

## Agenda – Finance Committee

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Meeting Venue:	For further information contact:
<b>Committee Room 2 – Senedd</b>	<b>Bethan Davies</b>
Meeting date: Wednesday, 9	Committee Clerk
December 2015	0300 200 6565
Meeting time: 09.00	<a href="mailto:SeneddFinance@Assembly.Wales">SeneddFinance@Assembly.Wales</a>

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### **1 Introductions, apologies and substitutions**

(09.00)

### **2 Papers to note**

(09.00)

**Letter to Chair of Finance Committee from Chief Executive and Clerk to the Assembly**

(Pages 1 – 2)

**Letter to Chair of Finance Committee from Minister for Finance and Government Business**

(Page 3)

### **3 Welsh Government Draft Budget 2016–17: Evidence session 1**

(09.00 – 11.00)

(Pages 4 – 20)

Jane Hutt AM – Minister for Finance and Government Business

Jo Salway – Deputy Director of Strategic Budgeting, Welsh Government

Margaret Davies – Head of Budget Delivery, Welsh Government

Jeff Andrews – Specialist Policy Adviser, Welsh Government

Research briefing – Pre-Draft Budget 2016–17 overview

### **4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

(11.00)

Items 5, 6, 7 and 8.



Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales

## **Break**

(11.00 – 11.15)

## **5 Welsh Government Draft Budget 2016–17: Consideration of evidence**

(11.15 – 11.30)

(Pages 21 – 25)

Paper 1 – Draft consultation letter

## **6 Wales Audit Office: Fee Scheme for 2016–17**

(11.30 – 11.40)

(Pages 26 – 51)

Paper 2 – Wales Audit Office Fee Scheme for 2016–17

## **7 Welsh Tax Forecasts**

(11.40 – 11.50)

(Pages 52 – 87)

Paper 3 – Devolved taxes forecast

## **8 Legacy inquiry**

(11.50 – 12.10)

(Pages 88 – 111)

Paper 4 – Draft chapter: NHS Finance (Wales) Act 2014

Paper 5 – Draft chapter: Finance Wales

Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales  
Tŷ Hywel  
Cardiff Bay  
Cardiff

19 November 2015

Dear Jocelyn

When the Public Accounts Committee (PAC) recently scrutinised the Commission's Annual Accounts for 2014-15, we were asked a question about severance schemes. In light of that, and in the interests of transparency, I am writing to both PAC and the Finance Committee to inform you of our decision to run a voluntary severance scheme.

As we have mentioned during scrutiny by your Committee, the Assembly Commission has a formal approach to capacity planning to help ensure that the Commission has the right staffing complement and structure. This ensures that we: align our resources in terms of capacity and skills; improve workforce effectiveness; achieve structural change to best support the business of the Assembly; and integrate capacity and service planning.

As part of this work we have been considering whether to run a voluntary severance scheme and, having carefully weighed the benefits against the negative aspects and risks, we have concluded that we should. This has been discussed and reviewed by Management Board and the Investment and Resourcing Board and is a decision that I have taken within my delegated authority as Accounting Officer. The purpose of the scheme will be to:

- allow the organisation to respond to shifts in our skill requirements;
- facilitate organisational change, including within particular teams;



- improve workforce efficiency; and
- deliver long-term savings where possible and/or avoiding additional costs in meeting skill shortages.

We intend to launch the scheme this week and those employees whose applications are accepted will leave by 31 March 2016 or early in the new financial year. The scheme will be run in accordance with Cabinet Office/Treasury rules, will be similar to the scheme run recently by the Welsh Government and will have robust assessment criteria and decision processes. The Trade Union Side (TUS) has been informed of our intention to run the scheme and they will be invited to observe the decision process.

In planning the scheme, we have taken full account of the recommendations arising from the internal audit review of our previous schemes and from the wider WAO VFM study into severance schemes. The cost, benefits and savings from the scheme will be published as part of the 2015-16 Annual Report and Accounts in July 2016.

This letter is for information only, but please do let me know if you would like any further information.

Best wishes



**Claire Clancy**

**Prif Weithredwr a Chlerc/Chief Executive and Clerk  
Cynulliad Cenedlaethol Cymru/National Assembly for Wales**



Jane Hutt AC / AM  
Y Gweinidog Cyllid  
Minister for Finance

Y Pwyllgor Cyllid | Finance Committee  
FIN(4)-29-15 PTN2



Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
Ein cyf/Our ref:

Jocelyn Davies AM,  
Chair, Finance Committee,  
The National Assembly for Wales,  
Cardiff Bay,  
Cardiff  
CF99 1NA

| December 2015

*Dear Jocelyn,*

I am writing to provide you with advanced notice of the planned timetable for publication of the Second Supplementary Budgets for 2015-16.

As I indicated in April this year, I intend to publish a second in year budget for 2015-16 and plan to table the Second Supplementary Budget for 2015-16 on 9 February.

Given the Spring recess, I have agreed to delay moving the Second Supplementary Budget by a week until 8 March. This provides an additional week beyond the three-week period outlined in Standing Orders.

I hope you find this update helpful.

*Bert Hisher,*  
*Jane*

**Jane Hutt AC / AM**  
Y Gweinidog Cyllid a Busnes y Llywodraeth  
Minister for Finance and Government Business

# Agenda Item 3

By virtue of paragraph(s) vi of Standing Order 17.42

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WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Fee Scheme 2016-17

# Fee Scheme 2016-17

This is a fee scheme prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013.

This fee scheme is laid before the National Assembly under section 24(4)(c) of the Public Audit (Wales) Act 2013.

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# Introduction

- 1 This Fee Scheme has been prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013 (the Act) ([Appendix 1](#)). The Fee Scheme, following approval by the National Assembly's Finance Committee, provides the basis on which the Wales Audit Office charges fees.
- 2 For the first time, the Wales Audit Office Estimate (for 2016-17), considered by the Finance Committee in November 2015, included a draft Fee Scheme in full. This new approach reflects the Wales Audit Office Board's determination to further enhance transparency and to demonstrate the direct relationship between our cost base and its resultant impact on fee rates.
- 3 The Board has listened carefully to stakeholder feedback in relation to our cost-efficiency agenda and the fee rates we set. In seeking the National Assembly's support for our Estimate for 2016-17, we proposed in the Estimate:
  - A second-year freeze of fee rates and fee scales in cash terms, which feedback told us would be welcomed.
  - To meet some £1million of cost pressures in relation to staff pay, inflation and other costs through internal savings and efficiencies so as not to affect fees.
  - To continue to set targets under our Efficiency and Effectiveness Programme to build on savings already delivered.
  - To continue to fund National Fraud Initiative (NFI) work from our charge on the Welsh Consolidated Fund rather than through fees charged to participating bodies. Feedback told us that audited bodies welcome this approach.
  - To introduce public sector secondment opportunities for our accounting trainees, without impacting fees charged for audit work.
  - To create capacity for transformational thinking in our approaches to audit work. Feedback reinforced the need for us to do more developmental work as part of balancing the overall cost of audit on public bodies.

- 4 This Fee Scheme reflects the approved Estimate and in broad terms sets out:
- The enactments under which the Wales Audit Office charges audit fees.
  - The arrangements for setting those fees, which comprise either:
    - fee scales that set out fee ranges for particular areas of audit work in local government; or
    - fee rates for work not covered by fee scales.
- 5 Broadly, 71 per cent of our expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government to support improvement assessment work. The remaining 29 per cent is provided directly from the Welsh Consolidated Fund through vote of the National Assembly. Further information about our expenditure and funding is contained in annual estimates of income and expenditure which are laid before the National Assembly.

## List of enactments

- 6 **Appendix 2** sets out the enactments under which the Wales Audit Office may and must charge fees.

# Fee rates and fee scales

- 7 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. Our fee rates are set at a level to recover that full cost.
- 8 There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, as a result of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.
- 9 Evidently, our fee-charging arrangements are complex, cumbersome and expensive to administer and are regarded by some as no more than circulating funds within the public sector. We will continue to explore alternative mechanisms in discussion with the National Assembly's Finance Committee. The Board would welcome a simplification of the Public Audit (Wales) Act 2013 in relation to the audit fee charging requirements.
- 10 We went beyond the statutory fee consultation requirements and, in September 2015, consulted with all audited bodies and other stakeholders on our fee scales and fee rates for 2016-17. We received 20 responses, being more than the 12 received the previous year. Those responses told us that:
  - The freezing of fee rates is very much welcomed, as are the broadly comparable fee scales for local government bodies and the funding of participation in the National Fraud Initiative.
  - The approach of enhanced transparency is welcomed, but with encouragement to go further.
  - The potential for fee refunds is welcomed but the ability to charge further costs is of concern to audited bodies.
  - There is significant concern from Welsh Government Sponsored Bodies at the prospect of ending the subsidy of their fees. Our Estimate sets out our reasoning for doing so.

- There are concerns regarding the changes to charging for audit work at Town and Community Councils. We have been communicating these changes for some time and must move to the position of recovering the costs of the work undertaken at smaller Councils. The Auditor General's recent report highlighted that although **the timeliness of delivering end of year accounts from Town and Community Councils in Wales has improved, there remains scope for the sector as a whole to improve its financial management and governance.**
  - There is considerable pressure for a more streamlined audit approach, to help reduce overall fees charged for audit work. Our Estimate explains how we recognise that auditing in an age of austerity calls for rethinking of the audit work we undertake and how it is undertaken. We have prioritised capacity for transformational thinking.
- 11 The Board welcomed this feedback and responds to it through this Fee Scheme and our business planning framework.
- 12 **Exhibit 1** sets out the hourly fee rates for audit staff which reflect direct costs and a due proportion of overhead costs. The costing model is audited by the external auditors of the Wales Audit Office.

**Exhibit 1: Fee rates for audit staff – on all audit work**

Grade	Fee rate 2016-17 (£ per hour)	Fee rate since 1 April 2014 (£ per hour)
Engagement director/lead	162	162
Audit manager	111	111
Performance audit lead	93	93
Financial audit team leader	75	75
Performance auditor	65	65
Financial auditor	56	56
Audit trainees	43	45

- 13 We are required to prescribe fee scales for:
- work relating to the audit of local government bodies;
  - work under the Local Government (Wales) Measure 2009; and
  - data-matching work (NFI).
- 14 Fee scales for the audit of 2015-16 financial accounts and 2016-17 improvement audits and assessments are provided in **Appendix 3** in relation to **work conducted at unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, town and community councils and local government pension funds**. A separate fee scale is provided in relation to the NFI.
- 15 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.
- 16 Audited bodies not covered by the statutory requirement for a fee scale (such as NHS bodies, central government bodies, Welsh Government Sponsored Public Bodies, the statutory Commissioners and the Assembly Commission) have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit. We do not provide fee scales for these bodies but can provide a breakdown of the fee calculation.
- 17 Auditors undertake grant certification work on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are calculated using the fee rates and reflecting the size, complexity or any particular issues in respect of the grant in question.

- 18 The fee rates apply to all audit work that the Wales Audit Office will charge for, except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done by agreements prior to 1 April 2014, rates are in terms as agreed). If it subsequently appears to the Wales Audit Office that the work involved in a particular audit differs substantially from that originally envisaged, the Wales Audit Office may charge a fee which differs from that originally notified.
- 19 In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service. To meet their statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to electors' questions and objections, and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.
- 20 Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of Wales Audit Office staff.
- 21 Where funding is provided through the Estimate, the Wales Audit Office may subsidise the fees charged to audited bodies on a transitional basis under the approval given.

# Charging of fees

- 22 Charging arrangements will be agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 23 Audited bodies are expected to pay the Wales Audit Office's invoices within their performance target for creditor payments, usually 10 days in the public sector. We may charge for the administrative costs incurred in pursuing late payments.
- 24 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional cost where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.

# Appendix 1 – Public Audit (Wales)

## Act 2013 – full text of section 24

- (1) The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- (2) The scheme must include the following:
  - (a) a list of the enactments under which the Wales Audit Office may charge a fee;
  - (b) where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
  - (c) where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount; and
  - (d) where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.
- (3) The scheme may, amongst other things:
  - (a) include different provision for different cases or classes of case; and
  - (b) provide for times at which, and the manner in which, payments are to be made.
- (4) The Wales Audit Office
  - (a) must review the scheme at least once in every calendar year;
  - (b) may revise or remake the scheme at any time; and
  - (c) must lay the scheme (and any revision to it) before the National Assembly.
- (5) Where the Welsh Ministers prescribe a scale or scales of fees under
  - (a) section 64F of the Public Audit (Wales) Act 2004 (fees for data matching); or
  - (b) section 27A of the Local Government (Wales) Measure 2009 (Welsh Ministers' power to prescribe a scale of fees)to have effect instead of a scale or scales prescribed by the Wales Audit Office, the Wales Audit Office must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the Wales Audit Office.

- (6) If a revision made in accordance with subsection (5) is the only revision to a scheme,  
it does not require the approval of the National Assembly.
- (7) The scheme takes effect when approved by the National Assembly or, in the case of a revision made in accordance with subsection (5), once it has been laid before the National Assembly.
- (8) The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

## Appendix 2 – List of enactments under which the Wales Audit Office may and must charge fees

Nature of work	Enactments <sup>1</sup>
<b>The Wales Audit Office may charge fees for the following activities</b>	
• Audit of accounts by the Auditor General (other than local government accounts)	• Section 23(2) Public Audit (Wales) Act 2013
• Value for money studies undertaken by agreement	• Section 23(3)(a)-(c) Public Audit (Wales) Act 2013
• Any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013	• Section 23(3)(d) Public Audit (Wales) Act 2013
• An extraordinary audit of a local government body	• Section 37(8) of the Public Audit (Wales) Act 2004
• Data-matching exercises	• Section 64F(A1) of the Public Audit (Wales) Act 2004 • A fee scale must be prescribed for this work
<b>The Wales Audit Office must charge fees for the following activities</b>	
• Work under the Local Government (Wales) Measure 2009	• Section 27 of the Local Government (Wales) Measure 2009 • A fee scale must be prescribed for this work
• Grant certification services	• Section 23(4)(a) Public Audit (Wales) Act 2013
• Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998	• Section 23(4)(b) Public Audit (Wales) Act 2013
• Auditing the accounts of a local government body and undertaking studies by agreement with a local government body	• Section 20(A1)(a)-(b) of the Public Audit (Wales) Act 2004 • A fee scale must be prescribed for the audit of the accounts of local government bodies
<b>Other fee charging provisions</b>	
• Benefit administration studies for the Secretary of State. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office.	• Section 45 of the Public Audit (Wales) Act 2004
• Assisting Her Majesty's Chief Inspector of Education and Training in Wales	• Section 41A of the Education Act 1997

<sup>1</sup> Once commenced, paragraph 32 of Schedule 4 to the Well-being of Future Generations (Wales) Act 2015 will amend section 23 of the Public Audit (Wales) Act 2013 so as to provide that Wales Audit Office may charge a fee in relation to examinations under section 15 of the 2015 Act. The Welsh Government is, however, yet to appoint a date for the commencement of paragraph 32 of Schedule 4 to the 2015 Act.

