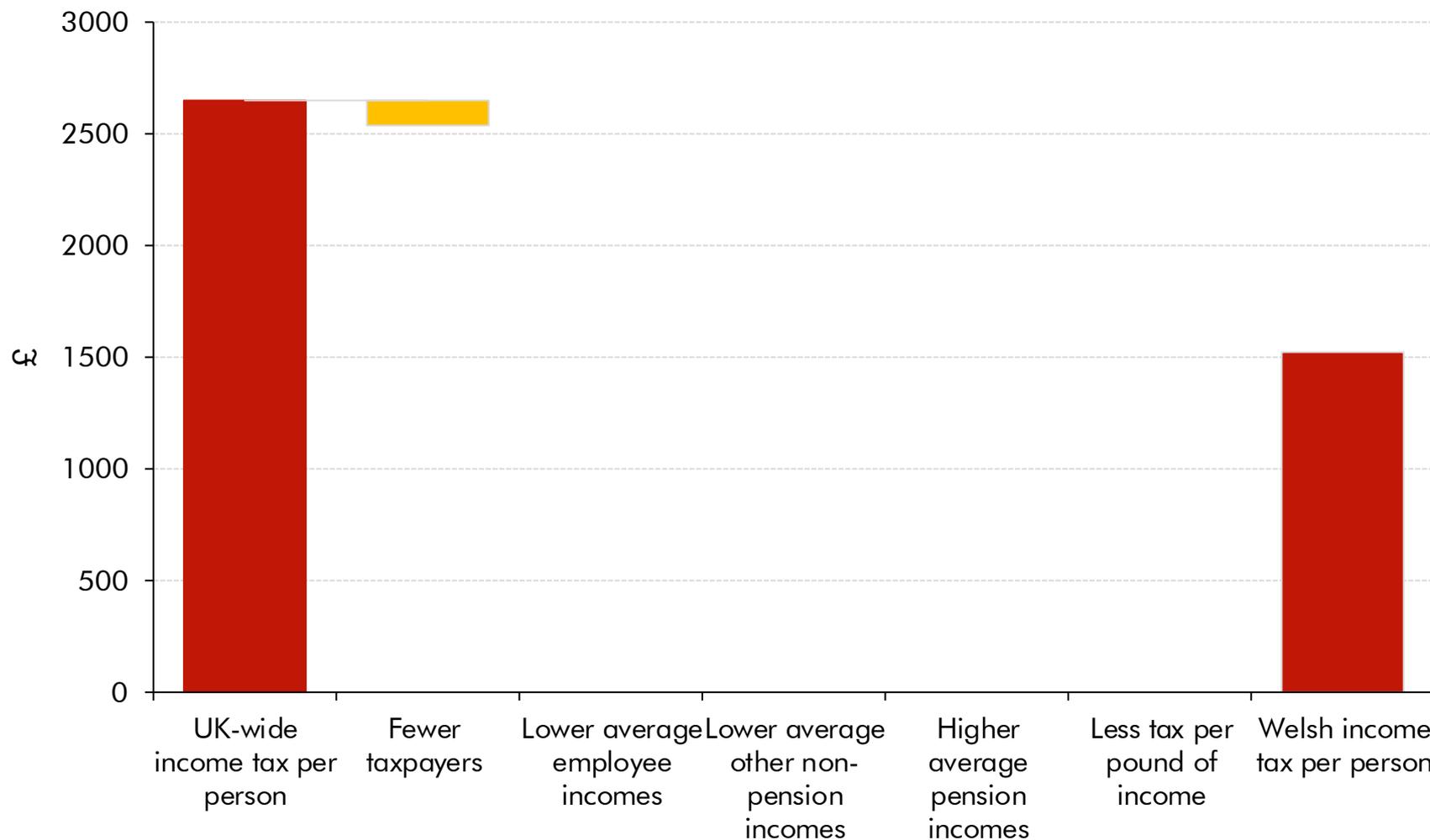
- Forecast share: 6.64 per cent (£11.1 billion)
 - Outturn share: 6.61 per cent (£10.9 billion)
 - Difference: -0.03 ppt (-£161 million)
-
- 1.5% forecast error on Scottish liabilities almost in line with 1.1% error on UK-wide liabilities

