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Chairman

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Mr Andrew Tyrie MP
Chairman of the Treasury Select Committee
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Dear Andrew

As you know, the Chancellor of the Exchequer has today announced the names of the individuals he has nominated to join me on the Budget Responsibility Committee, as well as publishing new Terms of Reference for the OBR in its pre-statutory phase. I thought it might be helpful to you and the TSC if I was to comment briefly on these announcements. Let me also take this opportunity to update you on two other issues in which I know you have an interest: our physical location and the employment status of OBR staff.

Budget Responsibility Committee

The Chancellor has agreed to appoint Professor Stephen Nickell and Graham Parker to join me on the BRC. I hope very much that the TSC will support these appointments, following their forthcoming appearances before you.

I was a member of the interview panel for these appointments and we had a very impressive field to choose from. As we discussed when I last appeared before you, I think it was important not only to identify excellent individuals, but also to find the right mix for the BRC as a team. Stephen and Graham fulfil both criteria admirably. Stephen is widely recognised as one of the UK's finest applied economists, combining academic distinction with highly relevant experience, not least on the Bank of England's Monetary Policy Committee from 2000 to 2006. We could not wish for anyone better to help build the OBR's reputation for rigorous, evidence-based analysis. Graham, who has been serving on the interim BRC since its launch, has an unrivalled in-depth understanding of the official fiscal forecasting process in the UK. He is the ideal person to help develop our fiscal forecasting techniques and to lead our interrogation of the policy costings prepared by departments. Both have much to contribute across the full range of the OBR's responsibilities.

In addition to their skills, expertise and experience, Steve and Graham are also both well known for 'speaking truth to power'. I am confident that their appointments will underline the OBR's independence and objectivity.

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I would also like to take this opportunity to record my personal thanks to Geoffrey Dicks for his continued highly valuable contribution to the work of the BRC since I have come on board. I am delighted that Geoffrey will remain with the OBR until we have made the transition to the new team.

Terms of Reference

The Terms of Reference published by the Chancellor today set out the operating arrangements for the OBR from now until the legislation establishing the OBR on a statutory basis is put in place. I discussed the ToR with Treasury officials in draft and have agreed to the final version.

Among other things, the ToR spells out our role in the forthcoming Spending Review. We are to “provide independent scrutiny of the Government’s estimated costing of annually managed expenditure policies”. It is perhaps worth pointing out now the implications of the OBR being asked to do this in advance of our next full economic and fiscal forecast on November 29. All costings will be presented consistent with the economic forecast published by the interim OBR in June. This means, for example, that the costing of welfare measures will include only the most direct behavioural effects and not any impact on total employment and the total wage bill. These, by definition, will be assumed to remain at the levels predicted in June. We will take account of any broader economic impact of these measures in our November forecast.

In setting out the remit for the OBR, the ToR also states that the OBR “should not... examine alternative policy scenarios”. As I said in evidence to you on September 16, I was keen for Parliament to give us a clear steer whether or not we should offer to analyse alternative policy paths put forward by opposition parties. I added that I would not wish to jump the gun by doing so during the pre-statutory period. The ToR confirm that we will not undertake such analysis in this period and the Chancellor has also indicated that he does not wish us to do so in the statutory period either. In answer to a question in the House this afternoon, the Chancellor has raised the possibility that the OBR might certify costings of opposition parties’ policies in the run-up to general elections. I look forward to the outcome of discussions on this point and we stand ready to undertake this task if called upon to do so.

Location

There is general agreement that the OBR should move out of the Treasury building in order to reinforce our independence, while accepting that our remit will require us to have extensive interaction with Treasury officials and those of other departments. I am pleased to report that we have identified potential accommodation with the Attorney General’s Office on Victoria Street (subject to contract). Given the need to sort out logistics and IT, if this move is confirmed I am hopeful that we could complete it before Christmas.

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Employment status of OBR staff

Some concerns have been raised that staff members currently employed by the Treasury would be appointed to the OBR on secondment rather than on the basis of a full transfer and that this would compromise our independence.

I would like to reassure you that this will not be the standard approach. On the establishment of the OBR there will be a formal process of transfer for some Treasury staff. Guidelines for reorganisation and transfers within the Civil Service are set out in the Cabinet Office Staff Transfers in the Public Sector Statement of Practice January 2000 (Revised November 2007). Consistent with these guidelines, while the particular circumstances and preferences of the individuals concerned will be taken into account, the general rule will be that such staff would be transferred from the Treasury to the OBR. All staff transferred to the OBR will report to me.

Best regards,



Robert Chote
Chairman