Office for
**Budget
Responsibility**

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Review of the Autumn 2021 Budget & Spending Review forecast timetable process

Dear Richard,

You asked us to undertake a review of the decision-making process around the forecast timetable for the Autumn 2021 Budget to inform the forthcoming review of the *Memorandum of Understanding* (*MoU*). This is our report.

As you will see, we have found no evidence to suggest that in agreeing the timetable the OBR behaved with less than the forthright independence rightly expected of it. The timetable did involve an unusually long period between the closedown of the pre-measures forecast and Budget Day. But we believe that to have been a reasonable consequence of the exceptional circumstances of the time.

Any forecast timetable involves trade-offs between competing legitimate objectives, particularly but not only between giving the Chancellor timely information to support good policymaking and making sure that the forecast takes account of the most up to date data and other economic information. We think it important that these trade-offs should be judged on each occasion in the light of the circumstances of the time. What is judged appropriate in the light of exceptional circumstances should not in our view be allowed automatically to set a precedent for other, less exceptional times. We make a recommendation about this at the end of our report. We also recommend that the main features of forecast timetables should in future be published in advance, to avoid any misunderstandings and in the interests of transparency.

We are copying this letter, and the report, to the Rt Hon Mel Stride MP, as Chair of the Treasury Committee, and to Sir Tom Scholar (Permanent Secretary, HM Treasury).

Best wishes

Bronwyn Curtis | Christopher Kelly

Non-executive members of OBR Oversight Board

Report of a review of the decision-making process for the forecast timetable leading up to the October 2021 Budget

Introduction

1 The Chancellor presented his Autumn 2021 Budget and Spending Review to Parliament on Wednesday 27 October. This date was around four weeks earlier than has recently been normal for Autumn Budgets. The OBR published its *Economic and fiscal outlook* (*EFO*) alongside the Budget, setting out its new forecasts for the economy and fiscal outlook in the light of the Budget. On this occasion, following a series of discussions between the Treasury and the OBR, the time interval between the finalisation of the pre-measures forecast – the forecast provided to the Chancellor to provide a stable basis for his Budget and Spending Review decisions – and Budget Day was increased from the normal 14 working days to 24 working days.

2 A consequence of the combination of the earlier Budget and the change in the timetable was that the pre-measures forecast was closed several days before the publication on 30 September of revised quarterly estimates of GDP up to June 2021 (Blue Book revisions). Before they were published, these revisions were expected potentially to be unusually large because of the uncertainty caused by the effects of lockdown. The greater than usual time gap also meant that other potentially significant (as it turned out more significant) data and economic news would also be excluded.

3 On 15 October 2021 Chris Giles, the Economics Editor of the Financial Times, published a piece which included the following:

"Chancellor Rishi Sunak has told the UK fiscal watchdog to produce Budget forecasts using out-of-date figures in a move that should help him resist last-minute bids for extra public spending by government departments.

Sunak's request, revealed on Friday by the Office for Budget Responsibility, will result in the forecasts for the October 27 Budget being based on a reading of the economy that is significantly more pessimistic than current data show.

It will guarantee that Sunak can announce a big improvement in the size of the economy in his autumn 2022 Budget, raising his chances of having a public finance windfall for pre-election tax cuts.

The OBR said it had ended any updates to its forecast on September 24, more than a month before the Budget, and this was "earlier than usual in response to a request from the Chancellor".

The independent fiscal watchdog did not have to agree to the request, but chose to do so, according to those familiar with negotiations that took place behind closed doors over the summer."

4 The implication is that in agreeing the forecast timetable the OBR had behaved with less independence from the Chancellor than its mandate requires. If this was substantiated, it would clearly affect the OBR's credibility. The story was picked up by other media outlets. It prompted both a letter from the Shadow Chief Secretary to the Treasury and a freedom of information request for the relevant documents.