Understanding Welsh income tax revenues

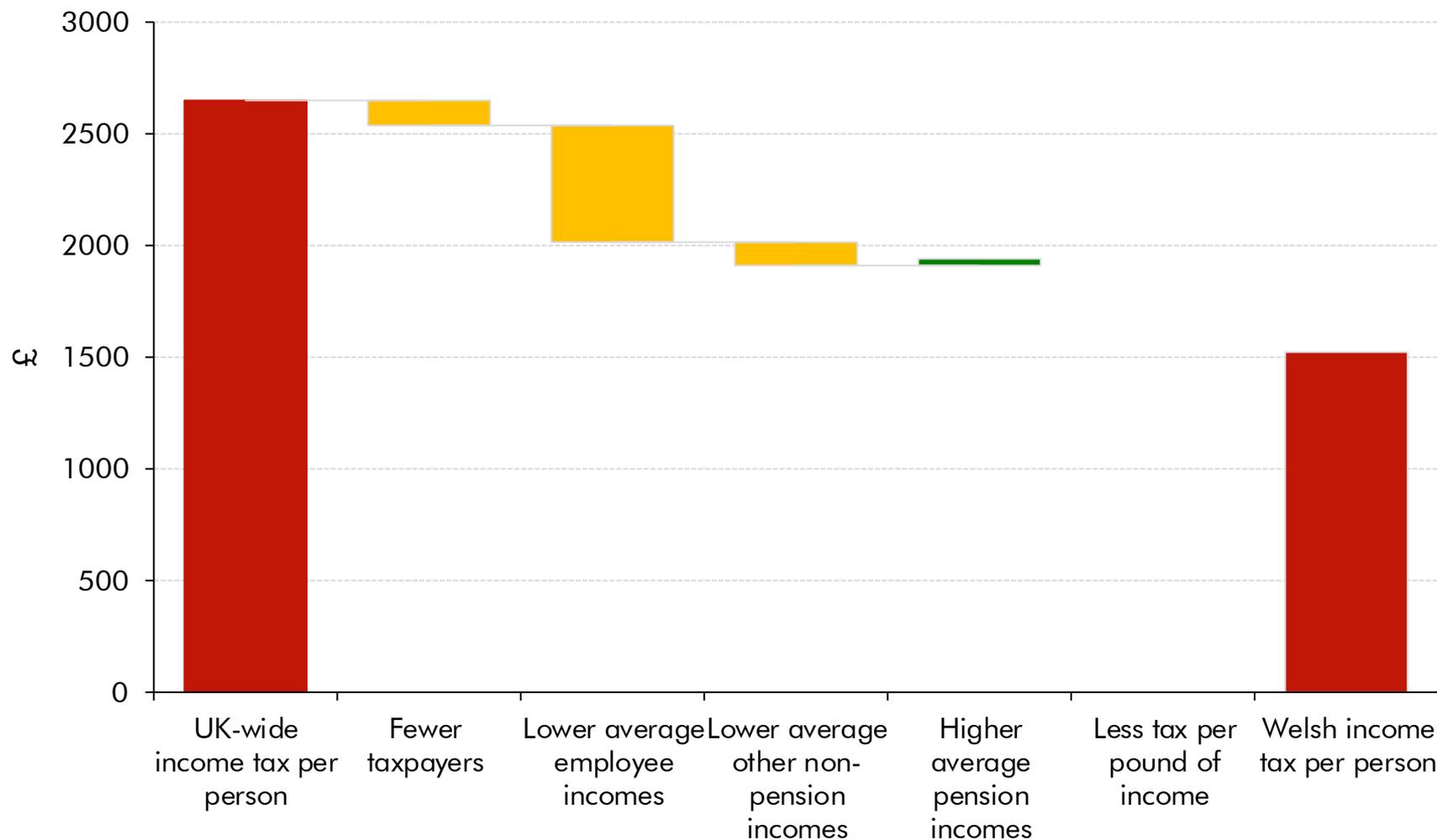
Income tax per capita in Wales and the UK



