

Terms of Reference

The provision of Welsh tax forecasts by the Office for Budget Responsibility for the Welsh Government

Introduction

Purpose and background

1. The purpose of this document is to set out the arrangements between the Office for Budget Responsibility (OBR) and the Welsh Government for the provision of forecasts of devolved Welsh tax revenues and associated activity.
2. Formal agreement was given - by both the OBR's Budget Responsibility Committee and the then Cabinet Secretary for Finance - to the establishment of the proposed arrangements in July 2018. These *Terms of Reference* detailing the arrangements have been further agreed by the Minister for Finance and Trefnydd, and are for publication alongside the revised *Memorandum of Understanding* between the two organisations.

Terms of reference basis

3. The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework (the fiscal framework) sets out the basis for establishing the arrangements which are set out in these *Terms of Reference*. In respect of 'forecasting responsibilities', paragraph 52 of the fiscal framework states:

"the OBR will continue to produce all UK-wide economic and fiscal forecasts for the UK government (which includes revenues from taxes devolved in Wales). The Welsh Government will be able to decide whether to use the OBR's forecasts or to put in place alternative independent forecasting arrangements. For a short period the Welsh Government may produce its own forecasts, while putting in place independent forecasting arrangements. The Welsh Government's own forecasts would be subject to independent scrutiny. The OBR will also produce all forecasts of relevant UK government taxes that are required to operate the Comparable model for stamp duty land tax, landfill tax and each band of income tax."

4. In 2017-18 and 2018-19, the Welsh Government produced its own forecasts for the devolved Welsh taxes, which were independently scrutinised and assured by Bangor University Business School. Assurance reports by Bangor Business School were published alongside the Welsh Government's Draft and Final Budgets in October and December each year.
5. From 2019-20 onwards, the OBR will publish independent forecasts of devolved Welsh tax revenues to feed into the Welsh Government Budget process.

Taxes in Wales

6. The Wales Act 2014¹ and Wales Act 2017² devolved taxation powers to the Welsh Government and National Assembly for Wales (NAW). The 2014 act fully devolved stamp duty land tax and landfill tax. From April 2018, land transaction tax replaced stamp duty land tax and landfill disposals tax replaced landfill tax.
7. The Wales Act 2014 and Wales Act 2017 also provide for the partial devolution of income tax, enabling the National Assembly to set tax rates in each income tax band. This will be implemented from April 2019.
8. Forecasts for these three Welsh taxes will need to be produced to feed into the Welsh Government Budget.

Proposed forecasting arrangements

The role of the Welsh Government

9. The Welsh Government will prepare a draft and final budget each year, which use the OBR's revenue forecasts for Welsh devolved taxes.
10. Revenue forecasts and policy costings for the devolved taxes will be produced by officials from the analytical professions in the Welsh Government as required for consideration by OBR. The Welsh Government will provide explanations for these forecasts, including the use of any Wales-specific determinants.
11. Welsh Government officials will attend all relevant challenge meetings on the forecasts / policy costings and will process changes to those forecasts and costings as requested by the OBR's Budget Responsibility Committee (BRC).
12. Welsh Government officials will provide updated Welsh tax forecasts as required for OBR's *Economic and Fiscal Outlook* as well as for the Welsh Government's draft and final budgets. This will normally require the production of four rounds of forecasts. These forecasts must be returned within the timescales agreed.
13. The final forecasts will reflect the BRC's judgements on what represents a reasonable and central forecast.
14. The Welsh Government role will be carried out by the Welsh Treasury.

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

² <http://www.legislation.gov.uk/ukpga/2017/4/contents/enacted>

The role of OBR

15. The OBR will assess forecasts for Welsh devolved taxes, making such changes as it deems appropriate. Once content that the forecasts are reasonable and central, based on the evidence presented, the OBR will then own and publish the forecasts. In addition, the OBR will comment on risks and uncertainties to which the forecasts are subject.
16. The OBR will make provision for the costing of changes to the Welsh rates of income tax.
17. The OBR will perform these duties independently, with complete discretion over the methodology and judgements used to make assessments and the content of OBR publications (subject to fulfilling the minimum requirements contained within these Terms of Reference).
18. The OBR will provide the Welsh Government with macroeconomic determinants (for example house price inflation, growth in wages and salaries, etc.) to the agreed timetable for officials to use in producing the relevant fiscal forecasts. Under this agreement the OBR will not seek to operate a dedicated Welsh economy specific macroeconomic model.

Publications and indicative timeline

19. Two publications will be produced: one alongside the Welsh Government's Draft Budget (usually in October) and one alongside the Final Budget (usually in December/January). These are included in the indicative timeline below.

Table 1: Indicative Timeline

Period / event	Activity
Spring	OBR Spring Economic and Fiscal Outlook with updated devolved tax forecasts.
Summer	<p>Welsh Government to undertake model development, and engagement with OBR on possible policy costing methodologies.</p> <p>OBR engagement visit to Wales to agree methodologies, including possible appearance at Finance Committee and meeting with senior officials / ministers if required.</p> <p>By late summer (September) all major modelling developments and policy costings methodologies to be agreed / certified by the OBR.</p>
Welsh Government Draft Budget	<p>Draft Budget forecast based on OBR's Spring economic determinants, but taking on board latest outturn public finances data.</p> <p>Final Welsh Government policy costing option certified by OBR ahead of draft Budget.</p> <p>Only changes at this stage should be final update for in-year data (where appropriate) and incorporation of final policy costing option, though using the methodology certified by the OBR.</p>

	Publication 1: OBR forecast report published alongside draft Budget, explaining forecast judgements and certifying policy costings.
Autumn	OBR Autumn Economic and Fiscal Outlook published alongside UK Budget (in line with current practice). Welsh Government officials will provide updated devolved tax forecasts taking account of new economic determinants and any other relevant factors.
Welsh Government Final Budget	Final Budget forecast based on OBR's Autumn Economic and Fiscal Outlook. Any new Welsh Government policy costings certified ahead of final Budget where time permits. Where insufficient time for scrutiny means policy costing methodologies cannot be certified, OBR will explain uncertainties around Welsh Government policy costings. These will be revisited at the next forecast. Publication 2: OBR forecast report published alongside final Budget, explaining forecast judgements and certifying policy costings, or, if necessary, explaining reasons for non-certification of policy costings.

Engagement in Wales

20. The OBR will engage with appropriate individuals and organisations (in particular the NAW Finance Committee) twice during the financial year.

- *May/June/July* – Following the UK Government's Spring Statement the OBR will host annual round tables with academics and other interested people in Wales. The OBR will also brief the NAW Finance Committee.
- *November/December/January* – Following the UK Government's Autumn Budget the OBR will give evidence to the NAW Finance Committee.

21. Analysts in the Welsh Treasury and the OBR will maintain close links throughout the year, as set out in the Memorandum of Understanding.

Costs and funding arrangements

22. The costing and funding arrangements will be covered in a separate finance framework document.

Welsh language

23. The OBR will ensure that its two reports produced to accompany the Draft and Final Welsh Government Budgets are translated into Welsh and published at the same time as the English versions.

Review

24. Over the summer of 2020 the Welsh Government and the OBR will jointly review these *Terms of Reference* – in particular the resource allocated - in light of experiences in the first year of operation (2019-20).