5 The Budget Responsibility Committee (BRC) of the OBR therefore asked us, as independent non-executive directors of the OBR, to undertake a review of the decision-making process for the forecast timetable. It committed in advance to publication of our findings. The BRC also:

- Published a full account of the process for finalising the forecast in the Foreword to the *EFO*;
- Included estimates of the impact of the Blue Book revisions and other post-forecast developments on the economic and fiscal outlook in the Executive Summary and Boxes 2.2 and 4.1 of the *EFO*;
- Published the correspondence between the OBR and the Treasury about the forecast process; and
- Committed to seeking public input on the forthcoming review of the *Memorandum of Understanding* (*MoU*) between the OBR, HM Treasury, the Department for Work & Pensions (DWP) and HM Revenue & Customs (HMRC). The *MoU* provides the framework in which the OBR operates. The revised *MoU* will therefore govern the forecast process for future *EFOs*, including the timetable.

6 We were asked to undertake the review because our functions as non-executive directors specifically include additional assurance over how the OBR engages with the Treasury and other departments, as part of the arrangements for protecting the OBR's independence.

7 We were asked to conclude in time for any recommendations to be considered in the review of the *MoU*.

Methodology

8 The review took place in November 2021. We have examined email exchanges within the OBR, exchanges between the OBR and the Treasury, and the relatively few notes of any relevant meetings. We have no reason to believe that we were not given access to all relevant documents. We also had discussions with the BRC, the OBR Chief of Staff and the OBR official responsible for the detailed timetable negotiations, and with their opposite numbers in the Treasury. One of us has spoken to Chris Giles. Our conclusions are, of course, our own.

9 Points we were particularly interested in addressing in this review included:

- Was there any evidence of undue pressure being brought to bear on the OBR to bring forward the pre-measures forecast, or of the OBR feeling it was being asked to do anything unreasonable?
- How confident could anyone be in advance of publication of the Blue Book revisions that the new data would result in a more optimistic forecast of the future course of the economy, and more specifically of the fiscal position? Put the other way, could anyone be certain that not including the data would lead to a less optimistic forecast?
- Was there an understandable alternative explanation of why the Chancellor might have wanted the timing of the pre-measures forecast to be brought forward?

The timetable process

10 The Chancellor sets the Budget date. The *MoU* requires the OBR to be given 10 weeks' notice in normal circumstances of the need to prepare a Budget forecast. This notice period has usually been honoured, except when Brexit negotiations and the coronavirus pandemic caused some disruption. According to the *MoU*, the detailed timetable within those 10 weeks should be agreed on each occasion between the Treasury, the OBR, HMRC and DWP. In practice, it is usually agreed between the first two. It is then communicated to the others, for their formal agreement, and to other departments that provide forecast inputs.

11 Discussions about the timetable take place between the OBR's Head of Strategy, Operations and Communications, overseen by the Chief of Staff, and their counterparts in the Treasury. The BRC is kept informed, as are relevant senior people in the Treasury (including the Chancellor). The BRC would not normally expect to be involved in the detail, though some BRC members may take more interest because of previous roles. If necessary, timetable issues might also be raised at the weekly meetings between the BRC and senior Treasury officials which take place throughout the year, to keep each other up to date with relevant developments.

12 Discussion of the timetable for the 27 October 2021 Budget began in May 2021. The Budget date was announced on 29 July 2021, i.e. well in advance of the required 10 weeks' notice. We understand that the earlier than usual date was, among other things,

influenced by the desire to announce the Budget before the start of COP26. The final timetable was recorded as having been agreed in an email on 29 July from the Chancellor's Principal Private Secretary to Richard Hughes, the Chair of the OBR. It was formally agreed by the four parties to the *MoU* some days later, on 5 August.

13 There is a long-established, non-controversial practice of finalising the pre-measures forecast some weeks before publication of the *EFO* on Budget Day. The purpose is to give Chancellors a stable base on which to plan their Budget measures, not least so that they can ensure they are meeting their fiscal targets and rules. It also makes it possible to make pre and post Budget comparisons. The Charter for Budget Responsibility explicitly sets out the need for the Treasury to have timely access to information necessary for policymaking.

