



HOUSE OF COMMONS

LONDON SW1A 0AA

Mr Robert Chote
Office for Budget Responsibility
20 Victoria Street
London
SW1H 0NF

9th March 2011

Dear Robert,

The OBR is required to fulfil a number of tasks. Among these are first, a requirement to assess the likelihood the government has achieved its fiscal mandate and second, that it assesses the public sector balance sheet, including an analysis of the net costs of long term liabilities. I am writing to ensure that in all future assessments, the OBR takes full explicit account of likely aggregate proceeds from all asset sales and privatisation receipts. The OBR's current work largely ignores privatisation receipts and asset sales, giving a misleading assessment.¹

The justification for neglecting the proceeds from financial asset sales from the forecast is set out in OBR Briefing Paper No. 1. This reads:

“where firm plans are not in place, potential exchanges of financial assets are not included in the forecast. For example, if the Government has indicated it wishes to sell a financial asset, but the terms of sale have not been agreed, the sale would not be included.”²

While the proceeds of individual privatisations may not be known, the Government has already indicated its intention to sell assets. The Chancellor in the June 2010 Budget announced:

“In addition to launching the sale of High Speed 1, as part of a wider programme of asset commercialisation over the next 12 months the Government will:

- facilitate a capital injection into the Royal Mail Group;

¹ I understand that some asset sales and privatisation receipts are included, such as the £2bn from the sale of the High Speed 1 operating lease, as set out in the OBR document: *Further information on asset sales, financial transactions, and privatisation receipts*, 21 December 2010

² OBR Briefing Paper No. 1, *Forecasting the public finances*, p. 52

- resolve the future of the Tote in a way that secures value for the taxpayer while recognising the support the Tote currently provides the racing industry;
- announce its decision on selling part of the student loan portfolio...
- release the 800MHz and 2.6GHz spectrum to support super-fast mobile services...;
- explore with other shareholders the options for a potential sale process in NATS.”³

Similar commitments were made in the Comprehensive Spending Review:

“Asset sales

1.96 The Government has made substantial progress on the key asset sales and commercialisations announced in the June Budget including, for example, introducing enabling legislation for Royal Mail on 13 October. Decisions on how and whether to proceed with sales of the Government’s interests in NATS and the Student Loan Book, and a decision on the future of the Tote, will be taken by Budget 2011. The Government intends to hold an auction in 2011-12 for 800MHz and 2.6GHz spectrum, suitable for delivering the next generation of mobile broadband.

1.97 The Spending Review announces that at least 500MHz of public sector spectrum below 5GHz will be released over the next ten years for new mobile communication uses, including mobile broadband.

1.98 In order to support deficit reduction, the Government will continue to look into the potential sale of other public sector assets, including property holdings, which could operate more sensibly and efficiently in, and with, the private sector.”⁴

The OBR’s work is based on its “central forecast”. It follows that to produce a forecast without any attempt to estimate privatisation proceeds will result in a pessimistic forecast. To put the point another way, the exclusion of privatisation receipts and certain asset sales, given the Government’s commitment to obtaining them, inevitably means that the assessment you have made is not the most likely outcome and therefore your forecast cannot be “central”.

At the second reading of the Budget Responsibility Bill in the House of Lords, Lord Sassoon, Commercial Secretary to the Treasury, said:

“We have removed the responsibility for forecasting from Ministers and given it to independent experts. The independence of the OBR’s judgments will ensure that policy is made on an unbiased view of future prospects. The establishment of the OBR is a reform that has been welcomed by both the IMF and the OECD. In its recent Article IV report on the UK, the IMF has said that

³ Budget 2010, para 2.10

⁴ Spending Review 2010, Chapter 1

the OBR is, ‘a welcome step toward strengthening the budget process’. The OECD has said that the OBR is an important initiative in improving public confidence. The UK is now one of the few advanced economies in which an independent fiscal institution produces the official forecast.”⁵

It is important that OBR figures do indeed give “an unbiased view of future prospects”, rather than being produced in a way which omits one of the Exchequer’s likely income streams.

This will mean making some estimate of the possible proceeds of any privatisation receipts and asset sales which the Chancellor announces at Budget 2011.

Moreover, the unbiased forecasting that the OBR should provide, will require you to ensure that departments supply detailed breakdowns of their spending plans for 2011-12 onwards, incorporating their best estimate of the likely income stream from central government fixed asset sales. Were departments to resist your requests for information the Committee would want to be informed immediately.

It is impracticable – and possibly unwise – to disclose the estimates of proceeds of individual sales. However, assumptions about the aggregate annual level of privatisation receipts have been provided in past Government planning documents. OBR estimates of privatisation receipts may, like those assumptions, need to be similarly aggregated.

In addition to preparing the forecast, the OBR has the task of preparing an assessment of fiscal sustainability over the longer-term. As the Chancellor said in his Mais Lecture last February:

“at least once a year, the OBR will also publish a comprehensive assessment of the true long term sustainability of the public finances, including off balance sheet liabilities such as public sector pensions, PFI and the likely costs of an ageing population.”

You will need to consider how best to reflect asset sales and privatisation receipts in these assessments. It seems clear that ignoring them is not an option and that an aggregate number is required. We would like to see your assessment of longer-term sustainability to cover the period from 2015.

⁵ HI Deb, 8 November 2010, c12

We expect to see this information in future OBR publications.

Yours,

Andrew

ANDREW TYRIE MP