## Appendix 3 – Fee scales for work undertaken at local government bodies

### Unitary authorities

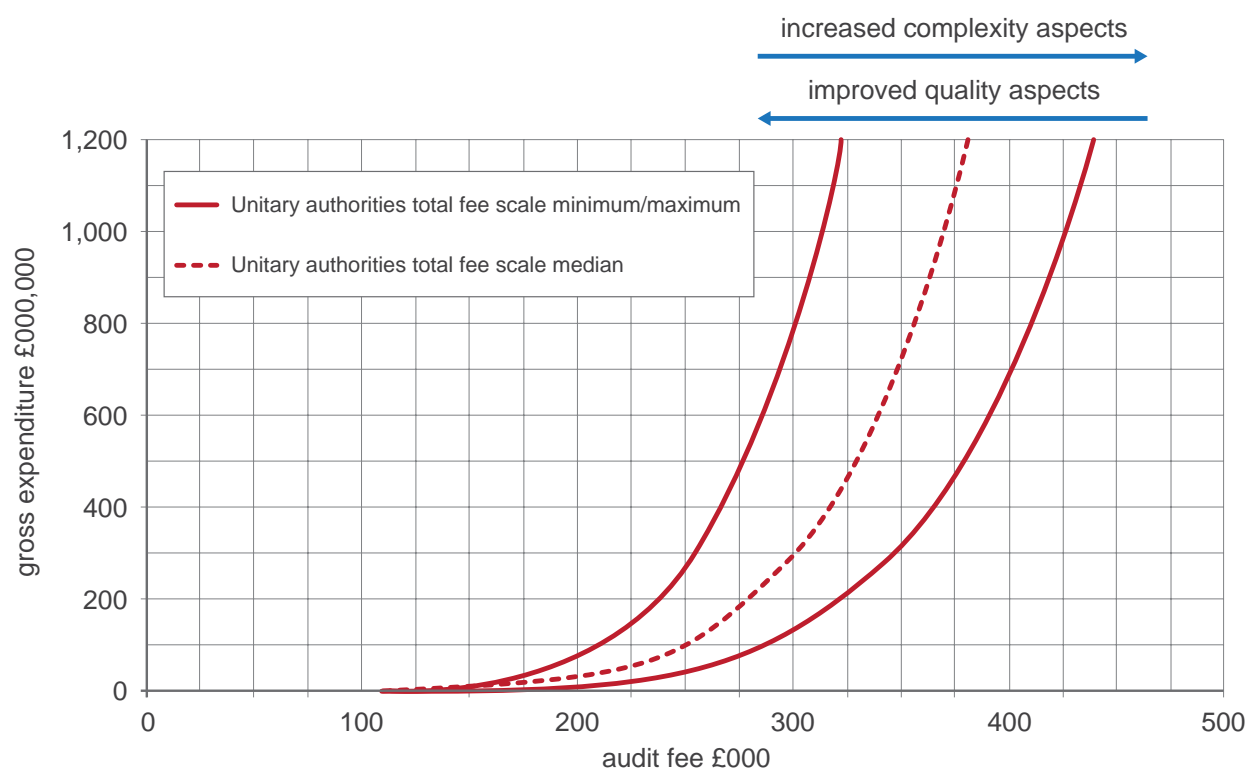
#### Fee scale for audit of 2015-16 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
100	119	140	161	140
200	143	168	193	168
300	159	187	215	187
400	172	202	232	202
500	182	214	246	215
600	191	225	259	225
700	199	234	270	235
800	206	243	279	243
900	213	251	288	251
1,000	219	258	296	258
1,100	225	264	304	265
1,200	230	271	311	271

#### Fee scale for 2016-17 improvement audits, assessments and special inspections under the Local Government (Wales) Measure 2009

All unitary authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	94	112	130	112

## Graphic of total fee scale for unitary authorities



## Fire and rescue authorities

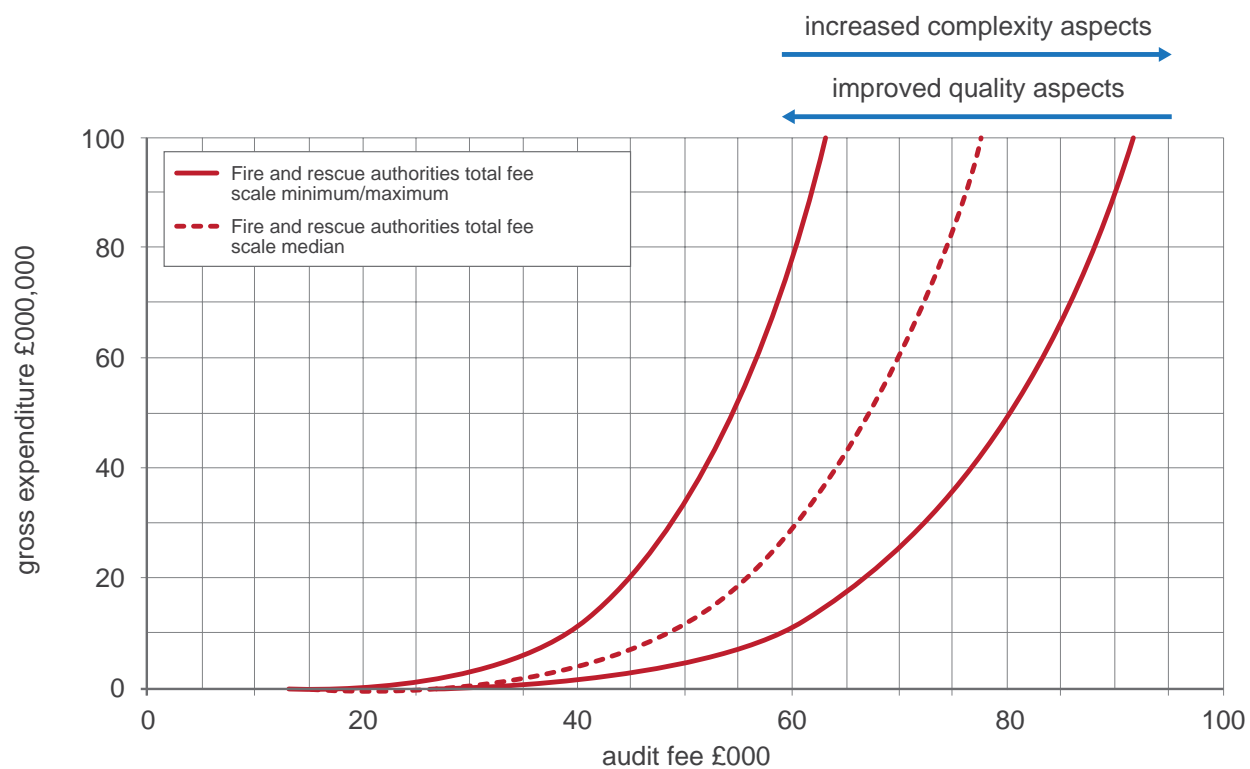
### Fee scale for audit of 2015-16 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
20	35	41	47	41
40	42	49	57	49
60	47	55	63	55
80	50	59	68	59
100	53	63	72	63

### Fee scale for 2016-17 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

All fire and rescue authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	9	14	19	15

## Graphic of audit total fee scale for fire and rescue authorities



## National park authorities

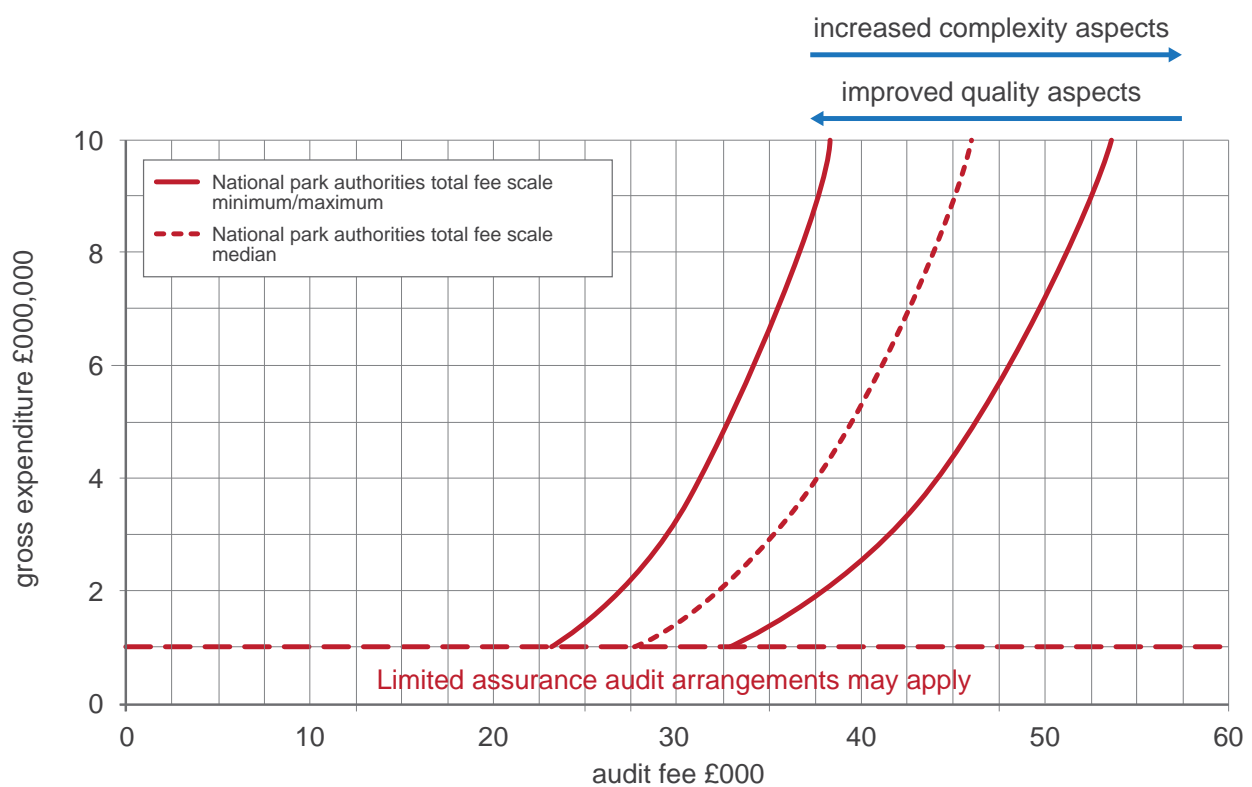
### Fee scale for audit of 2015-16 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
2	22	25	29	25
4	26	31	35	31
6	29	34	39	34
8	31	37	42	37
10	33	39	45	39

### Fee scale for 2016-17 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

All national park authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	5	7	9	7

## Graphic of total fee scale for national park authorities



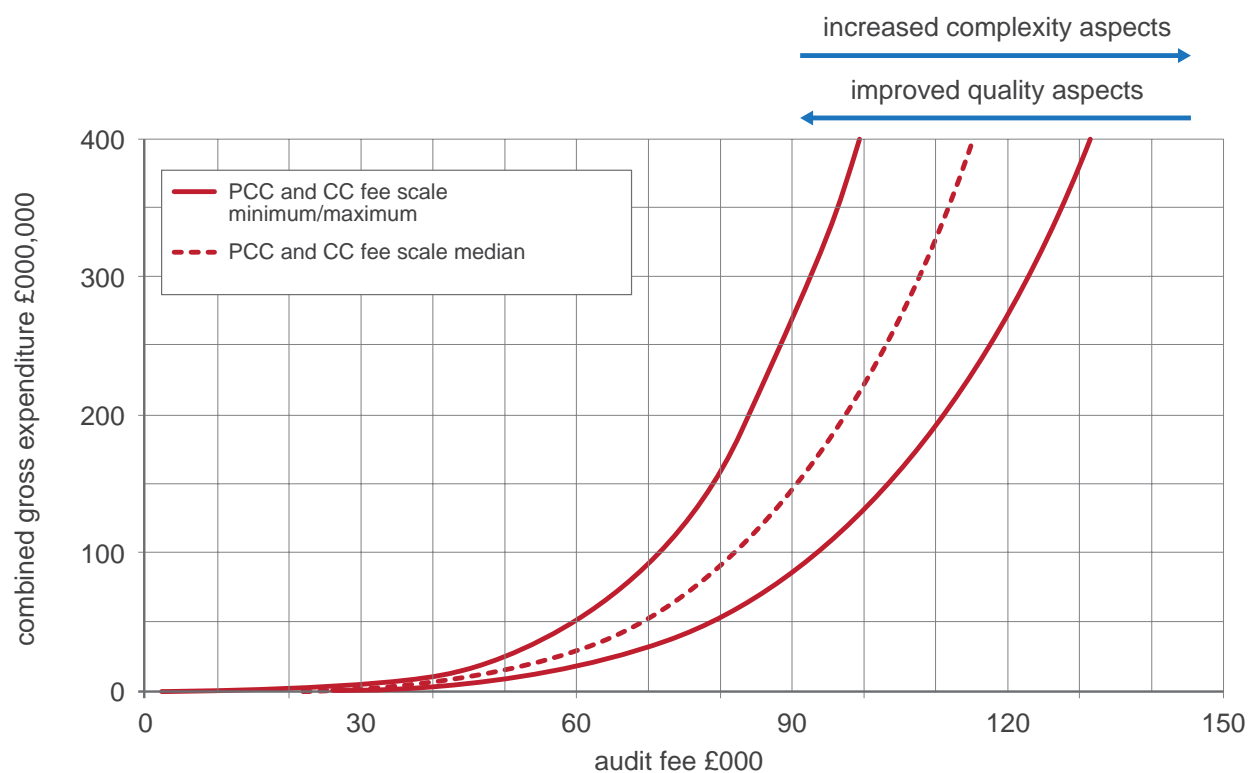
## Police and crime commissioners and chief constables

Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioners (PCC) and the Chief Constables (CC). The split of the total fee between the two bodies in a particular police area will be a matter for auditors to determine, based on accounting requirements and the operational arrangements put in place by each of the bodies.