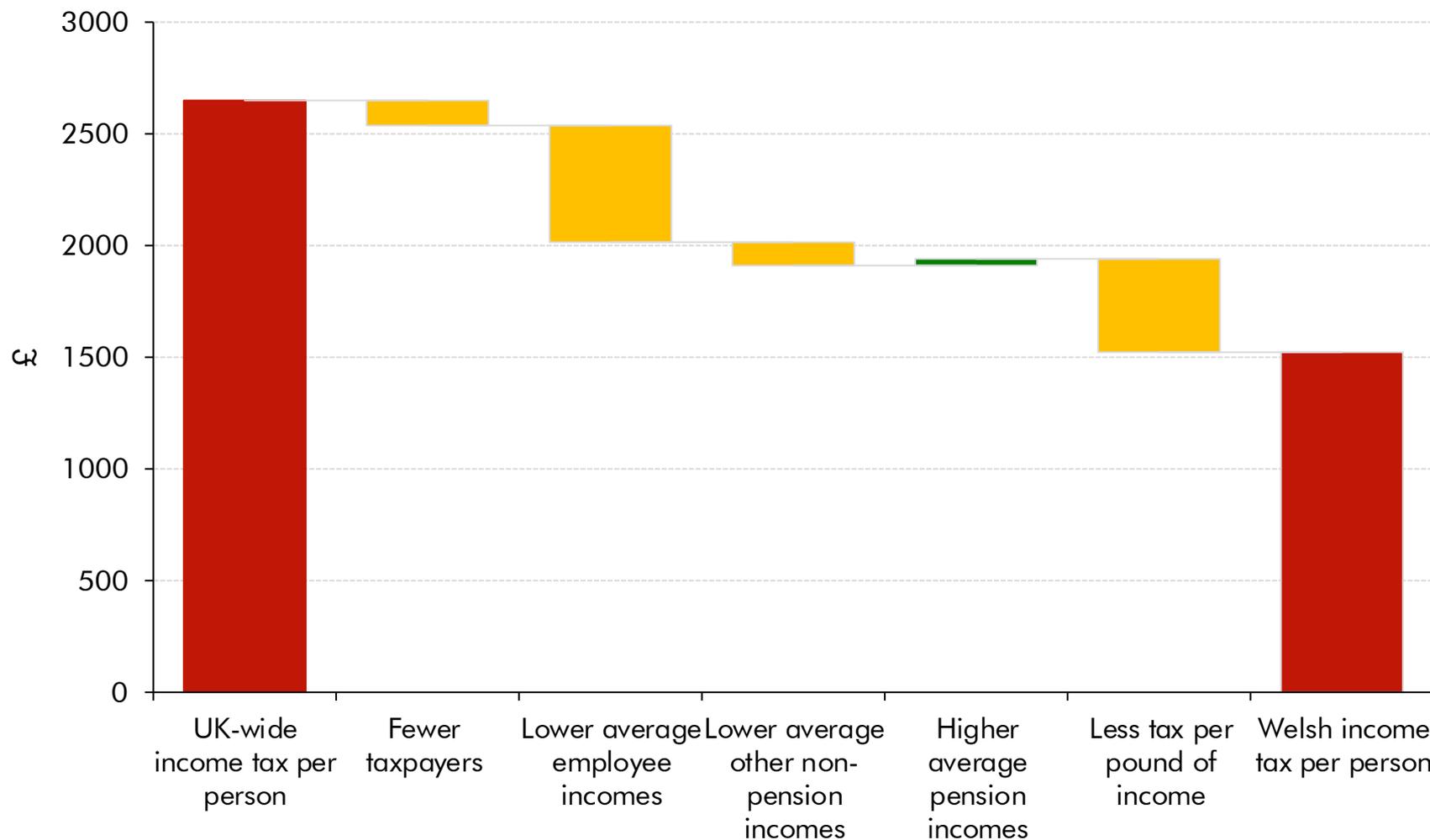
Income tax per capita in Wales and the UK



Income tax per capita in Wales and the UK



Income tax per capita in Wales and the UK



Conclusions

Conclusions

- **Central forecasts, but subject to uncertainty:**
 - UK-wide sources of fiscal risk
 - Plus, no outturn yet for the largest tax stream
 - Scottish experience shows scope for large surprises
- **Political and policy context:**
 - Brexit-related uncertainty remains significant
 - New Government has new spending priorities
- **Implications for Welsh Government resources**
 - Relatively insulated via fiscal framework when plans already set
 - But subject to UK-level policy risk until that has happened