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Dear Chancellor


**REVIEW OF PROGRESS AGAINST RECOMMENDATIONS FROM THE HM
TREASURY REVIEW OF THE OFFICE FOR BUDGET RESPONSIBILITY**

The *HM Treasury review of the Office for Budget Responsibility*, led by Sir Dave Ramsden and published in September 2015, made a series of recommendations relating to the work and operations of the OBR. One was to update our Memorandum of Understanding with government departments, but in practice this had to wait until Parliament approved the new *Charter for Budget Responsibility* in January. That now done, I am in a position to update you on progress against all the review recommendations. The Treasury will give you their assessment separately.

While many of the recommendations were for the OBR to implement, some were for the OBR and HM Treasury (as the OBR's sponsor department) to implement jointly and some were for HM Treasury to consider alone (as the economics and finance ministry). The recommendations that the Treasury is responsible for largely relate to the OBR's remit, the appointment of members of the Budget Responsibility Committee and the level of delegated funding that the OBR receives.

For our part, we are content with the progress that the Treasury has made in areas within its responsibility. Most importantly, the increase in the OBR's budget agreed through to 2019-20 (with an indicative allocation for 2020-21) is sufficient to resource most of the additional tasks that the Review recommended, as well as allowing us to increase resilience in key areas of the forecast. The budget settlement was confirmed on 31 March 2016. Since then we have recruited six additional staff and have started delivering those recommendations for which we are solely responsible.

Our assessment of progress against each of the recommendations is attached to this letter. Please let me know if you have any questions.

Best regards,


Robert Chote
Chairman

Legislation

Recommendation: *The default assumption should remain that the government uses the OBR's economic and fiscal forecasts as the UK's official forecasts.*

This is a decision for the Government. To date it has continued to use our forecasts as the UK's official forecasts.

Recommendation: *The OBR should receive a multi-year budget on a rolling basis, to ensure that its budget extends at least 3 years into the future at any given time.*

The budget settlement agreed in March 2016 extends three years into the future, with an indicative figure for year four. We will work with the Treasury to ensure that the rolling 3-year recommendation is met when it next becomes binding.

Recommendation: *The government should discuss with devolved administrations opportunities to amend relevant legislation:*

- *to ensure that the OBR has the appropriate information, explanation and assistance to enable it to carry out its functions*
- *to ensure that the OBR provides information on its forecast judgements to the appropriate devolved bodies*
- *and similar arrangements should be put in place for 'city deals' involving significant fiscal devolution*

This recommendation largely falls to the Treasury, but we have worked with them to make progress against it. Our access to information from devolved administrations and associated institutions is now set out in legislation, in the Scotland Act 2016 and Wales Act 2017. The Scottish Fiscal Commission Act 2016 also gives that institution a duty to cooperate with us.

Internally, we have increased the capacity of our devolved fiscal issues team to meet the increased workload associated with further devolution under the Scottish Government Fiscal Framework and the recently agreed Welsh Government Fiscal Framework. The complexities of these agreements and the additional items set to be devolved to the Scottish Government have significantly increased the resource requirement of this work.

We have developed an excellent working relationship with the relevant officials in the devolved administrations and the Scottish Fiscal Commission, and have in place a process for exchanging information, particularly around the preparation of the medium-term forecast. This will be formalised through a memorandum of understanding in due course, reflecting the Scottish Fiscal Commission's new operating model.

There has not yet been any call on the OBR related to city deals, but we will work with the Treasury to ensure that appropriate arrangements are in place when that happens.

Recommendation: *No changes should be made to the OBR's remit and the underpinning legislation, the Budget Responsibility and National Audit Act, at this stage.*

This is an issue for the Government and Parliament, which set our remit through the Budget Responsibility and National Audit Act and the Charter for Budget Responsibility.

Operating framework

Recommendation: *The government should update the Charter for Budget Responsibility to:*

- *replace the requirement for the OBR to include long-term projections in every edition of its annual sustainability report with a requirement to produce biennial projections*
- *incorporate the requirement for the OBR to produce a regular report on fiscal risks, in line with the recommendations of the IMF's Fiscal Transparency Code; the government should respond formally to the report*
- *incorporate the requirement for the OBR to produce an annual Welfare trends report*

This is a matter for the Government and has been completed. The three elements of this recommendation were incorporated in the October 2015 update of the Charter for Budget Responsibility and retained in the latest update (January 2017).

