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Dear Tom

CANCELLATION OF THE 6 NOVEMBER BUDGET

In the wake of the Government's decision to cancel the 6 November Budget – and in the absence of a proposed alternative date – I am writing to explain where the forecast process now stands and our near-term plans.

As you know, the Chancellor's office formally notified us on 14 October that the Government wished to hold a Budget on 6 November and that it would construct the policy package assuming a 'deal' Brexit. The Chancellor asked us to produce a forecast to accompany the Budget and, consistent with his policy assumption, we confirmed that we would do so on a 'deal' basis, as we have in every *Economic and fiscal outlook* forecast since November 2016.

The confirmation of the Budget date gave us much less than the 10 weeks' notice that the Treasury has agreed to provide "in the absence of exceptional circumstances" in our Memorandum of Understanding. But clearly these are exceptional circumstances – thanks to the Brexit negotiations – and we had been able to prepare somewhat beforehand. Nonetheless, the timing required a foreshortened forecast process, with fewer iterations than is would normally be desirable. We agreed a timetable with your officials on this basis.

The announcement on 25 October that the Budget had been cancelled brought the forecast process to a halt. Parliament has specified in the Charter for Budget Responsibility that: "*The Chancellor will commission the OBR to produce its fiscal and economic forecasts at a particular date, at least twice a year, one of which will be for the Budget.*" So it is not for us to determine the date on which we publish our forecasts, unless the Chancellor leaves it so late to name a date himself that we feel we have to do so to ensure that we are able to publish two forecasts within the financial year. (This requirement is set out in primary legislation and trumps the demands of the Charter.)

It is worth emphasising that by the time the Budget was cancelled, we had not completed the underlying 'pre-measures' forecast – let alone the post-measures forecast incorporating the proposed policy package. We sent the Chancellor our 'Round 2' economic and fiscal forecast on 22 October, but as usual this contained provisional judgements and holding assumptions and we warned that it could be revised materially before being finalised.

As noted above, the forecast was being prepared on a 'deal' basis. If, in its final form, this had reflected the new Withdrawal Agreement and Political Declaration agreed with the EU, it is unlikely that this would have made a significant quantitative difference compared to our last forecast in March. In that forecast we reflected the previous Withdrawal Agreement by assuming a transition period to December 2020 and payment of the financial settlement, both of which remain the same in the new Agreement. Thereafter the policy impact of Brexit depends on the trade, regulatory and migration regimes we end up with. The new Political Declaration does not provide us with a firm basis to make materially different assumptions in these areas than we did in March, when we made broad-brush assumptions based on a range of different possible outcomes (as in our previous post-referendum forecasts). Indeed, it could be argued that the objectives embodied in the new Declaration (especially as regards trade) are closer to our current 'blend' assumption than those in the previous Declaration negotiated by Mrs May.

Even if you were to assume that the new Political Declaration implied a materially less 'trade friendly' end-state than our current blend assumption, it is important to remember that the various economic assessments made of alternative Brexit end-states are typically long-term estimates, looking out 15 years or more. The quantitative impact over our five-year horizon (part of which is absorbed by the transition period) would likely be relatively modest.

Leaving aside the impact of a new proposed Brexit deal, the pre-measures forecast would have reflected developments in the economy since March and new information on the state of the public finances. As we noted in our latest monthly commentary on the public finances on 22 October, public sector net borrowing has increased proportionately more quickly over the first half of the financial year than we forecast in March for the full year – including our estimate at the time of the effect of the student loans accounting treatment change. Extrapolating the increase over the year to date might appear to imply a full-year upward revision of around £10 billion, but experience (especially in 2016-17) shows how a simple extrapolation of early data prone to revision may be misleading. As we highlighted in our commentary, one notable feature over the year to date has been the apparent rapid growth of public services spending. It is very rare for departments to overspend the limits they agree with the Treasury, so it seems likely that this will slow – but by how much is uncertain. On October 28, the ONS also announced that an error had been found in the monthly data related to 'local government social benefits', which are affected by the shift from housing benefit to universal credit. Correcting this will lower year-to-date borrowing by up to £1.5 billion.

Comparing the public finance outturn data with our most recent forecast has been complicated by significant ONS classification and methodological changes since March – for example the new treatment of student loans and unfunded public service pension schemes – plus a large correction to outturn corporation tax data that has been incorporated in the outturn data from September. Barring a disruptive 'no deal' Brexit, these are likely to be more significant than any like-for-like revisions when explaining the change from our March public finances forecast to the next one.

Given the importance of these changes for public understanding of the baseline against which the Government will need to judge its fiscal policy options, we believe that it would be useful to explain publicly the impact that they would have had on our March forecast, had they been known at the time. We have already assessed this as part of the Budget forecast process and publishing it ahead of the next forecast would not contravene the restrictions placed upon us in our primary or secondary legislation. We therefore intend to do so on 7 November, consistent with our usual release policy.

I am copying this letter to the Chairman of the Treasury Committee and placing it on our website.

Best regards,


Robert Chote
Chairman