

Agenda – Finance Committee

Meeting Venue:

Committee Room 4 – Tŷ Hywel

Meeting date: 19 June 2019

Meeting time: 09.00

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

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The Committee resolved on 5 June 2019 to exclude the public from the meeting

- 1 Introductions, apologies, substitutions and declarations of interest**
- 2 Children (Abolition of Defence of Reasonable Punishment) (Wales) Bill; consideration of draft report**
(09:00 – 09:30) (Pages 1 – 26)
Paper 1 – Draft report on the Children (Abolition of Defence of Reasonable Punishment) (Wales) Bill
- 3 International taxation and tax scrutiny – Background paper**
(09:30 – 09:45) (Pages 27 – 34)
Paper 2 – Background paper: International taxation and tax scrutiny

Break: 09:45 – 10:00

- 4 Office of Budget Responsibility: Tax forecasting briefing**
(10:00 – 11:00) (Pages 35 – 45)
Robert Chote, Chairman Budget Responsibility Committee
Andy King, Budget Responsibility Committee
Shaun Butcher, Deputy Chief of Staff
Dr Paul Mathews, Senior Analyst



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Marcus Hanson, Analyst

Paper 3 – Memorandum of Understanding between the Welsh Government and Office for Budget Responsibility

Paper 4 – Terms of Reference between the Welsh Government and Office for Budget Responsibility

Paper 5 – Financial Framework between the Welsh Government and Office for Budget Responsibility

Break: 11:00 – 11:10

**5 Inquiry into the Welsh Government's capital funding sources:
Private briefing from the National Audit Office and Wales Audit
Office**

(11:10 – 12:10)

(Pages 46 – 65)

Simon Reason, Director, National Audit Office

Daniel Fairhead, Audit Principal, National Audit Office

Matthew Mortlock, Director, Performance Audit, Wales Audit Office

Mike Usher, Sector Lead – Health & Central Government, Wales Audit Office

Paper 6 – National Audit Office submission to the Inquiry into Welsh Government capital funding sources

Research brief

**6 Inquiry into the Welsh Government's capital funding:
consideration of private briefing**

(12:10 – 12:25)

(Pages 66 – 67)

Paper 7 – Letter from the Chief Secretary to the Treasury, 6 June 2019

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Memorandum of Understanding: between the Welsh Government and the Office for Budget Responsibility

Main responsibilities and legislative background

1. The main fiscal responsibilities in relation to the new devolved tax powers of the Welsh Government and the Office for Budget Responsibility (OBR) are set out in legislation, including the Budget Responsibility & National Audit Act 2011, the Wales Act 2014, the Command Paper: *Wales Bill: Financial Empowerment and Accountability*¹ (published alongside the Wales Bill in 2014), and the Wales Act 2017. Further responsibilities are set out in the December 2016 fiscal framework agreement between the UK and Welsh Governments.
2. Under the terms of the fiscal framework agreement, the Welsh Government must establish independent forecasting arrangements for the devolved taxes. In accordance with this, an arrangement has been made between the Welsh Government and the OBR for it to provide the independent forecasts of devolved tax revenues to be produced alongside Welsh Government budgets. Further detail of this arrangement is set out in the related Terms of Reference.
3. The Welsh Government has responsibility to develop policies and implement new tax powers as they are devolved to the National Assembly for Wales. The Welsh Government will provide regular financial information to the Assembly, UK Government, Office for National Statistics and the OBR setting out its tax, borrowing and spending plans and will ensure that outturn receipts from the fully devolved taxes are published.
4. In addition to the arrangement noted in paragraph 2, the OBR will continue to produce all UK-wide economic and fiscal forecasts and report on the UK public finances from all levels of government, including revenues from taxes devolved to Wales. Legislation and the fiscal framework agreement provide the right of access for the OBR to any relevant information from within the Welsh Government to fulfil the OBR's main duties, including any assistance and explanations. Final judgements and assumptions used in the OBR's forecasts and other analysis will be decided by the OBR's Budget Responsibility Committee.

¹ *Wales Bill: Financial Empowerment and Accountability*, March 2014, Cm 8838.

5. This Memorandum does not constitute a legally binding agreement. Signatories to this memorandum may request a review of its contents and implementation at any time.