### Fee scale for audit of 2015-16 accounts

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			Previous year median £000
	Minimum	Median	Maximum	
50	61	70	79	70
100	71	82	94	83
150	78	91	103	91
200	84	98	111	98
250	89	103	117	103
300	93	108	123	108
350	96	112	128	112

## Graphic of total fee scale for police and crime commissioners and chief constables



### **Town and community councils with annual income or expenditure under £2.5 million**

Town and community councils in Wales are subject to a limited assurance audit regime. For 2016-17 we will switch to charging for work on a time basis rather than the historical basis of a fixed fee according to expenditure/income bands. The fee rate charges are as set out in [Exhibit 1](#). The estimated impact of this switch is set out in the table below.

In circumstances where the auditor requires further evidence to properly discharge their responsibilities, including following publication of a related public interest report, additional testing will be undertaken to address the auditor's concerns.

It is emphasised that the actual charge made to any particular body will be dependent on the time actually worked on that particular audit. The ranges provided in the table below are for indicative purposes only.

#### **Estimated time charges for audit of 2015-16 accounts of town and community councils**

Annual income or expenditure (fees are payable on whichever is the higher each year)	Indicative baseline charge	Indicative upper range fee	Fee charged in previous year
£Nil – £99	£Nil	£Nil	£Nil
£100 – £5,000	£30	£280	£30 – £80
£5,001 – £100,000	£160	£320	£175 – £350
£100,001 – £500,000	£200	£380	£415 – £650
£500,001 – £2,500,000	£240	£460	£920

## Local government pension funds

### Fee scale for audit of 2015-16 accounts

All pension funds	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	30	40	50	40

### Fee rates for other work in local government

#### The audit of other types of local government body, work which goes beyond the general duties of the Auditor General, and grant certification work

Other than those types of bodies for which fee scales have been prescribed, there are a small number of other types of local government body. For audits of these bodies, a zero-based approach to audit planning will still be applied, with resource requirements converted into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 1](#).

For all types of government body to meet their statutory responsibilities, it is sometimes necessary for the Auditor General to carry out work which goes beyond general duties (those set out in section 17 of the Public Audit (Wales) Act 2004). Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

Auditors may also undertake grant certification work at local government bodies on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are made on a per-hour basis and reflect the size, complexity or any particular issues in respect of the grant in question.

We are working closely with the Welsh Government and hope to be able to agree a model that focuses more on the outputs and outcomes from grant-supported activity, moving away from the traditional audit approach of checking invoices. This should provide the Welsh Government and audited bodies with a clearer understanding of the difference grant-supported activity is making, whilst also reducing the cost of grant certification work. We expect to pilot this approach during 2016-17 and will discuss fee implications with pilot authorities.

Estimates of the relative proportions of financial audit staff grades to be used for different types of grants work are provided below.

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement director	1 to 2	0 to 1
Audit manager	4 to 6	1 to 2
Team leader	18 to 21	12 to 16
Team member/trainee	77 to 71	87 to 81

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- LA01 National non-domestic rates return
- PEN05 Teachers' pensions return

### **Fee scales for work undertaken under the National Fraud Initiative (data matching)**

In order to support Welsh public bodies in combating fraud, the Auditor General conducts the National Fraud Initiative (NFI) in Wales on a biennial basis. The NFI is also run in England, Scotland and Northern Ireland. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £26 million of fraud and overpayments in Wales and £1.17 billion across the UK.

The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.

For 2015-16, the National Assembly approved a fee scheme containing a £nil fee scale for all participating bodies. The Wales Audit Office will instead fund the work through payment from the Welsh Consolidated Fund as approved through the Estimate. The reasoning for this is to encourage greater voluntary participation of non-mandated organisations, in line with the aspirations of the Public Accounts Committee. In tandem and in line with the Board's aspirations for a simplified funding regime, a £nil fee scale is set for mandatory participants too. This helps avoid any confusion and provides a clear message in terms of the costs of participation in the NFI. In totality, NFI work is no longer funded through fee charges. As required by legislation, the fees for mandatory participants are shown below.

#### Exhibit 2: NFI fees

Type of body	Fee 2016-17 £	Previous fee 2014-15 £
Unitary authority	Nil	3,650
Police and crime commissioners and chief constables	Nil	1,000
Fire and rescue authority	Nil	1,000
NHS trust	Nil	1,000
Local health board	Nil	1,000
Other – voluntary	Nil	Subject to agreement with each body

Mandatory participants will also be provided with access to the NFI Application Checker without charge.

Wales Audit Office

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Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)

Office for  
**Budget  
Responsibility**

**Economic and fiscal outlook**  
Devolved taxes forecast

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November 2015



# 1 Introduction

- 1.1 The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Alongside the UK Government's Budgets and Autumn Statements, we produce forecasts for the economy and the public finances. We publish these in our *Economic and fiscal outlook (EFO)*.
- 1.2 Since 2012, we have forecast some tax streams that are devolved to the Scottish Parliament, and since last year we have also produced forecasts of taxes that are likely to be devolved to the National Assembly for Wales. Our forecasts for devolved taxes are published alongside each *EFO* and are consistent with our main UK forecasts. As with those UK forecasts, these extend over a five-year forecast period – to 2020-21 in this *EFO*.

## The Scotland Act 2012

- 1.3 The Scotland Act 2012 gave new powers to the Scottish Parliament relating to taxation and borrowing. In April 2015, stamp duty land tax (SDLT) and landfill tax were fully devolved to the Scottish Parliament. The Scottish Government replaced SDLT with a new land and buildings transaction tax (LBTT). From April 2016, the Scottish Parliament will be asked to set a Scottish rate of income tax, to replace a 10p reduction from each rate of UK income tax.
- 1.4 The Command Paper: *Strengthening Scotland's Future*<sup>1</sup> – published alongside the Scotland Bill in 2010 – set out our role in providing forecasts of Scottish income tax, landfill tax, stamp duty land tax and aggregates levy receipts.
- 1.5 In September 2014, the Smith Commission recommended the devolution of air passenger duty (APD) to the Scottish Parliament and the assignment of a share of VAT revenues. It also proposed more flexible powers over income tax than those in the 2012 Act. In May 2015, the UK Government committed to implement the Smith Commission recommendations in full, and the resulting Scotland Bill 2015-16 is currently going through the legislative process.

## The Wales Act 2014

- 1.6 The Wales Act 2014 gave new powers to the Welsh Assembly relating to taxation and borrowing. It provides for the full devolution of SDLT and landfill tax from April 2018. Subject to the outcome of a referendum in Wales on the introduction of Welsh rates of income tax, the Welsh Assembly will also be able to set new Welsh rates for each band of

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<sup>1</sup> *Strengthening Scotland's Future*, November 2010, Cm 7973.

income tax that would replace a 10p reduction in the rates of UK income tax. The timing of such a change has not yet been specified. The Government is also intending to devolve aggregates levy, subject to the resolution of current legal challenges.

- 1.7 The Command Paper: *Wales Bill: Financial Empowerment and Accountability*<sup>2</sup> – published alongside the Wales Bill in 2014 – required us to begin to forecast Welsh taxes alongside Autumn Statement 2014 and twice a year thereafter. This currently includes forecasts for stamp duty land tax, landfill tax, aggregates levy and the Welsh rate of income tax. Our forecasts will reflect any Welsh replacement taxes – as with LBTT in Scotland – when details of any changes become sufficiently clear. The Welsh Government's Budget will not be varied in line with fluctuations in tax receipts until the devolution of these taxes has been fully implemented.
- 1.8 The Welsh Government announced, in its *Tax Collection and Management (Wales) Bill* in July 2015, its intention to replace SDLT with a 'land transaction tax' and landfill tax with a 'land disposals tax'. The intended date of Royal Assent for this bill is spring 2016, with a further bill introducing the legislation expected later in the year.

## Methodology

- 1.9 We published a methodology note in March 2012 that described how we planned to forecast Scottish tax receipts.<sup>3</sup> It explained that it is not possible to replicate in full the methodology we use to produce our UK-wide forecasts. In particular, the macroeconomic data that we would need to produce a Scottish macroeconomic forecast and economic determinants were generally not available at a Scottish level or were only available with a long lag. That remains the case. We are therefore not able to produce a Scottish macroeconomic forecast to drive the Scotland tax forecast. These challenges apply equally to forecasting Welsh taxes.
- 1.10 Given these challenges, the methodologies we use are generally based on estimating and projecting Scottish and Welsh shares of relevant UK tax streams. We typically assume that the shares will continue at recent average levels, unless available evidence suggests we should adjust those assumptions to ensure our forecasts are central. For example, if a newly announced policy can be expected to have a disproportionate impact on the Scottish or Welsh share of a particular tax, or there is evidence pointing to different trends in an underlying tax base.
- 1.11 The exception to this is our LBTT forecast. As the Scottish Government has to date only published a forecast of LBTT receipts for one year, we sought assistance from HM Revenue and Customs (HMRC) in producing a five-year LBTT forecast. As a new tax, this forecast will clearly be subject to even greater uncertainty than our previous forecasts for the Scottish share of UK SDLT receipts. That forecast was itself subject to considerable uncertainty given its sensitivity to the growth of property transactions, which can be volatile from year to year,

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<sup>2</sup> *Wales Bill: Financial Empowerment and Accountability*, March 2014, Cm 8838.

<sup>3</sup> *Forecasting Scottish taxes*, March 2012.

and the composition of those transactions, since total receipts are heavily skewed towards transactions at high prices.

- 1.12 As with our UK forecasts, the methodology and the forecasts represent the collective view of the three independent members of the OBR's Budget Responsibility Committee (BRC). The BRC takes full responsibility for the judgements that underpin them.
- 1.13 We consider these methodologies to remain work-in-progress. The OBR's role in forecasting started three years ahead of the initial devolution of these taxes in Scotland. This has allowed us to develop and improve forecasts in light of experience and the availability of new information sources.

## The forecast process

- 1.14 The process for producing the devolved tax forecasts has been as follows:
- HMRC officials produced draft Scottish and Welsh tax forecasts on our behalf using our near-final pre-measures UK economy and fiscal forecasts. This took into the latest available information on LBTT and landfill tax in Scotland, which have been in effect since April 2015. The BRC and OBR staff discussed these forecasts with HMRC, Scottish Government, Scottish Fiscal Commission and Welsh Government officials on 6 November; and
  - in the final week before the Autumn Statement, HMRC officials provided us with a final set of Scottish and Welsh forecasts using our final post-measures UK economy and fiscal forecasts, and taking into account Autumn Statement policy measures. Due to the confidentiality of the measures, we were unable to involve the Scottish Government and Welsh Government in this stage of the process.
- 1.15 The Scottish Government produced a forecast for 2015-16 receipts from the new Scottish LBTT and landfill tax in its Draft Budget in October 2014. The Scottish Government has not provided us with information about expected receipts from these taxes over the remainder of our five-year forecast period, so HMRC produced these forecasts at our request. We will continue to work with the Scottish and Welsh Governments, and with the Scottish Fiscal Commission, to ensure that we can bring all relevant information to bear in producing these forecasts. At this stage, the forecast we present in this document is our own. Differences between our own forecast and the Scottish Government forecasts for 2015-16 are explained in Chapters 3 and 4.

## Summary of forecasts

- 1.16 Tables 1.1 and 1.2 detail the forecasts for the Scottish and Welsh taxes.

Table 1.1: Summary of November 2015 Scottish tax forecasts

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Income tax	4649	4900	5226	5521	5802	6148
LBTT	397	496	557	628	700	769
Landfill tax	140	131	120	120	127	140
Aggregates levy	46	43	39	39	42	46
<b>Total</b>	<b>5232</b>	<b>5569</b>	<b>5942</b>	<b>6309</b>	<b>6671</b>	<b>7104</b>

Table 1.2: Summary of November 2015 Welsh tax forecasts

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Income tax	2023	2124	2267	2400	2528	2681
SDLT	163	184	204	227	251	273
Landfill tax	46	44	40	40	42	47
Aggregates levy	29	29	31	31	31	32
<b>Total</b>	<b>2260</b>	<b>2381</b>	<b>2543</b>	<b>2698</b>	<b>2852</b>	<b>3032</b>

## 2 Income tax

### Scottish rate of income tax

- 2.1 Under the Scotland Act 2012, the existing basic, higher and additional rates of income tax levied by the UK Government will, from April 2016, be reduced by 10p in the pound for those individuals defined as Scottish taxpayers. The Scottish Parliament will then levy a new Scottish rate of income tax, which will apply equally to Scottish taxpayers in all the main UK bands. The new Scottish rate of income tax will need to be set every year by the Scottish Parliament. The block grant from the UK Government to the Scottish Government will then be reduced to reflect the fiscal impact of the devolution of these tax-raising powers.
- 2.2 The Scottish rate of income tax will be paid by Scottish taxpayers, who will be defined as a UK taxpayer either resident in Scotland or whose closest connection is with Scotland. It will be levied on non-savings, non-dividend income liabilities (i.e. earnings from employment, self-employment, pension income, foreign income, taxable benefits and income from property). Tax liabilities for a particular year would include both PAYE (pay-as-you-earn income tax, which is largely paid in the same year as the activity that created the tax liability) and self-assessment (which is usually paid in the year after the activity that took place to create the tax liability).
- 2.3 The Scotland Bill 2015-16 currently going through Parliament allows for wider ranging powers over income tax, including the power to vary the three rates – basic, higher and additional – separately, as well as creating new bands. These would still on a non-savings, non-dividend basis. However, until sufficient detail about the new proposals is available, our forecast continues to be based on the 2012 definition. Similarly, as the Scottish Government has not yet set rates, we assume a 10p rate is levied in every year.