14 When deciding on the timetable, there is always a trade-off between allowing the Chancellor sufficient time to finalise his or her Budget, which is important for good policymaking, and making sure the forecast is based on the latest possible data, which is important for the forecast's relevance and credibility. The usual timetable means that data releases and other economic news in the (on average) 14 working days prior to Budget Day cannot be taken into account. The October 2021 timetable extended this period to 24 working days, the longest gap since the OBR was established in 2010.

15 There is a convention that if significant new information becomes available after the closure of the pre-measures forecast which is thought likely to have significant effects on the forecast the OBR should make that clear in the commentary in the *EFO*. Inevitably this is done in a less complete way than would be possible following a fully revised forecast. Quantitative estimates are, however, provided for likely changes in individual elements of the forecast (as happened on this occasion).

16 For the October 2021 *EFO*, the pre-measures forecast was closed on 24 September, six weeks earlier than would have happened with a more normal November Budget. Four weeks of this was because of the earlier Budget. Two weeks was in response to a request from the Chancellor, conveyed through his officials, to give him more time to complete the multi-year Spending Review negotiations and to finalise his Budget measures. The Blue Book revisions were published on 30 September. Had the Budget date not been earlier than usual, the new Blue Book data would have been available before the closure of the forecast, even with the additional two weeks.

17 The Treasury's request to have more time to finalise Budget measures after the pre-measures forecast did not come out of the blue. The Treasury's interest reflected its experience of preparations for the March 2021 Budget, which were disrupted by Covid-related events. Provided everyone understands the potential implications for the quality and credibility of the forecasts, the request does not seem to be unreasonable – particularly when the Budget is combined with a multi-year Spending Review. Conducting a Spending Review and constructing a Budget simultaneously is bound to put a lot of pressure on those involved. There might be thought to have been a particularly strong argument for additional time on this occasion because of the size of the measures which it was anticipated (correctly) would be likely to be taken in the Budget. On the other hand, the current economic

uncertainty might have been an argument for using the most up to date economic data possible.

18 There is no evidence in the email traffic we have seen to suggest that anyone thought that the considerations being brought to bear in the timetable negotiations on this occasion were about anything other than practicality and how best to make sensible trade-offs between stability, timeliness, and resourcing in the context of what was expected to be a substantial set of measures. Of course, the Treasury pressed hard for what the Chancellor wanted, and the OBR pushed back where necessary in the interests of maintaining the quality of its forecasts. But we have seen no sign of any unreasonable pressure being applied by the Treasury over and above the normal to and fro of arguments which might be expected in such negotiations. Nor is there any evidence that the BRC ever felt that such pressure was being applied, or that it was being asked to agree to a timetable which was not reasonable in the circumstances.

19 There is, on the other hand, clear evidence that everyone concerned was aware of the implications of the greater length of time between the finalisation of the pre-measures forecast and the publication of the Budget for the availability of the revised Blue Book figures and other data releases (inflation and labour market) and of the increased risk of developments in the economy or financial markets, or other news, which might, if known about in advance, have had a significant effect on the forecast.

Anticipating the implications of the Blue Book revisions

20 Assessing the implications of Blue Book revisions is not always straightforward, even after the revisions have been made. It would have been still less straightforward in advance in May 2021, when the negotiations about the timetable began.

21 At the time the timetable for the Autumn Budget was agreed, a series of upward revisions to the level of nominal GDP up to 2019 had already happened. These revisions were widely expected to carry through to later years. The size and nature of changes in GDP estimates of the more recent, Covid-affected period were not, however, then known. In the Foreword to the *EFO* the BRC explained:

"The indicative Blue Book estimates suggested that the level of nominal GDP would be revised up materially, while upward revisions to recent average nominal GDP growth would be modest. The upward revision to the level of nominal GDP would not in itself affect our fiscal forecast because it is simply offset in a correspondingly lower effective tax rate. And given the upward revisions to recent nominal GDP growth were both modest and declining over time, we did not think this would have a significant impact on our fiscal forecast, which benefits from much more timely receipts data. The risks associated with the Quarterly National Accounts were therefore judged to be acceptable, and the data were not included in our pre-measures forecast."