Purpose of this Memorandum of Understanding

6. The Memorandum of Understanding (MoU) sets out the principles underpinning the working arrangements required to meet the Welsh Government's and the OBR's main responsibilities, including:
 - effective information sharing and cooperative working relationships between the OBR, the Welsh Government and other bodies that contribute to forecasts;
 - providing forecasts of sufficient quality and timeliness to allow effective and efficient budget-making by the Welsh Government and UK Government; and
 - ensuring that forecasts are sufficiently transparent and well-explained that they can be scrutinised and compared by the UK Parliament, the National Assembly for Wales, other stakeholders and the general public.

Co-ordinating the process

7. The Welsh Government and the OBR will share any relevant information required for the other to fulfil their responsibilities, including pre-measures forecasts and explanatory notes. Neither institution will publish material that is shared by the other through these exchanges without seeking and receiving its prior consent.
8. As part of the forecast development process the OBR will set up challenge meetings on pre-measures forecasts of devolved taxes. Officials from the Welsh Government must participate in challenge meetings as required by the OBR to explain their analysis or forecasts. Reciprocally, at the request of the Welsh Government, officials from the OBR must attend challenge meetings set up by the Welsh Government. Both organisations will share their forecasts, relevant papers and where necessary macroeconomic determinants ahead of the challenge meetings.
9. The OBR will fulfil its responsibilities with regard to producing reports and presenting them to the UK Parliament and National Assembly for Wales as required. In doing so, the OBR will endeavour to provide regular information explaining how and why their latest forecasts differ from those previously published, if that is the case. The reports will seek to improve public understanding of the forecasting methodologies and the judgements and assumptions that have been used.

Regular information exchange

10. The OBR has a statutory right to full and timely access to all official information relevant to its analysis.² While the Welsh Government's right of access to such information does not have the same statutory basis, the OBR will, subject to the requirements of other information-sharing agreements,³ act reciprocally in sharing full and timely information relevant for the Welsh Government's analysis across its responsibilities in relation to the Welsh taxes. Information requested by either the Welsh Government or the OBR will be provided with reasonable timeliness, as will any necessary assistance to understand it.
11. The OBR and the Welsh Government, and all supporting bodies, will ensure that shared information is objective and of necessary quality for each to meet its responsibilities satisfactorily.
12. Information being exchanged will not include confidential taxpayer information. Tax confidential information will not be regularly required by the OBR or the Welsh Government to undertake their functions. In the unlikely situation that taxpayer confidential information is requested it will only be provided if provision fully meets the criteria for release as set out in the relevant legislation.⁴
13. The OBR will share with the Welsh Government relevant information around the assumptions and judgements that it has made in relation to UK Government policy costings that affect the devolved taxes forecasts. The Welsh Government will share with the OBR relevant information about its own policy costings where these affect the devolved taxes, or any information or analysis undertaken on the effect of policy changes on the tax revenues that are reserved to the UK Government.⁵

² Section 65 of the Wales Act 2017 and section 9 of the Budget Responsibility and National Audit Act 2011.

³ Such as the *Memorandum of Understanding between the Office for Budget Responsibility, HM Treasury, the Department for Work & Pensions and HM Revenue & Customs*.

⁴ Notably section 18 the Commission for Revenue and Customs Act 2005 and section 18 of the Tax Collection and Management (Wales) Act 2016.

⁵ For example, if the Welsh Government were to change the rate of Welsh income tax, this would be likely to prompt behavioural responses affecting UK Government revenue from income tax and National Insurance contributions. For more information on interactions and behavioural responses see the OBR's *Briefing Paper 6: Policy costings and our forecast*.

Terms of Reference

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

Introduction

Purpose and background

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

Terms of reference basis

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

"the OBR will continue to produce all UK-wide economic and fiscal forecasts for the UK government (which includes revenues from taxes devolved in Wales). The Welsh Government will be able to decide whether to use the OBR's forecasts or to put in place alternative independent forecasting arrangements. For a short period the Welsh Government may produce its own forecasts, while putting in place independent forecasting arrangements. The Welsh Government's own forecasts would be subject to independent scrutiny. The OBR will also produce all forecasts of relevant UK government taxes that are required to operate the Comparable model for stamp duty land tax, landfill tax and each band of income tax."
4. In 2017-18 and 2018-19, the Welsh Government produced its own forecasts for the devolved Welsh taxes, which were independently scrutinised and assured by Bangor University Business School. Assurance reports by Bangor Business School were published alongside the Welsh Government's Draft and Final Budgets in October and December each year.
5. From 2019-20 onwards, the OBR will publish independent forecasts of devolved Welsh tax revenues to feed into the Welsh Government Budget process.