### Welsh rate of income tax

- 2.4 The Wales Act 2014 includes provision for a referendum to determine whether the Welsh Assembly will be able to introduce a Welsh rate of income tax. The income tax levied by the UK Government would be reduced by 10p in the pound for those individuals defined as Welsh taxpayers. The Welsh Assembly would then levy separate Welsh rates for each band of income tax. The new Welsh income tax rates would need to be set every year by the Welsh Assembly. The block grant from the UK Government to Wales would then be reduced to reflect the fiscal impact of the devolution of these tax-raising powers.
- 2.5 The forecasts presented in this document assume that the referendum results in the implementation of Welsh rates of income tax and that the Welsh Assembly then levies a 10p

rate across all the income tax bands in every year. It will also be levied on non-savings, non-dividend income liabilities.

## Methodology

2.6 We generate a UK forecast for non-savings, non-dividend income tax liabilities from the full UK income tax liabilities forecast published in our *EFO*. The key components of the UK forecast are:

- total pay-as-you-earn (PAYE) liabilities;
- self-assessment (SA) liabilities on non-savings, non-dividend income. The UK forecast for SA in the *EFO* is on a receipts basis (i.e. when the cash is received). For this forecast this is adjusted to be on a liabilities basis (i.e. when the activity occurred) and to exclude the savings and dividend elements of SA; and
- PAYE repayments and repayments to pension providers, from our income tax repayments forecast.

2.7 We apply the latest estimated Scottish and Welsh shares to the UK total of these forecast components. We then include deductions in respect of the Scottish and Welsh shares of Gift Aid repayments. Finally, we add estimates of the Scottish and Welsh income tax element of new policy measures announced in this Autumn Statement.

2.8 Information on the share of UK income tax in Scotland and Wales is derived from the Survey of Personal Incomes (SPI), an annual survey based on a sample of about 700,000 individuals in contact with HMRC during the course of the year through the PAYE, SA or repayment claim systems. This is only available with a long lag, with data currently only available up to 2012-13. In the run up to the devolution of the Scottish rate of income tax, HMRC will identify each individual taxpayer as Scottish or not, and flag them as such on its PAYE and SA systems. Once this has been done, it will be possible to determine the Scottish share of UK liabilities with much greater precision and timeliness.

2.9 The Scottish and Welsh shares can be affected by a number of factors. These include:

- different economic trends between Scotland/Wales and the UK as a whole;
- different movements in the income distribution between Scotland/Wales and the UK; and
- different effects of policy measures.

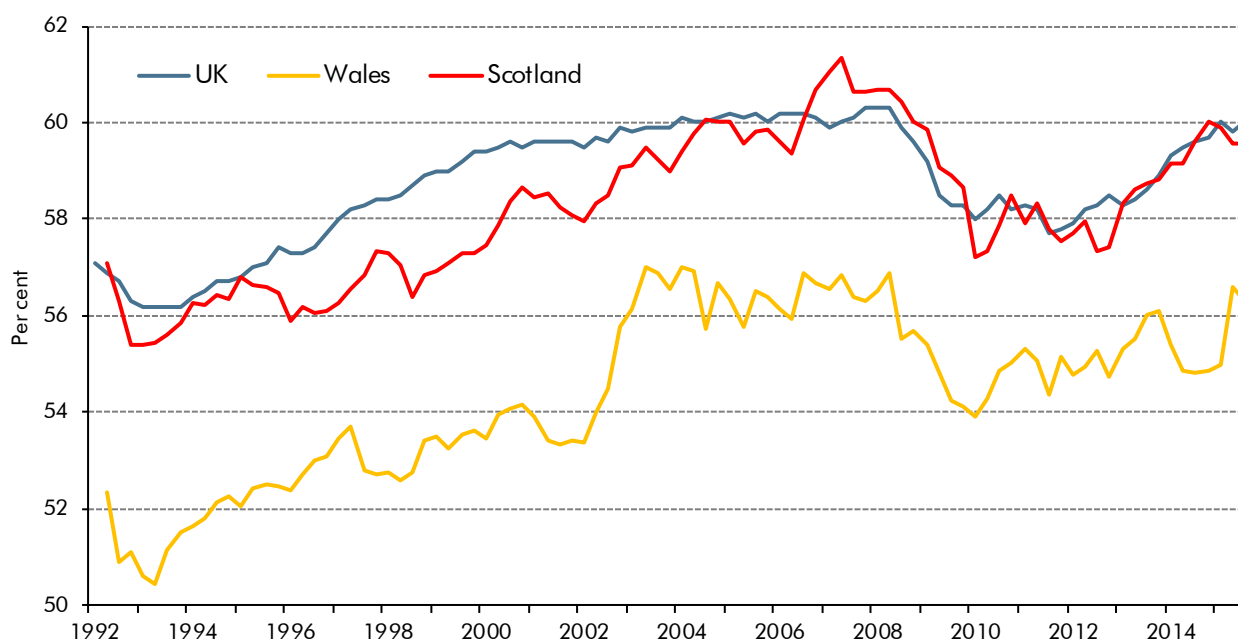
2.10 The Scottish share was very stable from 2001-02 to 2010-11 – with the share close to 3.15 per cent in most years – but fell in both 2011-12 and 2012-13. The share in Wales has been more uneven and it has trended down since 2003-04. Table 2.1 shows the estimates of the Scottish and Welsh share from the SPI.

Table 2.1: Scottish and Welsh historic income tax shares

	Per cent of UK total for non-savings, non-dividend liabilities													
	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13
Scotland	3.04	3.03	3.14	3.15	3.23	3.15	3.13	3.15	3.14	n/a	3.16	3.15	3.08	3.04
Wales	1.45	1.40	1.48	1.51	1.55	1.53	1.50	1.47	1.44	n/a	1.42	1.42	1.37	1.34

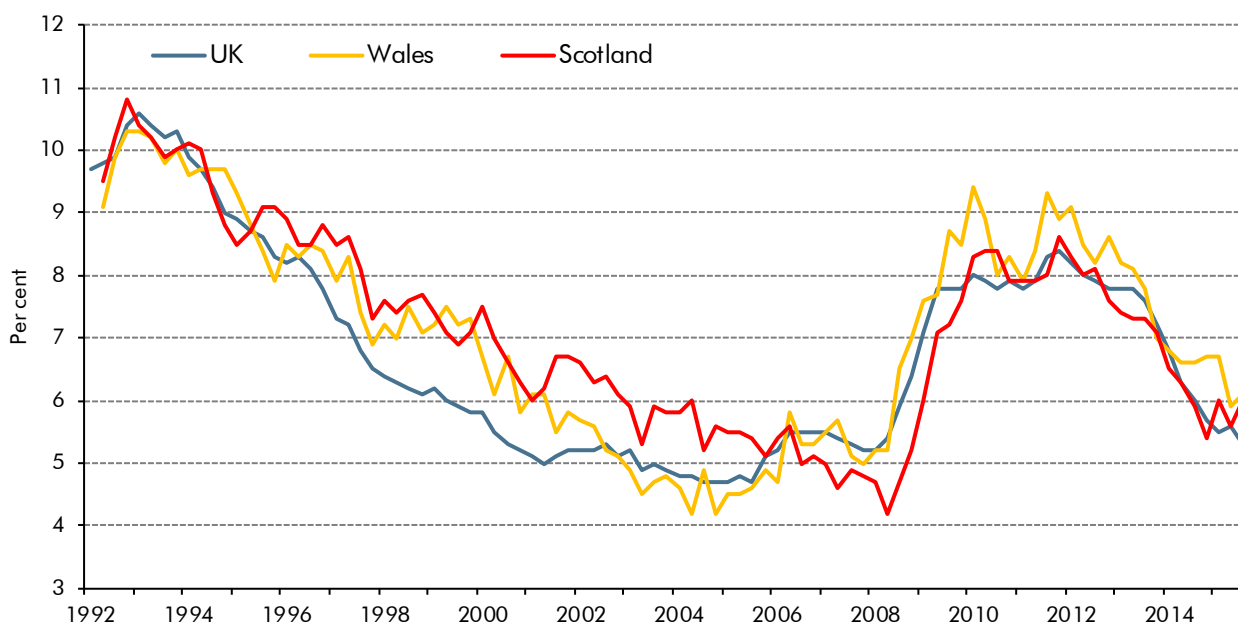
2.11 These different shares of UK income tax can partly be explained by different labour market trends in Wales and Scotland relative to the rest of the UK. Charts 2.1 and 2.2 show that employment and unemployment trends in Scotland have generally been more similar to the UK as a whole than has been the case in Wales. In particular, the employment rate has typically been lower in Wales, mainly reflecting a higher inactivity rate. The latest unemployment rate in Wales is 6.1 per cent; in Scotland it is 6.0 per cent. Both are significantly higher than the current unemployment rate of 5.3 per cent in the UK as whole.

Chart 2.1: Employment rates in the UK, Scotland and Wales



Source: ONS

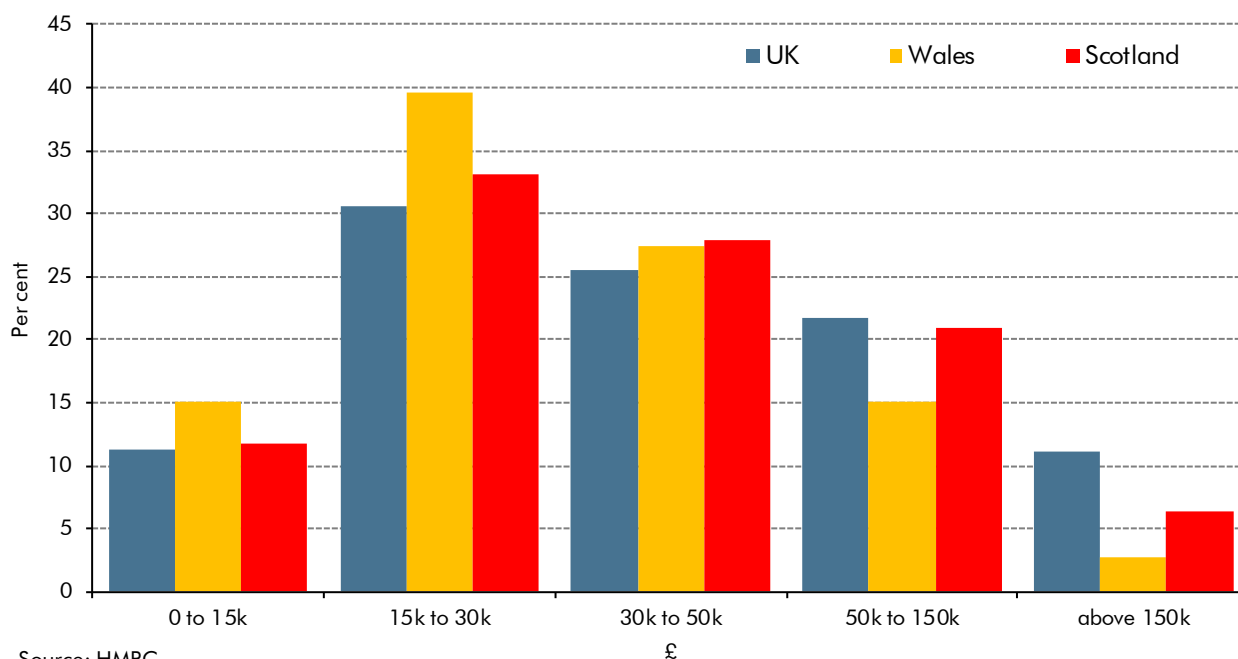
Chart 2.2: Unemployment rates in the UK, Scotland and Wales



Source: ONS

- 2.12** The main factors behind the drops in Scottish and Welsh shares of income tax since 2009-10 are likely to be the asymmetric effects of policy measures. In recent years, revenue-raising policies have generally affected the top end of the income distribution. These include the additional rate of income tax that applies to incomes over £150,000, the withdrawal of personal allowances over £100,000, freezes in the basic rate limit and higher rate thresholds and a number of anti-avoidance measures. In contrast, tax cuts such as raising the personal allowance to £11,000 by 2016-17 have had more of an effect at the lower end of the income distribution.
- 2.13** Chart 2.3 shows the proportion of total taxpayer income by income bands. Compared to the UK, the proportion of taxpayer income attributable to individuals with incomes below £30,000 is higher in Scotland, and particularly so in Wales. We have therefore made adjustments to the Scottish and Welsh share to account for recent policy measures that are not yet reflected in the SPI data.

Chart 2.3: Proportion of total taxpayer income by income bands (2012-13)



**2.14** The final step in our forecast process is to add the estimated Scottish and Welsh share of newly announced policy measures to generate the post-measures forecast.

## UK forecast

**2.15** Table 2.2 shows the UK forecast of tax liabilities on non-savings, non-dividend income. To aid comparison we present both the current and previous July forecast before the effect of policy measures. Compared to our July forecast, estimates of outturn receipts have been revised down in 2012-13 but up in 2013-14. Analysis of 2013-14 SA returns suggests that liabilities for non-savings, non-dividend income were stronger than we estimated in July. This provides a higher starting point for the SA element of the forecast that is pushed through the forecast. The higher forecast for SA liabilities also pushes up the provisional UK outturn in 2014-15. Compared with July, our latest forecast rises faster in the near term but slows in later years, resulting in a forecast that is little changed by 2020-21. Receipts are expected to rise by 32 per cent over the forecast period.

**2.16** In terms of the main economic determinants that feed into the income tax forecast, wages and salaries growth is slightly higher over the first few years of the forecast but lower thereafter, with the cumulative growth over the period a little lower than in July. That has been the main driver of the revised profile of tax liabilities shown in Table 2.2. Within that, employment growth has been revised up a little, while average earnings growth is stronger in 2015-16 but has been revised down a little in each subsequent year, partly due to our assumption that employers will pass most of the cost of the new apprenticeship levy onto their employees.

