

Robert Chote
Chairman

20 Victoria Street
London SW1H 0NF

Tel: +44 (0) 20 7271 2509

robert.chote@obr.gsi.gov.uk

budgetresponsibility.independent.gov.uk

Mr Andrew Tyrie MP
Chairman
Treasury Committee
7 Millbank
House of Commons
London
SW1P 3JA

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Dear Andrew

Thank you for inviting us to give evidence on our *Economic and Fiscal Outlook*, as part of your broader enquiries into Budget 2011. I am writing to respond to the Committee's recommendations on the role of the OBR in its report of April 9. These covered three main issues: external review of the OBR's remit and operations, the forecast timetable and the treatment of potential privatisation proceeds.

External review of the OBR

The report recommends that an independent, external review of the OBR's remit and operating model be undertaken after five years.

I very much welcome this recommendation. There will be much to learn from our experience over this period – and from the parallel experience of fiscal watchdogs in other countries that have different remits and operating models. The OBR, the Treasury and the Treasury Committee will all have questions that we would wish such a review to cover. I hope that we can agree appropriate terms of reference and membership to ensure that everyone's needs can be met from a single exercise.

The forecast timetable

The report recommends that the OBR and the Treasury revisit the *Economic and fiscal outlook* forecast timetable "to provide more flexibility enabling economic shocks and late political decisions to be incorporated".

We revisit the forecast timetable with the Treasury ahead of each EFO, in part to take into account the timing of economic data releases and other inputs expected in the run-up to the Chancellor's chosen publication date. As in the case of the March EFO, we will need to complete a final full-scale economic and fiscal forecast iteration some days ahead of publication, so that we can provide the Chancellor with a stable basis for his final policy decisions. We can then prepare the final forecast numbers (including sensitivity and scenario analysis) and accompanying analytical material.

We do have some flexibility to adjust the final forecast for late policy decisions and economic information emerging closer to publication. But it is clearly in everyone's interests that, wherever possible, policy decisions are taken in a timely way that facilitates adequate scrutiny and incorporation in the full-scale forecast.

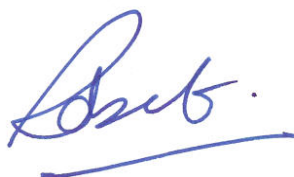
Treatment of potential privatisation proceeds

The report urges the OBR "to reconsider the way in which asset sales are treated both in the Economic and fiscal outlook and in the forthcoming sustainability report", as "caution in the treatment of asset sales may lead to a bias in the central forecast".

As I wrote in my letter to you of March 23, we are keen to examine how we can provide more detail on the impact of potential asset sales on the public finances in the forthcoming *Fiscal sustainability report* and future EFOs. But, in accordance with the requirements of the Charter for Budget Responsibility, we only include the impact of policy decisions such as asset sales in our central projections when the Government has made a firm and well-defined decision whether, when and how to sell an asset and where the impact of that decision can be quantified "with reasonable accuracy". The potential asset sales listed on page 50 of the Treasury's Budget 2011 Red Book did not pass that test at the time of our last forecast.

There is an important distinction to be made here between the uncertainty around the nature, timing and impact of future policy decisions and the uncertainty around many other variables and assumptions in the forecast, especially given Parliament's instruction to us in our legislation that we should not look at alternative policy scenarios.

Yours sincerely,



Robert Chote
Chairman