Taxes in Wales

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

Proposed forecasting arrangements

The role of the Welsh Government

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

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

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

The role of OBR

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

Publications and indicative timeline

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

Table 1: Indicative Timeline

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

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

Engagement in Wales

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

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

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

Costs and funding arrangements

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

Welsh language

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

Review

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



Financial Framework document – Agreement of the financial settlement between the Welsh Government and the Office for Budget Responsibility

1. The Office for Budget Responsibility (OBR) will prepare and publish independent forecasts of devolved Welsh tax revenues for the 2019-20 Welsh Government Budget onwards. This will be consistent with the arrangement set out in the Terms of Reference and in accordance with the Welsh Government's fiscal framework.
2. This document sets out the details of the financial settlement between the Welsh Government and the OBR which will cover the cost of the OBR's provision of Welsh tax forecasts for the Welsh Government. It takes effect from 1 April 2019.

Detail

3. The Welsh Government has agreed to fund the OBR for the cost of producing Welsh tax forecasts, for preparing reports in English and Welsh that will be published at times dictated by the Welsh Budget timetable, and for increasing its presence in Wales.
4. The OBR has estimated that it will require approximately £100,000 per year in additional funding from the Welsh Government. The precise cost in each financial year will be agreed between the OBR and the Welsh Government prior to the year commencing. A detailed breakdown of the agreed cost in 2019-20 is provided in Table 1 of the annex to this document.
5. The Welsh Government's funding of the OBR will be undertaken via a Budget Cover Transfer each year. As the OBR is an arm's length body of HM Treasury, the agreed amount will be transferred by the Welsh Government to HM Treasury and will then be passed on to the OBR, ahead of the start of the financial year, as part of the Main Estimates process. The transfer will be recorded as a separate line in the OBR Budget estimate.
6. In addition to this document, the Chair of the OBR will write annually to the Cabinet Secretary for Finance, the Welsh Government and the Chair of the National Assembly of Wales Finance Committee, detailing how the funding from the Welsh Government has been used by the OBR to deliver the requirements of the Terms of Reference.
7. This financial framework will be reviewed periodically as required and at the request of the Welsh Government or the OBR.

Annex

Table 1: Breakdown of OBR costs in 2019-20

	£
Total staff costs	72,300
Non-staff costs	
Office costs	11,100
Travel and Accommodation	3,600
Printing, website and translation	11,000
Training and development	2,000
Total costs	100,000

Agenda Item 5

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

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Agenda Item 6



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Llyr Gruffydd AM
Chair of the Finance Committee
National Assembly for Wales
Cardiff, CF99 1NA

6 June 2019

Dear Llyr,

INVITATION TO ATTEND THE NATIONAL ASSEMBLY FOR WALES'S FINANCE COMMITTEE SESSION ON WELSH GOVERNMENT CAPITAL FUNDING SOURCES

1. Thank you for your letter of 3 May on your Committee's inquiry on the Welsh Government's capital funding sources. As I outlined previously, it would be more appropriate for the responsible Welsh Government minister to attend.
2. There are a number of publications that may inform the Committee's considerations. The Statement of Funding Policy sets out how the UK Government funds the devolved administrations and highlights other sources of funding available when they set spending plans. This is due to be updated at the upcoming Spending Review.
3. It may also be useful to consider the fiscal framework agreed between the UK and Welsh Governments in December 2016, which sets out agreed capital borrowing and reserve limits, and Block Grant Transparency publications, which document changes in block grant funding from Spending Review 2015 until last year's Budget.
4. As always, my officials are on hand if there is any additional information or clarification that you require on the issue of funding for the Welsh Government.

Best wishes,

A handwritten signature in blue ink, appearing to read 'Elizabeth Truss'.

RT HON ELIZABETH TRUSS MP



Annex – Links to publications

Statement of Funding Policy	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf
Welsh Government Fiscal Framework	https://www.gov.uk/government/publications/the-agreement-between-the-welsh-government-and-the-united-kingdom-government-on-the-welsh-governments-fiscal-framework
Block Grant Transparency	https://www.gov.uk/government/publications/block-grant-transparency-december-2018