Table 2.2: UK forecast of tax liabilities on non-savings, non-dividend income

	£ billion								
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015 (excluding July measures) (a)	142.2	147.2	153.3	160.5	171.7	182.0	191.8	203.7	217.6
November 2015 (inc July measures)	141.5	148.8	155.4	164.5	175.0	185.4	195.3	205.4	217.5
November 2015 (exc July measures) (b)	141.5	148.8	155.4	164.3	173.3	184.5	194.9	205.4	217.5
Difference (b) - (a)	-0.7	1.7	2.1	3.8	1.6	2.5	3.1	1.7	0.0

**2.17** PAYE receipts in 2015-16 have been boosted by the pension flexibility reforms. Pension withdrawals have been slightly higher than expected so far this year and we assume a yield of around £0.9 billion from these withdrawals over the whole of 2015-16, around £0.2 billion higher than previously assumed. Estimates of pension withdrawals and the extent to which the reforms also lead to higher pension contributions (and higher tax relief) remain subject to significant uncertainty. We have not revised our forecast for future years. The July Budget announced a delay in the implementation of the March 2015 measure on secondary annuities to 2017. That reduces receipts by around £0.5 billion in 2016-17 but increases them in 2018-19 as the effect has simply been pushed forward a year. We still consider this costing to be subject to very high uncertainty, with the range of possible outcomes around the central estimate including the possibility that a secondary market does not develop and no receipts are generated.

**2.18** SA receipts in 2015-16 should be boosted by previously announced measures on partnership income and accelerated payments, and by the strong growth in self-employment in 2014. A number of other measures announced in the July Budget – including the changes in non-domicile rules, HMRC compliance measures and restrictions on residential landlords' deductions from taxable income – are all expected to boost receipts.

**2.19** A number of policy measures that increase non-savings, non-dividends income tax receipts have been announced in this Autumn Statement:

- an increase in company car tax;
- the introduction of penalties linked with the general anti-abuse rule;
- a measure that encourages small business to pay their tax digitally;
- restrictions on the use of reliefs for energy investments by venture capital trusts; and
- the postponement of two planned increases in pensions contributions for automatically enrolled employees.

**2.20** Two measures announced in this Autumn Statement lead to a fall in non-savings, non-dividends income tax receipts:

- a higher rate of SDLT on the purchase of additional residential properties (which only affects the forecast for Welsh income tax, given that no higher rate has been announced for Scotland's land and buildings transactions tax); and
- the impact on employer supported childcare of the changes to eligibility for tax-free childcare.

**2.21** The measure to restrict company distributions is forecast to raise income tax receipts in the UK by between £25 million and £55 million a year, but it will not affect the definition used in either the Scottish or the Welsh rate of income tax since it affects dividend income.

## Scottish forecast

**2.22** Table 2.3 shows our latest forecast of the Scottish share of income tax. Data from the 2012-13 SPI became available in January 2015 and suggests that the Scottish share in 2012-13 was 3.04 per cent. This is the same information on which we based our July forecast. We expect a further fall in the Scottish share over the forecast period as a result of the asymmetric effect of policy measures in recent years. This pattern continues with the new policy measures announced in this Autumn Statement, with the tax increases focused on those with higher incomes, which reduces the Scottish share. We have not made any further adjustments to the share as the effects of the measures are dealt with separately.

Table 2.3: Scottish share of income tax

	Per cent of UK total for non-savings, non-dividend liabilities								
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	3.04	2.91	2.91	2.89	2.89	2.89	2.89	2.88	2.88
November 2015	3.04	2.91	2.91	2.89	2.88	2.87	2.87	2.87	2.87

**2.23** Table 2.4 provides a forecast for Scottish income tax liabilities on non-savings, non-dividend income. These are the liabilities specifically for the Scottish rate. Prior to a decision in the Scottish Parliament on the new Scottish tax rate for 2016-17, the forecast assumes that a 10p Scottish rate will be levied. In line with the UK forecast, we expect higher growth in tax liabilities in the near term but slower growth in the final years of the forecast compared with July.

Table 2.4: Scottish income tax forecast

	£ million							
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Scottish income tax liabilities (pre-measures)	4288	4449	4648	4894	5208	5501	5793	6134
New measures		0	1	6	18	20	9	15
<b>Scottish income tax liabilities (post-measures)</b>	<b>4288</b>	<b>4449</b>	<b>4649</b>	<b>4900</b>	<b>5226</b>	<b>5521</b>	<b>5802</b>	<b>6148</b>

**2.24** Table 2.5 provides a breakdown of the change in the Scottish income tax forecast since July. Receipts are higher in every year of the forecast except for 2020-21. The main driver of this is the UK forecast outlined above but there is also a positive effect from Autumn Statement measures, particularly from changes to automatic enrolment pension contributions and company car tax. These outweigh the reduction in the forecast for the Scottish share shown in Table 2.3.

**Table 2.5: Changes in Scottish income tax since July**

	£ million							
	Forecast							
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	4240	4415	4590	4868	5147	5431	5781	6187
<b>November 2015</b>	<b>4288</b>	<b>4449</b>	<b>4649</b>	<b>4900</b>	<b>5226</b>	<b>5521</b>	<b>5802</b>	<b>6148</b>
Change in income tax	49	34	59	32	78	90	21	-38
of which:								
Scottish share	-1	-2	-2	-11	-18	-18	-19	-24
Other (including previous measures)	0	-25	-56	-59	-19	-14	-20	-27
New measures	0	0	1	6	18	20	9	15
UK forecast	49	61	115	97	97	103	50	-2

## Welsh forecast

**2.25** Table 2.6 shows our forecast for the Welsh share of income tax. The 2012-13 SPI data published in January 2015 indicate a Welsh share of 1.34 per cent. This is the same information on which we based our July forecast. As with the Scottish share, the asymmetric effect of policy measures is likely to be the key factor behind the recent drop. We expect the share to edge lower until 2016-17, from where we assume it will be flat at a slightly lower level than we assumed in July.

**Table 2.6: Welsh share of income tax**

	Per cent of UK total for non-savings, non-dividend liabilities								
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	1.34	1.27	1.27	1.26	1.25	1.25	1.26	1.26	1.26
<b>November 2015</b>	<b>1.34</b>	<b>1.27</b>	<b>1.27</b>	<b>1.26</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>

**2.26** Table 2.7 provides a forecast for Welsh income tax liabilities on non-savings, non-dividend income. These are the liabilities specifically for the Welsh rate. It assumes that a 10p rate is implemented by the Welsh Assembly. Again, in line with the UK forecast we expect higher growth in tax liabilities in the near term, but slower growth in the final years of the forecast period compared with July.

Table 2.7: Welsh income tax forecast

	£ million							
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Welsh income tax liabilities (pre-measures)	1868	1940	2022	2122	2259	2391	2522	2675
New measures		0	1	3	8	10	6	6
<b>Welsh income tax liabilities (post-measures)</b>	<b>1868</b>	<b>1940</b>	<b>2023</b>	<b>2124</b>	<b>2267</b>	<b>2400</b>	<b>2528</b>	<b>2681</b>

**2.27** Table 2.8 provides a breakdown of the changes in the Welsh income tax forecast since July. Receipts are higher in every year of the forecast except 2020-21. The main driver of this is the UK forecast outlined above. As with Scotland, there is also a positive effect from announced measures in this Autumn Statement, particularly from changes to automatic enrolment pension contributions and company car tax. This outweighs the small reduction in the forecast for the Welsh share shown in Table 2.6.

Table 2.8: Changes in Welsh income tax since July

	£ million							
	2013-14	2014-15	Forecast					
			2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	1846	1924	1996	2107	2228	2357	2515	2695
<b>November 2015</b>	<b>1868</b>	<b>1940</b>	<b>2023</b>	<b>2124</b>	<b>2267</b>	<b>2400</b>	<b>2528</b>	<b>2681</b>
Change in income tax	22	16	27	17	39	43	13	-14
of which:								
Welsh share	0	0	0	0	-1	-1	-1	-2
Other (including previous measures)	0	-11	-24	-27	-10	-10	-14	-17
New measures	0	0	1	3	8	10	6	6
UK forecast	21	27	50	42	42	45	22	-1



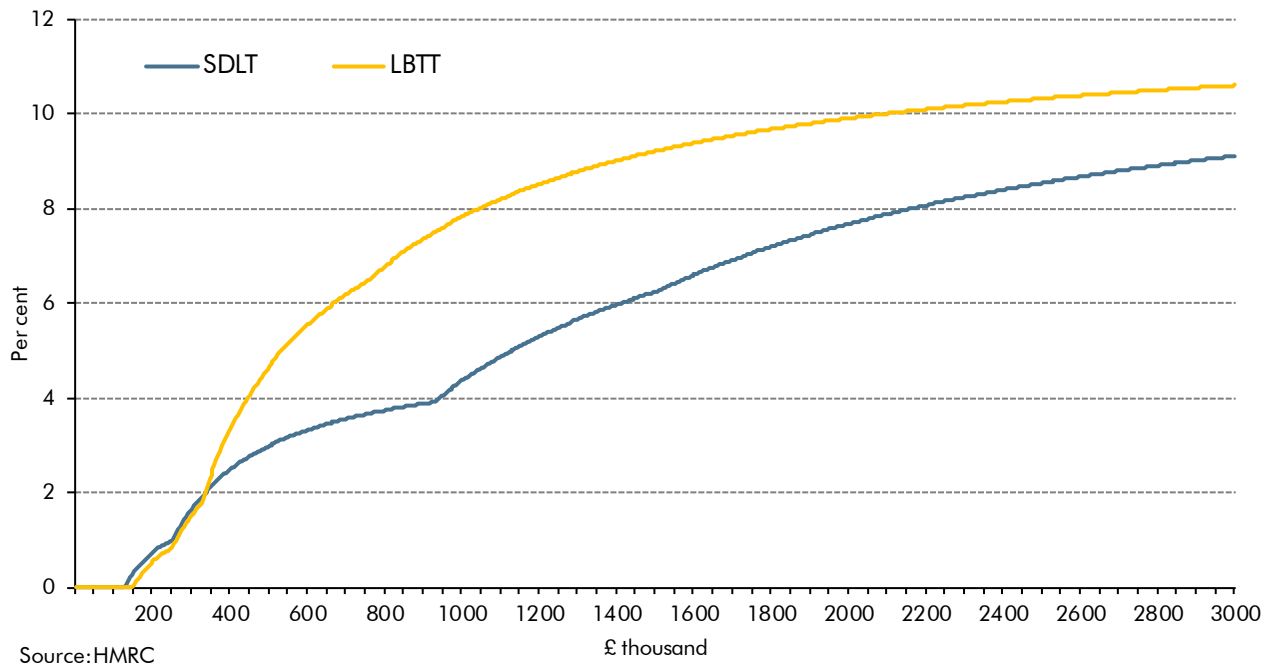
## 3 Taxes on property transactions

### Scottish land and buildings transaction tax

- 3.1 The Scotland Act 2012 provided for stamp duty land tax (SDLT) to be entirely devolved to Scotland in April 2015, which included the power to change the tax system as well as tax rates. The system was changed through the Land and Buildings Transaction Tax (Scotland) Act 2013, which received Royal Assent on 31 July 2013.
- 3.2 In April 2015, the land and buildings transaction tax (LBTT) replaced UK-wide SDLT in Scotland. Prior to that there were also reforms to the UK SDLT tax system that took place in December 2014. The main changes that have affected the taxation of property transactions in Scotland are:
- on 4 December 2014, the UK residential SDLT regime moved from a 'slab' to a 'slice' system. As a result, between December 2014 and March 2015 property transactions in Scotland were taxed under the new UK SDLT regime, before moving to the LBTT regime in April 2015. The UK changes were discussed in detail in our December 2014 EFO;
  - a requirement to pay LBTT prior to registration of the title, intended to encourage prompt payment; and
  - modifications to reliefs and exemptions, including the withdrawal of sub-sale relief arrangements.
- 3.3 The Scottish Government announced LBTT rates and bands in its October 2014 Draft Budget. These were amended in January 2015. For residential property the rates are:
- 0 per cent on residential property transactions up to £145,000;
  - 2 per cent on the portion above £145,000 up to £250,000;
  - 5 per cent on the portion above £250,000 up to £325,000;
  - 10 per cent on the portion above £325,000 up to £750,000; and
  - 12 per cent on the portion above £750,000.
- 3.4 Chart 3.1 shows how the amount of tax paid on transactions at different property prices differs between the reformed UK SDLT regime and the Scottish LBTT system. It shows that there are substantial differences at some prices. For example, the purchaser of a £260,000

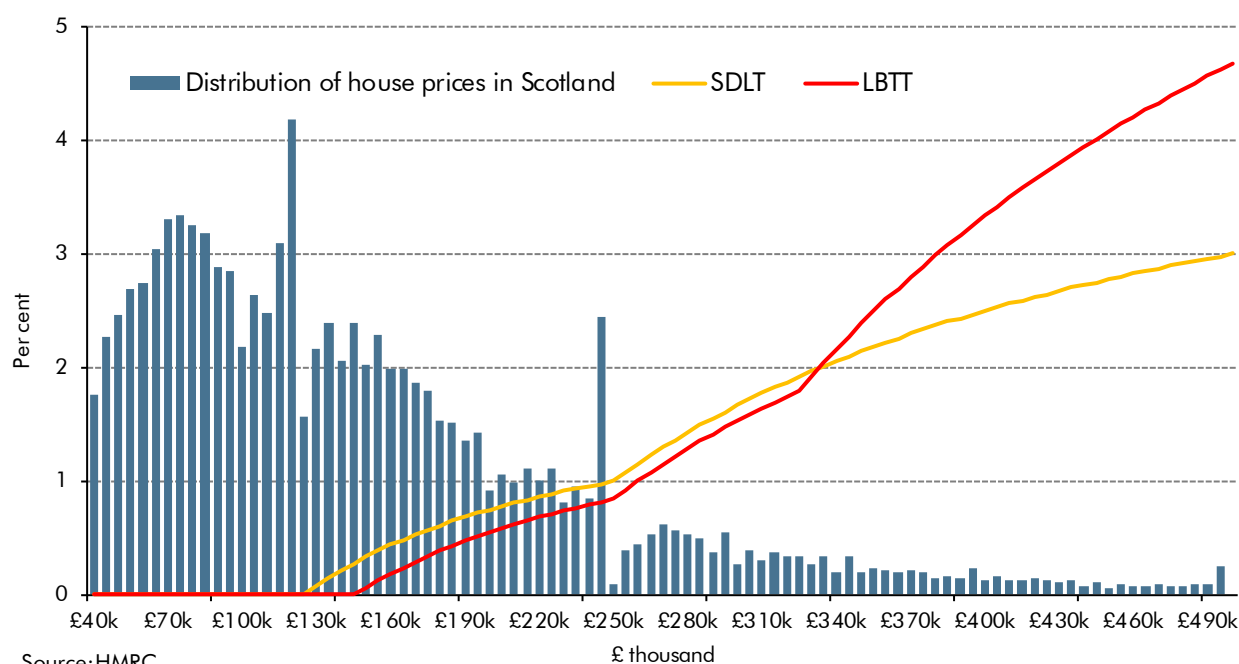
house – just above the 2 per cent threshold in both systems – would pay £400 less in tax in Scotland. By contrast, the purchaser of a £1.5 million house would pay £45,000 more tax under the Scottish system.

