# WRITTEN STATEMENT

# BY

# THE WELSH GOVERNMENT

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| **TITLE** | **Provision of Welsh tax forecasts by the Office for Budget Responsibility**  |
| **DATE** | **16 July 2018** |
| **BY** | **Mark Drakeford AM, Cabinet Secretary for Finance** |

As part of the fiscal framework agreement between the Welsh and UK governments, which secured a permanent funding floor for Wales and paved the way for the introduction of Welsh rates of income tax*[[1]](#footnote-1)*, the Welsh Government committed to introducing arrangements for the independent production of revenue forecasts for devolved taxes.

In the short-term, it was agreed the Welsh Government would produce its own independently-assured forecasts, while working to put in place longer-term arrangements.

Bangor Business School provided independent assurance of the Welsh Government’s forecasts for land transaction tax and landfill disposals tax revenues as part of the 2018-19 Budget process. The same arrangements will be in place for the 2019-20 Budget, but the scope has been extended to include assurance of the Welsh Government’s forecast methodology for Welsh rates of income tax.

I am grateful to Bangor Business School for the important and professional work it has done in the first two years of tax devolution in Wales.

The Welsh Government has considered a number of options for longer-term forecasting arrangements, including using the expertise of an existing organisation; establishing a Welsh fiscal commission and long-term contractual arrangements.

When the draft Budget 2018-19 was published, in October 2017, I said two options continued to be considered – establishing an independent commission or using the Office for Budget Responsibility (OBR). The preferred option was using the OBR, based on the criteria the Welsh Government set:

* It is essential the function is exercised in a way, which is sufficiently independent from government;
* Discharge of the function should represent value for money;
* The body appointed to fulfil this function should have demonstrable expertise to fulfil its mandate.

After considerable discussions and further detailed work, the OBR provides the most proportionate and best value for money option for the independent production of the Welsh tax forecasts. I have decided to enter into an arrangement with the OBR for the provision of Welsh tax revenue forecasts for the 2020-21 Welsh Government Budget and beyond.

The expertise and independence of the OBR is well-established and good working relationships have been developed between its officials and the Welsh Treasury. I expect this new arrangement will produce high-quality forecasts, which will provide a robust foundation for the financing element of the Welsh Government’s Budget. Our new arrangement with the OBR will formally start on 1 April 2019.

In support of the delivery of the Welsh Government’s Budget and to assist members with scrutiny, the OBR will produce two reports. These will include forecasts for Welsh taxes – land transaction tax and landfill tax – and Welsh rates of income tax, which will be based on the OBR’s most recent macro-economic forecasts and any relevant specific data for Wales. The OBR’s forecast will also take appropriate account of any Welsh Government tax policy changes. These reports will be published alongside the Welsh Government’s outline draft Budget and the final Budget.

In addition, as part of the new arrangements, the OBR has agreed to increase its presence in Wales by engaging more substantially with interested organisations and individuals, including the National Assembly’s Finance Committee. This will provide a welcome link between the publication of the OBR’s spring *Economic and Fiscal Outlook* and the Welsh Government’s draft Budget.

An updated Memorandum of Understanding and an accompanying Terms of Reference will be published by the end of this financial year. These arrangements will be reviewed by the Welsh Government and the OBR after the first year.

I’d like to thank the Finance Committee for its constructive and supportive engagement while the Welsh Government has been considering the options for independent assurance of Welsh tax forecasts.

1. *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government’s fiscal framework* <https://gov.wales/docs/caecd/publications/161219-fiscal-agreement-en.pdf> [↑](#footnote-ref-1)