22 The Foreword also explained that "the additional window after closing the pre-measures forecast also created sufficient time to produce an additional post-measures economy

forecast, using an interim list of policy measures provided by the Treasury." It is clear to us that – given the exceptionally large size of the Budget package – this additional round had advantages both to the OBR and to the Treasury. For the OBR it provided an opportunity to investigate more thoroughly the effects of the package on the economic forecast and to ensure the economic and fiscal forecasts were consistent. For the Chancellor it provided greater reassurance (from the OBR) before he finalised his Budget measures that he was still likely to keep within his new fiscal rules with a comfortable degree of headroom. For both parties it meant more time for officials to check their calculations and reduce the risk of the mistakes that can occur when people are working under pressure.

23 A key point seems to us to be that it could not have been obvious in advance, particularly as early as May 2021, that the Blue Book revisions would result in an improvement in the fiscal forecast. As explained in the *EFO* Foreword, the fiscal forecast is based on more up-to-date data about receipts (and to a lesser extent, expenditure). It would therefore be less influenced by revisions to the GDP data than might otherwise be supposed. It is also because the medium term forecast is more affected by the view taken about *potential* output. An important aspect of the interpretation of any GDP figures is whether they are more affected by demand or supply considerations. The effect on the fiscal forecast of including any upward revision in the GDP figures revealed by the September Blue Book revisions could in principle have gone either way.

24 By asking for an earlier close-down of the pre-measures forecast, the Treasury was therefore running the risk that the decisions the Chancellor took on the basis he was still within his own fiscal rules could end up being wrong-footed by commentary in the *EFO* that the later data suggested that he was likely instead to be breaking the rules. There is evidence in the email exchanges with the Treasury that the Chancellor had been made aware of this risk. If he had been relying on using "out of date" data to increase his leverage with colleagues in Spending Review discussions, he would therefore have been badly advised.

25 In the event, the *EFO* commentary suggested that later data and information (including not only the Blue Book revisions but also higher energy prices, increased evidence of supply bottlenecks and shortages in key occupations) took away some of the margin he had to keep within the rules, but not all of it. Headroom of £17.5 billion (0.6 per cent of GDP) within the debt target was reduced by £1.9 billion.

26 For completeness it may also be worth pointing out that:

- It was anticipated (correctly) that the Covid scarring assumption and information about supply bottlenecks and inflationary pressures would be more important to the economic and fiscal forecasts than revisions to GDP data;
- The next official forecast after the Budget, by the Bank of England, which did take into account the GDP revisions and other data which emerged after the OBR closed its forecast, had a lower path for GDP than the *EFO* forecast; and

- The Budget included both substantial increases in spending and tax rises (though it is, of course, possible that this was not necessarily the Chancellor's intention when he began planning his Budget).

Comparisons with 2015

27 The last time a Budget coincided with a multi-year Spending Review was in 2015. On that occasion the timetable was altered in recognition of the additional pressures created by the Spending Review to provide Chancellor Osborne one additional week to finalise his Budget measures. We have been told that the BRC was conscious of this precedent when agreeing the 2021 timetable (though we have not seen any recorded evidence of that).

28 We have given some thought to whether there is any significance in the fact that the Autumn 2021 Budget timetable provided the Chancellor with two additional weeks to finalise his proposals after the pre-measures forecast was closed rather than the one additional week allowed in 2015.

29 On balance, we believe the importance of the 2015 precedent is not so much in relation to how much additional time was agreed but in indicating that judgements about the trade-off between data availability and time for good decision-making can change according to circumstances. Chancellor Osborne in 2015 faced nothing like the same set of difficult economic conditions as Chancellor Sunak did in the Autumn of 2021. As we argue later, however, we think it important that, because of the implications for the quality of the forecasts, decisions taken to deal with an exceptional set of circumstances should not be taken as having established a precedent to be followed on all future occasions, regardless of circumstances.

Importance of Blue Book data revisions for pre-measures forecasts

30 The final question we have asked ourselves is whether the Blue Book data revisions, whose publication date is known about some time in advance, are so important that they should never be allowed to be excluded from Autumn *EFO* forecasts.