Chart 3.1: UK SDLT and Scottish LBTT tax schedules for residential property



3.5 Chart 3.2 shows LBTT and SDLT tax schedules for property transactions up to £500,000 against the distribution of house prices in Scotland. From this it is clear that for the majority of properties in Scotland there would be a zero rate under either system. It is also clear that a significant proportion is likely to face a lower rate under LBTT than SDLT. A relatively small proportion would be subject to the higher rates under LBTT and few properties in Scotland would be subject to the 10 and 12 per cent LBTT rates.

Chart 3.2: Distribution of house prices in Scotland under LBTT and SDLT, 2013-14



### 3.6 The new rates for Scottish non-residential property are:

- 0 per cent on non-residential property transactions up to £150,000;
- 3 per cent between £150,000 and £350,000; and
- 4.5 per cent above £350,000.

## Welsh property transactions tax

3.7 The Wales Act 2014 provides for SDLT to be fully devolved to Wales in April 2018. The Welsh Government announced, in its Tax Collection and Management (Wales) Bill in July 2015, its intention to replace SDLT with the 'land transaction tax'. The intended date of Royal Assent for this bill is spring 2016 with a further bill introducing the legislation for the land transaction tax expected later in the year. Until sufficient detail about the new tax is available, including rates and thresholds, our forecast is based on estimating the Welsh share of our UK SDLT receipts forecast.

## Methodology

3.8 The forecast for residential LBTT and the share of Welsh residential SDLT uses the HMRC stamp duty model (SDM). This is a microsimulation model that allows us to apply the tax schedules for LBTT and SDLT to a representative 10 per cent sample of transactions from a given year and grow them in line with our price and transactions forecasts for the residential property markets. We assume that Scottish and Welsh prices and transactions grow in line with those for the UK as a whole from 2015-16 onwards.

- 3.9** The forecast for commercial LBTT and the Welsh share of commercial SDLT is modelled using HMRC's stamp duty plus model (SDM+). This works in a similar way to the SDM, with the main difference being that rather than a sample, it takes all Scottish and Welsh property transactions from a given year, before applying price and transactions forecasts for the commercial sector. Again, we assume that Scottish and Welsh prices and transactions grow in line with those for the UK as a whole from 2015-16 onwards.
- 3.10** Table 3.1 shows how the Scottish and Welsh shares of SDLT receipts have evolved since 2007-08. It shows that they have generally been on a declining path, which has reflected the relative strength of London prices over the period. UK SDLT receipts fell sharply in 2008-09 and only returned to their pre-crisis levels in 2014-15. Scottish and Welsh residential SDLT receipts in 2014-15 were still 21 and 19 per cent below the 2007-08 levels. Commercial SDLT receipts in Scotland in 2014-15 were 9 per cent below the 2007-08 level while they were 13 per cent lower in Wales.
- 3.11** We will add any additional effect from new policy measures to produce the post-measures forecast.

**Table 3.1: Historical Scottish and Welsh shares of SDLT receipts**

	£ million							
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>UK:</b>	<b>9958</b>	<b>4796</b>	<b>4885</b>	<b>5960</b>	<b>6130</b>	<b>6907</b>	<b>9273</b>	<b>10738</b>
of which								
Residential	6680	2950	3290	4040	4220	4905	6450	7500
Commercial	3278	1846	1595	1920	1910	2002	2823	3238
<b>Totals</b>								
<b>Scotland:</b>	<b>565</b>	<b>320</b>	<b>250</b>	<b>330</b>	<b>275</b>	<b>283</b>	<b>390</b>	<b>475</b>
of which:								
Residential	340	185	135	165	155	170	215	270
Commercial	225	135	115	165	120	113	175	205
<b>Wales:</b>	<b>210</b>	<b>115</b>	<b>100</b>	<b>115</b>	<b>125</b>	<b>105</b>	<b>150</b>	<b>172</b>
of which:								
Residential	130	55	55	65	65	70	90	105
Commercial	80	60	45	50	60	35	60	67
<b>Per cent of UK total</b>								
<b>Scotland:</b>								
Residential share	5.1	6.3	4.1	4.1	3.7	3.5	3.3	3.6
Commercial share	6.9	7.3	7.2	8.6	6.3	5.6	6.2	6.3
<b>Wales:</b>								
Residential share	1.9	1.9	1.7	1.6	1.5	1.4	1.4	1.4
Commercial share	2.4	3.3	2.8	2.6	3.1	1.7	2.1	2.1

## UK SDLT forecast

- 3.12** SDLT from residential property has been weaker than expected so far in 2015-16. We have revised receipts down by £0.3 billion from our July forecast. Growth in overall residential transactions and house prices in recent months have been a little higher than we assumed

in July, with the weakness concentrated at the top end of the housing market. In particular, SDLT receipts are weaker because transactions among properties worth at least £2 million have fallen. While the 10 per cent year-on-year drop in the first half of 2015-16 represents only around 350 fewer transactions, each transaction pays a very large amount of SDLT. Assuming an average transaction price in this bracket of £4 million would imply a £140 million drop in receipts.

- 3.13 Compared with July, we have revised our pre-measures residential SDLT forecast down by over £2 billion by 2020-21. This revision reflects a combination of pushing the 2015-16 receipts weakness through the forecast, allowing for an additional downward effect from expensive properties and a lower forecast for overall residential transactions. In contrast, we have revised our commercial SDLT forecast up since July to allow for greater buoyancy in the effective tax rate, given rising prices and thresholds fixed in cash terms. These changes are partly offset by the policy measure of a 3 per cent SDLT surcharge on additional properties (mostly second homes and buy-to-let properties), which adds around £0.9 billion to the forecast by 2020-21.

## Scottish forecast

### LBTT receipts outturn

- 3.14 At the time we closed this forecast, six months of LBTT receipts outturn had been published by Revenue Scotland. These are shown in Table 3.2. For the year to date, total receipts are £183 million, with £96 million of those from residential transactions and £87 million from commercial transactions.
- 3.15 The pattern of receipts from April to June suggests people responded to changes in the tax system by shifting the timing of property transactions – an effect known as ‘forestalling’ that is often important when estimating the effect of policy changes that are pre-announced. Residential properties purchased for more than £335,000 are subject to a lower rate under UK SDLT than LBTT, as shown in Chart 3.2. It appears that a material number of such purchases were brought forward so that they took place before the April 2015 introduction of LBTT.
- 3.16 Residential LBTT receipts were low in April 2015, then jumped 63 per cent in May and a further 62 per cent in June. The number of residential transactions increased by 14 per cent from April to May and a further 28 per cent from May to June. Some of this is explained by the seasonal pattern of property transactions – transactions in Scotland tend to rise from April to June before remaining relatively flat across the summer months – but the high growth does suggest some forestalling behaviour. That can be seen more clearly when looking at the amount of LBTT paid per residential transaction. It almost doubled between April and June – from £1,017 in April to £1,460 in May and £1,844 in June. This suggests sales of higher value properties might have been depressed in the early months of LBTT, again consistent with forestalling behaviour shifting those transactions forward to before the introduction of LBTT.

3.17 The outturns suggest there may also have been some forestalling with commercial transactions, though the month-on-month growth is less pronounced.

Table 3.2: Land and buildings transaction tax outturn

	£ million					
	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15
Total	18	24	32	38	37	34
of which						
Residential	7	11	19	19	21	19
Commercial	11	13	14	18	16	16
	Transactions					
	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15
Total	7490	8620	10980	10910	10440	10010
of which						
Residential	6880	7810	10030	9940	9540	9040
Commercial	610	810	950	970	900	970

## LBTT forecast

3.18 Our forecast for Scottish LBTT is based on the LBTT rates for residential property announced in January 2015. Table 3.3 shows our latest forecasts for residential and commercial LBTT. We have revised our forecast down since July, but still expect total LBTT receipts to rise by 93 per cent between 2015-16 and 2020-21. Strong growth in LBTT receipts is explained by higher house prices and rising residential property transactions. Relative to our SDLT forecast, rising house prices will lead to a steeper rise in the effective tax rate for LBTT, given the marginal tax rates shown in Chart 3.1.

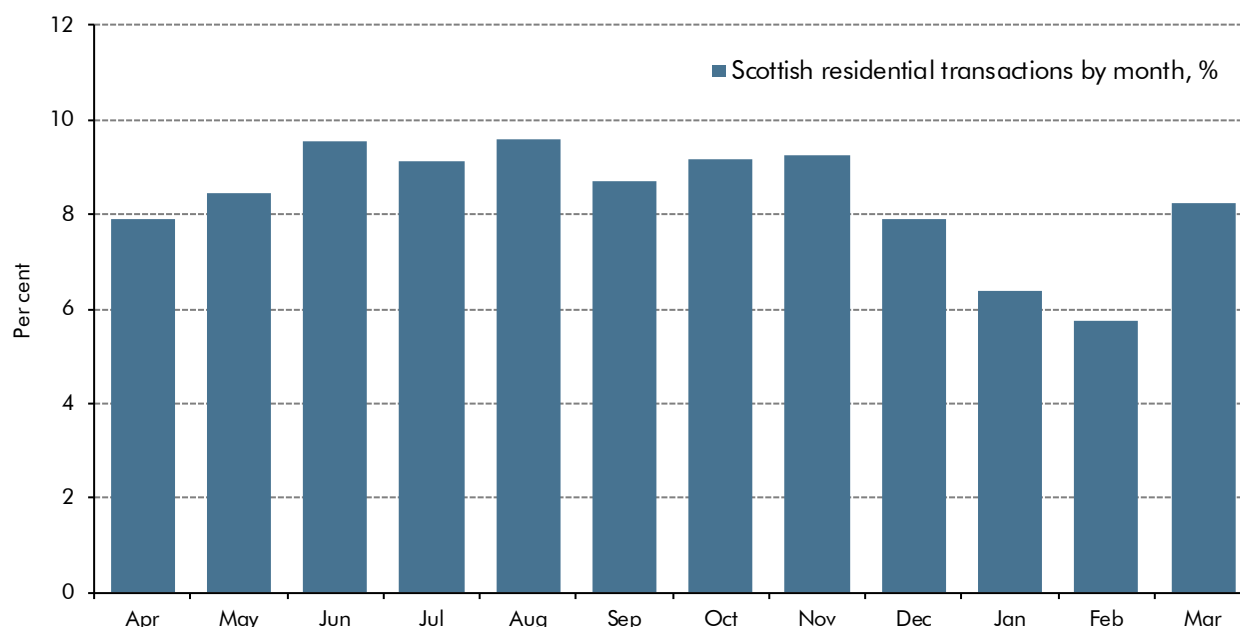
Table 3.3: Land and buildings transaction tax forecast

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total LBTT						
July 2015	540	616	689	780	874	974
November 2015	397	496	557	628	700	769
Difference	-142	-120	-132	-152	-174	-205
Residential LBTT						
July 2015	264	324	385	462	541	623
November 2015	178	253	302	360	418	473
Difference	-86	-72	-83	-102	-123	-150
Commercial LBTT						
July 2015	275	291	304	318	333	351
November 2015	220	243	255	268	282	296
Difference	-56	-49	-49	-50	-51	-55

3.19 Tables 3.4 and 3.5 show the sources of changes since our July forecast. Residential LBTT has been revised down substantially in each year, largely due to the receipts outturns shown in Table 3.2. In the year to September, total residential receipts have been £96 million, well below the level that would have been consistent with our July forecast. Chart 3.3 shows that typically more residential transactions take place in the first half of the year, so there is

unlikely to be a major rebound in the remainder of the year, so the forecast has been revised down by £116 million in 2015-16 and £85 million for future years.

Chart 3.3: Proportion of Scottish residential property transactions by month



Source: HMRC

**3.20** Some of the difference is explained by the estimated level of forestalling. Our July forecast assumed that transactions with a LBTT value of £20 million had been brought forward into 2014-15. We now estimate the effect was larger at £30 million. This type of behaviour only affects the timing rather than the underlying level of transactions, which is why the reduction attributed to receipts outturn is lower in later years. The other main effect is from the forecast for UK property transactions, which we have revised down to reflect new evidence on the average length of time between sales of properties in the owner-occupied and private-rented sectors. We have assumed that effect applies equally in Scotland, which has reduced our LBTT forecast by £42 million by 2020-21. There is also an effect from changes to UK house price inflation, which is slightly higher than our July forecast in the shorter term but lower in later years.

Table 3.4: Changes in residential LBTT since July

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Change in residential LBTT	-86	-72	-83	-102	-123	-150
of which:						
Receipts outturn	-116	-85	-85	-85	-85	-85
House prices	5	9	10	10	3	-17
Property transactions	9	9	-3	-21	-35	-42
Modelling changes	16	-5	-5	-6	-6	-6

**3.21** Our forecast for commercial LBTT receipts has also been revised down by between £49 and £55 million a year. Again, the main cause is the outturn shown in Table 3.2: receipts in the

first half of 2015-16 were well below the level consistent with our July forecast. We have also lowered our commercial property prices and transactions forecast, which together lowers LBTT receipts by £23 million by 2020-21. We have also included a £10 million estimate for commercial property transactions forestalling.

Table 3.5: Changes in commercial LBTT since July

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Change in commercial LBTT	-56	-49	-49	-50	-51	-55
of which:						
Receipts outturn	-47	-37	-36	-35	-34	-33
Property prices	-7	-7	-8	-9	-11	-13
Property transactions	-4	-6	-6	-7	-8	-10
Modelling changes	1	1	1	1	1	2

3.22 Our revised forecast for Scottish LBTT receipts in 2015-16 of £397 million is now similar to the Scottish Government's estimate of £381 million. However, there remains significant uncertainty around estimating the fiscal effect of a new tax and forecast revisions to residential property transactions in particular can be substantial. More detail on the modelling undertaken to estimate the impact of reforms to UK SDLT and the introduction of the Scottish LBTT can be found in Box 4.5 of our December 2014 *EFO*.

## Welsh forecast

3.23 As described above, the Welsh residential SDLT forecast has been estimated using HMRC's SDM and our UK-wide house price and residential transaction forecasts. Welsh commercial SDLT has been forecast using HMRC's SDM+ model and our UK forecast for commercial property prices and transactions. We then include the assumed Welsh share of SDLT policy measures in order to produce a final post-measures forecast. There are two Autumn Statement policy measures that affect the UK SDLT forecast:

- stamp duty land tax – higher rates on additional properties; and
- stamp duty land tax – bringing forward payments.

3.24 Table 3.6 shows that we expect Welsh SDLT to increase by 67 per cent between 2015-16 and 2020-21. Relative to our July forecast, Welsh residential SDLT has been revised down substantially in all years.

Table 3.6: Welsh SDLT forecast

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Total SDLT</b>						
July 2015	179	197	220	248	277	307
November 2015	163	184	204	227	251	273
Difference	-16	-13	-16	-21	-26	-34
<b>Residential SDLT</b>						
July 2015	101	116	136	162	188	215
November 2015	84	100	115	134	153	170
Difference	-17	-16	-21	-28	-35	-45
<b>Commercial SDLT</b>						
July 2015	78	81	84	86	89	92
November 2015	79	84	88	93	98	103
Difference	1	3	5	7	9	11

3.25 Table 3.7 shows that the most significant factor driving the downward revision since July has been lower than expected receipts in 2015-16, which reduces the forecast by £20 million a year. The effect from house prices and property transactions is consistent with the effect on our overall SDLT forecast described above.

Table 3.7: Changes in Welsh residential SDLT forecast since July

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Changes to residential SDLT	-17	-16	-21	-28	-35	-45
of which:						
Receipts outturn	-20	-20	-20	-20	-20	-20
House prices	2	3	3	3	1	-6
Property transactions	3	3	-1	-7	-12	-14
Modelling changes	-2	-2	-3	-4	-4	-5

3.26 Our Welsh commercial SDLT forecast has been revised up in all years. Table 3.8 shows that this has been driven by a change in forecast methodology, with the shift to using the SDM+ model slightly outweighing negative effects from lower receipts and lower property prices. We consider that the SDM+ model meets more fully the criteria we use to assess the performance of forecast models (described in Box 4.1 of our 2015 *Forecast evaluation report*).

Table 3.8: Changes in Welsh commercial SDLT forecast since July

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Changes to commercial SDLT	1	3	5	7	9	11
of which:						
Receipts outturn	-7	-7	-7	-7	-7	-7
Property prices	-4	-5	-4	-5	-5	-6
Property transactions	1	1	1	1	1	1
Modelling changes	12	14	16	18	20	23

**3.27** The proportion of transactions in Wales close to the 2 per cent threshold in the new UK SDLT regime (£125,000) is relatively high, as shown in Chart 3.3. This creates greater fiscal drag in Wales in the SDM modelling of Welsh SDLT receipts than was implied under the old slab regime, which encouraged bunching below thresholds because of the substantial impact on the amount of tax paid when moving from below to above a threshold. The change to a slice system in December 2014 means that transactions at prices just below the threshold are more likely to move up into the SDLT regime over time.

Chart 3.4: Distribution of house prices in Wales compared to the UK, 2013-14



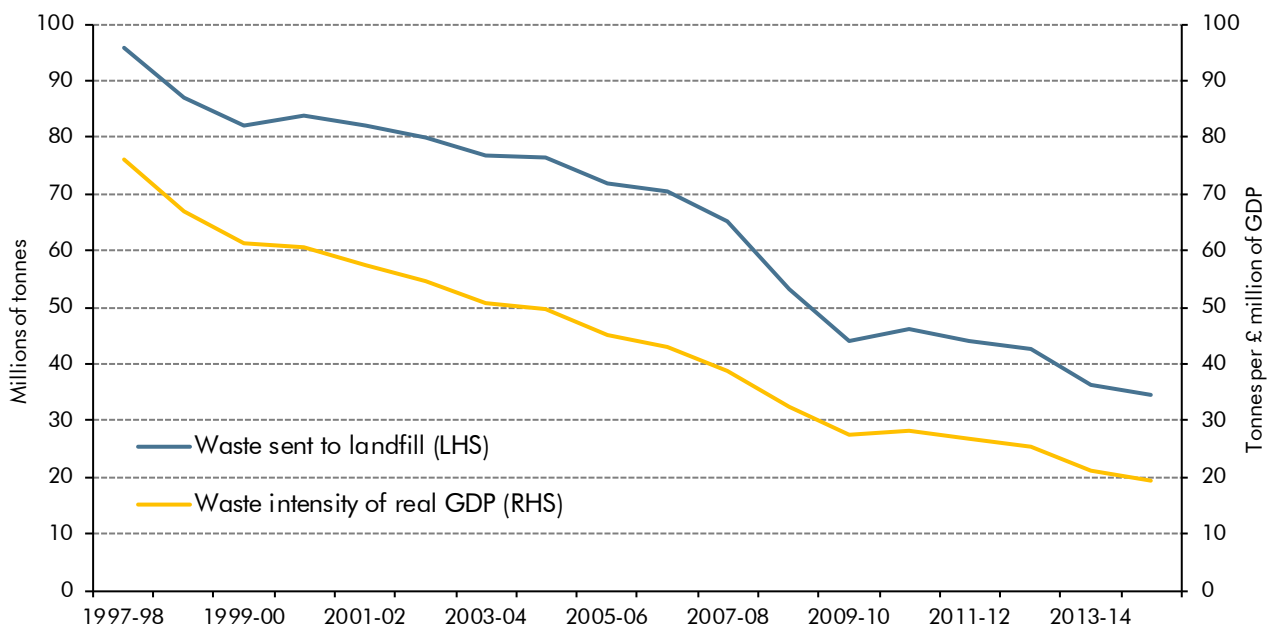
## 4 Environmental taxes

### Landfill tax

#### Trends in UK landfill tax receipts

- 4.1 Landfill tax was introduced in 1996. It is a tax that applies to all waste disposed of by way of landfill at a licensed landfill site unless the waste is specifically exempt. Our forecast for UK landfill tax is driven by the tax base (the amount of waste sent to landfill) and the effective tax rate that will be paid (largely driven by policy decisions on the rates paid, but also by the composition of waste sent to landfill as there are two different tax rates). Both elements represent sources of uncertainty in the forecast.
- 4.2 Since waste is largely a by-product of economic activity, we would expect growth in the tax base to be associated with GDP growth. And since the tax is paid on the volume of waste (per tonne), the relationship should be with real GDP. As Chart 4.1 shows, that relationship has been one of declining volumes of waste per unit of real GDP. Indeed, since landfill tax was introduced, there has been a clear downward trend in the amount of waste sent to landfill in the UK, falling from 96 million tonnes in 1997-98 to 34 million tonnes in 2014-15.

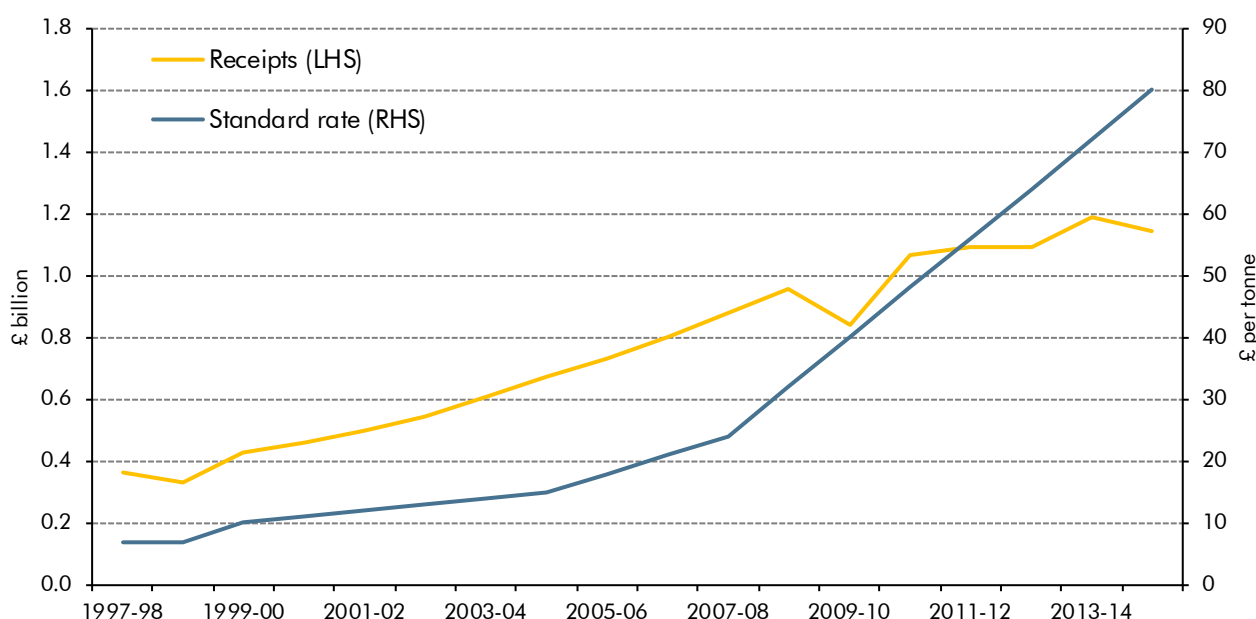
Chart 4.1: UK landfill waste tonnage relative to economic activity



Source: HMRC, ONS, OBR

- 4.3 As Chart 4.2 shows, despite a declining tax base, landfill tax receipts have risen significantly over the past 15 years, mainly due to large increases in the duty rate. The standard rate has been raised from £7 a tonne in 1997-98 to £80 a tonne in 2014-15 and £82.60 since April 2015. This has more than offset the reduction in the effective tax rate due to a steady decline in the proportion of waste sent to landfill that is subject to the standard rate – itself partly due to HMRC losing a court case that led to a narrowing of the scope of the standard rate.

Chart 4.2: UK landfill tax standard rate and receipts



Source: HMRC, ONS, OBR

## Scottish rate

- 4.4 Landfill tax was fully devolved to the Scottish Government in April 2015. In October 2014, as part of the Scottish Government's Draft Budget, it was announced that landfill tax rates will be set in line with those in the rest of the UK in 2015-16.

## Welsh rate

- 4.5 The Wales Act provides for landfill tax to be fully devolved from April 2018. The Welsh Government announced, in its Tax Collection and Management (Wales) Bill in July, its intention to replace landfill tax with the 'land disposals tax'. The intended date of Royal Assent for this bill is spring 2016 with a further bill introducing the legislation for the land disposals tax expected later in the year. Until sufficient detail about the new tax is available, including rates, our forecast is based on estimating the Welsh share of UK landfill receipts.

## Methodology

- 4.6 The Scottish and Welsh landfill tax forecasts are produced by applying an assumption about the path of the Scottish and Welsh share of landfill tax to the UK forecast. The Scottish landfill tax forecast also takes into account the latest receipts outturn from Revenue Scotland.
- 4.7 As noted above, the UK forecast is compiled using a forecast for the tonnage of waste sent to landfill, which is multiplied by the appropriate tax rate. The tonnage forecast is generated from separate Department for Environment, Food and Rural Affairs (DEFRA) projections of municipal solid waste, and commercial and industrial waste, sent to landfill. The expected amount of municipal waste sent to landfill is estimated by comparing the cost of alternative waste treatment options. DEFRA's detailed models cover England, so are scaled up to get to a UK-wide forecast. The split between standard and lower tax rates is based on historical trends. The tax rates are assumed to be uprated in line with RPI inflation, consistent with the default uprating assumption set by the Government.
- 4.8 Data on Scottish landfill tax are still limited, as only one quarter of outturn data has been published by Revenue Scotland. The Welsh share of landfill tax receipts is not currently available either, since landfill operators submit data returns that cover sites across all of England, Wales and Northern Ireland. The shares are therefore estimated from various data sources on landfill tonnages. The Scottish share uses data from the Scottish Environment Protection Agency that covers only Scotland. The Welsh share is calculated using data from Natural Resource Wales. This is a detailed dataset that offers comprehensive coverage of the amount of waste sent to landfill in Wales. Data for Northern Ireland is sourced from the Department of the Environment Northern Ireland to allow us to complete the picture for total UK landfill tonnage and calculate the Scottish and Welsh shares.
- 4.9 We add the effect of any new policy measures to produce our post-measures forecast.

## UK forecast

- 4.10 The latest available landfill tonnage data are shown in Table 4.1. As in our July forecast, 2013-14 remains the latest year of available data and shows a continuation in the downward trend. The UK total has fallen by 37 per cent since 2006-07, while there have been steeper declines in both Scotland (43 per cent) and Wales (44 per cent).

Table 4.1: Landfill tonnage in the UK

	Tonnes (million)							
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
England	63.9	59.0	51.4	43.9	43.8	44.0	41.6	41.0
Scotland	7.1	7.0	5.7	4.7	4.6	4.6	4.4	4.1
Wales	3.8	3.1	2.8	2.5	2.3	2.2	2.2	2.1
Northern Ireland	1.5	1.4	1.3	1.2	1.1	1.0	0.9	0.8
<b>UK</b>	<b>76.3</b>	<b>70.5</b>	<b>61.2</b>	<b>52.2</b>	<b>51.8</b>	<b>51.8</b>	<b>49.1</b>	<b>48.1</b>
	Per cent of UK total							
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland	9.4	9.9	9.4	8.9	8.8	8.9	8.9	8.4
Wales	5.0	4.4	4.6	4.7	4.4	4.2	4.4	4.4

4.11 The UK landfill tax forecast in Table 4.2 has been revised up in the near term since July and down from 2017-18 onwards. That reflects updated DEFRA projections of local authority waste sent to landfill. There is one landfill tax policy measure at the Autumn Statement that will apply in England, Wales and Northern Ireland: the reform to the landfill communities fund, which has raised the UK-wide forecast by £20 million a year from 2016-17 onwards.