31 We do not think that there is a black and white answer to this. In principle, the Blue Book is an important data point that we would normally expect the OBR to want to take into account in its pre-measures forecast. But in practice it provides information about a period for which, as we have pointed out, receipts data already exist. It is possible that there may be occasions when new Blue Book data change the OBR's understanding of the past in a way that has implications for medium-term growth and the fiscal outlook. But we would expect the more normal effect would be to alter the receipts-to-GDP ratio with little medium-term fiscal impact. Nor are the Blue Book data necessarily intrinsically more important than e.g. inflation or labour market releases.

32 There seems to us to be a general point here rather than one specific to the Blue Book. Other things being equal, it must always be preferable to have a timetable which does not exclude important data with known publication dates (see our later recommendation). The bar should therefore always be set high before the pre-measures forecast is closed ahead of any significant statistical release – both for reasons of forecast quality and credibility and to avoid the risk that Chancellors will be shown to be missing their fiscal targets when the later data are taken on board. But other things will not always be equal. In any sensible world there should always be some (but as we argue later, not excessive) scope for trading off competing, legitimate objectives, including that of too short processing or decision-making windows.

Conclusion

33 In sum, our conclusions are that:

- We have seen no evidence that the negotiations about the timetable for the Autumn 2021 Budget involved any unreasonable pressure on the OBR to do anything with which it felt uncomfortable or unjustified by the circumstances, though there was clearly some robust discussion about the trade-offs and practicalities involved.

- It is not difficult to understand why the Chancellor should have wanted an additional two weeks to finalise his Spending Review negotiations and Budget package for reasons which had nothing to do with the effects of Blue Book revisions. The risks of not being able to take the revisions into account were well understood on both sides. The BRC did not in any way compromise its independence by agreeing to a reasonable request from the Chancellor.

- No-one could have been completely confident in advance about whether the September Blue Book revisions would have led to an improvement or a deterioration in the fiscal outlook.

Recommendations

34 We have two suggestions which the OBR and others may wish to consider in the forthcoming discussions about changes to the *MoU*.

35 First, we understand that Chris Giles wrote his story after he asked what might have been thought to be a routine question about the timetable. We understand that in the past such a question might have received an immediate answer, either from the OBR or from the Treasury. On this occasion it did not. We have been told that this was because it was felt that such information should be made available to everyone at the same time, as it was in an operational note the following day. That approach does not seem unreasonable, if it is established policy. But because it frustrated expectations it is perhaps understandable why it might have wrongly created the impression that there was something to hide.

36 It might help to avoid possible future misunderstandings of this kind if the broad details of forecast timetables were published in advance, particularly the date at which the pre-measures forecast would be closed. It is possible that this might lead to discussion of the implications of the timetable for data availability or other issues. That might not, however, necessarily be a bad thing if it led to greater awareness of forecast procedures and the trade-offs which must be made. We believe that as much transparency as possible ought to be the OBR's default position.

37 Second, the timetable agreed for the October 2021 Budget meant that a whole month's data could not be considered in the pre-measures forecast out of the seven months that had elapsed since the previous forecast. We are satisfied that there was a legitimate argument for this on this occasion, because of what might be hoped to be exceptional circumstances. If, however, it is allowed to create a precedent for future, less exceptional occasions, it runs the risk of causing a significant deterioration in the quality of forecasts. It would also increase the pressure on the OBR to provide fuller explanations in *EFO*s of the implications of later information for the published forecasts, almost a second, mini forecast. That would have implications for both resources and credibility.

38 One way of mitigating this risk, and of ensuring that future timetable discussions continue to make appropriate trade-offs in the light of all the circumstances at the time, would be to write a new condition into the *MoU* stipulating the normal time to be allowed between closure of the pre-measures forecast and the Budget. Changes to that period would then have to be publicly justified on a comply or explain basis. That would not remove the flexibility to make changes. It would, however, mean that deliberate decisions would have to be taken and explained if the timetable was extended.

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Non-executive members of OBR Oversight Board

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