Table 4.2: UK landfill tax forecast

	£ million						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	1122	1059	990	974	1008	1084	1156
<b>November 2015</b>	<b>1125</b>	<b>1077</b>	<b>1006</b>	<b>925</b>	<b>924</b>	<b>979</b>	<b>1081</b>
Difference	3	18	16	-49	-84	-106	-74

## Scottish landfill tax receipts outturn

4.12 Since our July forecast, the first receipts outturn for Scottish landfill tax has been released by Revenue Scotland. Scottish landfill tax receipts were £37 million from April to June 2015 (monthly data are unavailable). In July we forecast receipts would total £94 million in 2015-16. As there is no particular seasonal pattern in landfill receipts that would suggest the first quarter of the fiscal year should account for significantly more than a quarter of full-year receipts, our July forecast appears to have been an underestimate.

## Scottish forecast

4.13 The forecast for Scottish landfill tax in Table 4.3 has revised up considerably to reflect higher than expected receipts so far in 2015-16. Receipts are now forecast to be £140 million in 2015-16. That increase has been pushed through the rest of the forecast. Our new estimates imply a larger share of receipts for Scotland (13 per cent) than the overall share of waste tonnage sent to landfill shown in Table 4.1. This was a possibility we noted in July when considering why our 2015-16 estimate in that forecast was considerably lower than the £118 million included in the Scottish Government's Draft Budget.

4.14 This forecast has not taken into account the aspirations of the Scottish Government to reduce landfill tonnage more rapidly than in England. If this aspiration can be translated to

a firm policy target with relevant supporting analysis we can then consider it for the forecast. For now it is noted as a fiscal risk.

Table 4.3: Scottish landfill tax forecast

	£ million					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	94	88	87	90	96	103
<b>November 2015</b>	<b>140</b>	<b>131</b>	<b>120</b>	<b>120</b>	<b>127</b>	<b>140</b>
Difference	46	43	33	30	31	38

## Welsh forecast

- 4.15 The Welsh landfill tax forecast in Table 4.4 moves in line with our UK forecast. The main change is a small fall in the assumed Welsh share of UK receipts to reflect the higher Scottish share described above. For 2015-16 Wales is now assumed to account for 4.3 per cent of the UK's landfill tax receipts from 2015-16 onwards. Relative to our July forecast, receipts are lower by up to £7 million a year. The fall from £50 million in 2014-15 to £39 million in 2017-18 before rising to £46 million in 2020-21. Applying the estimated Welsh share to the costing of the landfill communities fund measure adds less than £1 million a year to our Welsh landfill tax forecast.
- 4.16 Once again, this forecast does not make allowance for the Welsh Government's aspiration to reduce landfill tonnage at a faster pace than in England. If this can be converted to a firm policy target with relevant supporting analysis we can then consider it for the forecast. For now it is noted as a fiscal risk.

Table 4.4: Welsh landfill tax forecast

	£ million						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	50	47	44	43	45	48	51
<b>November 2015</b>	<b>50</b>	<b>46</b>	<b>43</b>	<b>39</b>	<b>39</b>	<b>42</b>	<b>46</b>
Difference	0	-1	-1	-4	-6	-7	-5

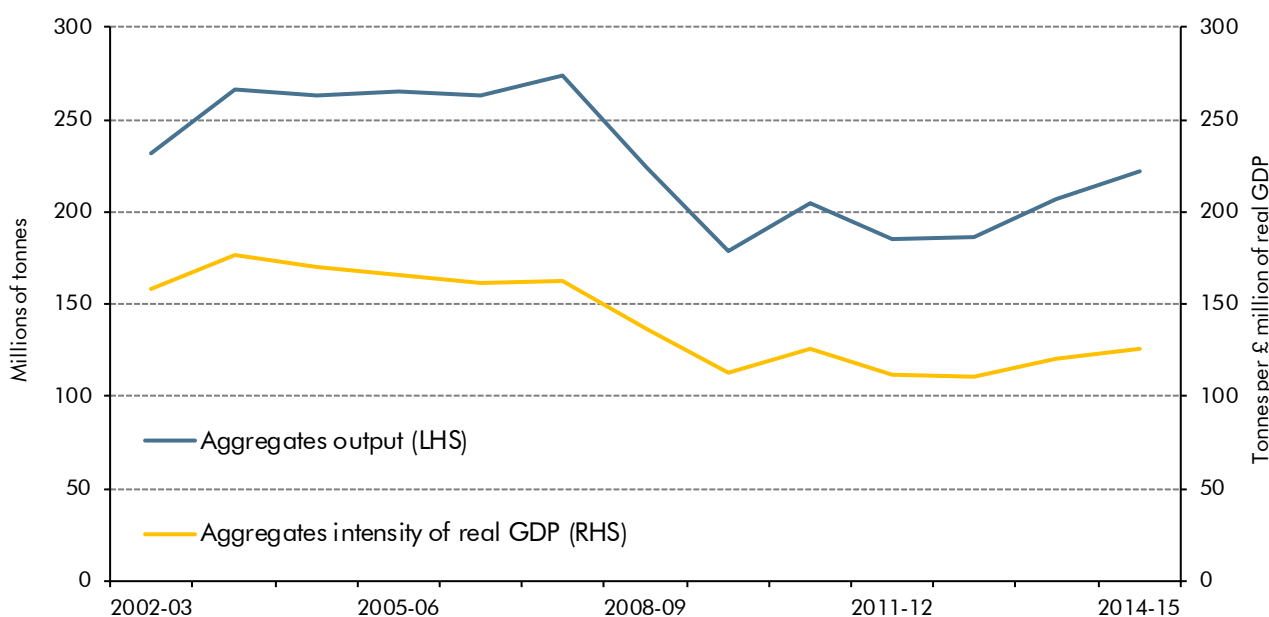
## Aggregates levy

### Trends in UK aggregates levy receipts

- 4.17 The aggregates levy is a tax on the commercial exploitation in the UK of rock, sand and gravel. It is due from any business that quarries, dredges or imports these products. The levy came into effect in 2002. Our forecast for UK aggregates levy is driven by the tax base (the volume of aggregates exploited) and the effective tax rate that will be paid (largely driven by policy decisions on the rates paid, but also by the composition of the tax base as some aggregates are relieved or exempt from the levy). The tax base represents the main source of uncertainty in the forecast.

- 4.18 Since aggregates are largely an input into broader economic activity, we would expect the growth in the tax base to be associated with GDP growth. And since the tax is paid on the volume of aggregates (per tonne), the relationship should be with real GDP. As Chart 4.3 shows, that relationship has been one of relatively stable volumes of aggregates per unit of real GDP, with a shift in the level during the late 2000s recession that has persisted. Since the aggregates levy was introduced, output in absolute terms was relatively stable during the pre-crisis period, and then fell sharply in 2009-10. It was relatively stable again until 2012-13, but recently updated data suggest it has picked up again since then.

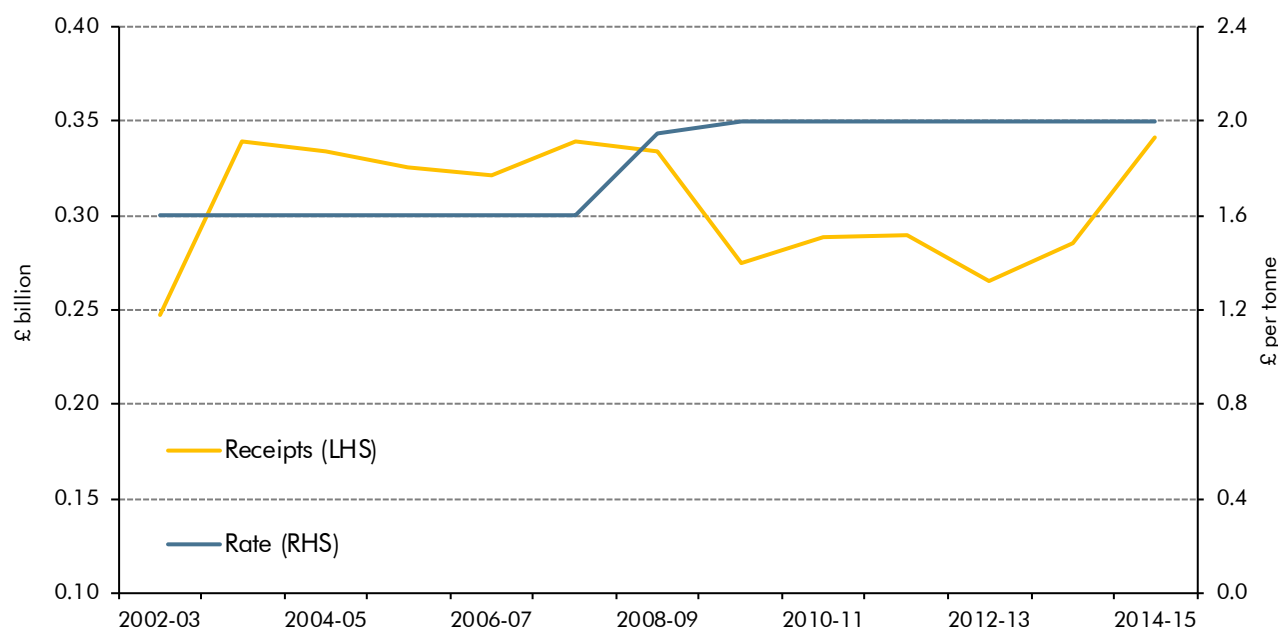
Chart 4.3: UK aggregates output relative to economic activity



Source: HMRC, ONS, OBR

- 4.19 As Chart 4.4 shows, aggregates levy receipts fell significantly after 2008-09 but have now returned to their pre-crisis levels. The increases in the rate per tonne in 2008-09 and 2009-10 were not sufficient to offset the fall in the tax base in 2009-10. With the rate per tonne frozen in recent years, receipts have been lifted by the pick-up in economic activity.

Chart 4.4: UK aggregates levy rate and receipts



Source: HMRC

## Scottish and Welsh rates

- 4.20** The Government has committed to keeping the devolution of aggregates levy to Scotland and Wales under review. It intends, subject to the resolution of a legal challenge in the European courts, to devolve this tax in the future.

## Methodology

- 4.21** The UK forecast is generated from a projection of the tax base multiplied by the tax rate. An econometric model relates the sales of primary aggregates to construction sector growth. The model also allows for the usage of recycled aggregates to increase over time and for substitution away from the extraction of primary aggregates. The tax rate is assumed to be uprated in line with RPI inflation, consistent with the default uprating assumption set by the Government.
- 4.22** To produce Scottish and Welsh aggregates levy forecasts, we apply our assumptions for their respective shares to the UK receipts forecast. These shares are estimated using data on the Scottish and Welsh share of aggregates production from the United Kingdom Mineral Yearbook 2013, which are shown in Table 4.5.

Table 4.5: Aggregates tonnage in the UK

	Tonnes (million)						
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
England	140.1	136.8	106.2	95.4	104.8	95.9	97.9
Scotland	37.2	32.3	28.4	28.6	27.5	24.8	22.1
Wales	20.8	18.0	12.2	12.6	13.6	12.3	12.9
Northern Ireland	6.7	5.3	4.8	3.9	20.0	18.4	18.4
<b>UK</b>	<b>204.8</b>	<b>192.5</b>	<b>151.6</b>	<b>140.5</b>	<b>165.9</b>	<b>151.3</b>	<b>151.3</b>
	Per cent of UK total						
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland	18.2	16.8	18.7	20.3	16.6	16.4	14.6
Wales	10.2	9.4	8.1	9.0	8.2	8.1	8.5

4.23 Finally, we add the Scottish and Welsh element of any policy measures to produce the post-measures forecast.

## UK forecast

4.24 Table 4.5 shows that the decline in aggregates tonnage across the UK since 2007-08 has been 26 per cent. The decline has been significantly greater in Scotland (33 per cent) and Wales (41 per cent). An important element of the UK forecast is the result of a European Commission ruling that permitted the reinstatement of aggregates levy exemptions from 2015-16. Those exemptions help to explain the drop in receipts between 2014-15 and 2015-16. Relative to our July forecast, stronger than expected cash receipts has led to a higher estimate for 2014-15 accrued receipts, which is reflected in other years of the forecast. There are no aggregates levy policy measures in this Autumn Statement.

Table 4.6: UK aggregates levy forecast

	£ million						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	352	314	335	340	343	346	349
<b>November 2015</b>	<b>357</b>	<b>334</b>	<b>343</b>	<b>368</b>	<b>363</b>	<b>366</b>	<b>370</b>
Difference	5	20	8	28	20	20	21

## Scottish forecast

4.25 Table 4.5 shows that the Scottish share of UK aggregates tonnage is relatively high at around 15 to 20 per cent of the UK total. For this forecast we have held the Scottish share constant at 14.6 per cent, reflecting the latest view on the Scottish share of receipts. Movements in the Scottish forecast therefore follow the UK forecast very closely. Receipts drop to £49 million in 2015-16 due to the reinstatement of levy exemptions before steadily rising to £54 million in 2020-21.

Table 4.7: Scottish aggregates levy forecast

	£ million						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	58	51	55	56	56	57	57
<b>November 2015</b>	<b>52</b>	<b>49</b>	<b>50</b>	<b>54</b>	<b>53</b>	<b>53</b>	<b>54</b>
Difference	-6	-3	-5	-2	-3	-3	-3

## Welsh forecast

4.26 Table 4.5 shows that the Welsh share of UK aggregates tonnage is also relatively high at around 8 to 10 per cent. For this forecast we have held the Welsh share constant at 8.5 per cent, reflecting the latest view on the Welsh share of receipts. The Welsh forecast therefore follows the UK forecast very closely. Receipts drop to £29 million due to the reinstatement of levy exemptions before steadily rising to £32 million in 2020-21.

Table 4.8: Welsh aggregates levy forecast

	£ million						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July 2015	29	25	27	28	28	28	28
<b>November 2015</b>	<b>30</b>	<b>29</b>	<b>29</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>32</b>
Difference	2	3	2	4	3	3	3



# Agenda Item 8

By virtue of paragraph(s) vi of Standing Order 17.42

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