Recommendation: *The OBR and the signatory departments should review the Memorandum of Understanding (MoU) by September 2016 and where necessary set out additional detail on governance and processes, including steps to strengthen and formalise the arrangements around the signatory departments' compliance with the MoU and delivery of the forecast and policy costings.*

This has been completed and was published on 8 March 2017. It was delayed due to post-referendum pressures on signatory departments, then the need to reflect the January 2017 update to the Charter in the memorandum.

Recommendation: *The OBR and the ONS should agree a set of principles on the anticipation of pending ONS classification decisions or changes to the forecast.*

We set out our approach to this in Box 4.1 of the November 2015 *Economic and fiscal outlook*. We have also increased transparency in this area by detailing the items that are included in our forecast, but not yet reflected in outturn data, in a supplementary table on our website alongside each forecast. The ONS refers to this table in its monthly public sector finances bulletin.

Recommendation: *The OBR, devolved administrations and bodies and fiscally significant 'city deals' should consider agreeing Memoranda of Understanding to reflect developments in fiscal devolution in the UK.*

We have been working with the Scottish Fiscal Commission on a draft Memorandum of Understanding (MoU) on our working arrangements. The Scottish Fiscal Commission will come into operation on a full statutory basis

from April 2017 and has chosen an operating model that differs from that used to date. As such, the draft MoU will need to be reworked before it can be finalised.

Recommendation: *That the OBR and HM Treasury Framework document remains appropriate. It should be reviewed periodically.*

The Framework Document was last reviewed in 2014, three years after it had initially been prepared. We will work with the Treasury to ensure that it remains appropriate and will review it on a rolling basis as recommended (and as stipulated in the Framework Document itself). This may be combined with the rolling budget settlement process, as was the case in 2014.

Forecast performance and capability

Recommendation: *The Treasury, working in partnership with the OBR, should put in place a succession plan to help manage the transition of the BRC membership. To deliver this:*

- *the Treasury should seek candidates both within the UK and internationally*
- *there should be increased flexibility in job description (full-time or part-time opportunity) to increase the pool of potential candidates*

This is a Treasury-led recruitment process within which the Chair of the OBR must be consulted on the appointment (or re-appointment) of a member. The process for seeking and selecting a candidate to replace the first member of the BRC to step down worked well.

It will be for the Treasury to identify and seek appropriate candidates in future. We will continue to work in partnership with the Treasury on this vital issue, as recommended and in accordance with the provisions of the Budget Responsibility and National Audit Act.

Recommendation: *The Treasury should ensure that the OBR is adequately resourced to build resilience in producing the forecast in light of the eventual movement of experienced staff, and to meet the other recommendations of this review.*

Our budget settlement, agreed in March 2016 after the 2015 Spending Review, was increased by around 25 per cent. This has allowed us to build resilience across our economy and fiscal forecasting functions, enhancing our ability to produce high quality analysis and removing some of the delivery risk inherent in a relatively small organisation. The settlement also allowed us to take on resources to deliver the new *Fiscal risks report*, add much-needed capacity in our devolved fiscal issues team and expand our ability to undertake more formal evaluations of our fiscal forecast models. All these resources are now in place.

Recommendation: *The Treasury should ensure that the OBR is adequately resourced to support methodological development and research and take an explicit convening role in the UK's (small) fiscal forecasting community.*

As described above, we have taken on additional resources, which has provided capacity to undertake more systematic fiscal forecast model evaluations. The increase in the number of staff also allows us to do more

methodological development across our forecasting and sustainability models, in addition to the resilience the extra resource provides. We have prioritised resources towards the areas that best support our key functions and have increased engagement with the fiscal forecasting community where opportunities have arisen.

Recommendation: *The OBR should work more systematically with forecasting departments on model development, building on existing practice to ensure key models are fit for purpose. Forecasting departments should ensure model development is adequately resourced. To deliver this:*

- *the OBR should publish an assessment of the performance of individual forecasting models and their priorities for model improvement*
- *the existing MoU for the macroeconomic model and steering group should be extended to include the main fiscal forecasting models*
- *the forecast timetable and process should be reviewed to ensure sufficient time is allocated for quality assurance across all departments*

We have introduced a framework for a more systematic assessment of fiscal forecasting models, which was set out in summary in our October 2015 *Forecast evaluation report (FER)* and expanded upon in the October 2016 *FER*. This framework brings together a number of recommendations covering the assessment of fiscal forecast models, such as working with departments and formalising the process for model development with them. This in turn allows departments to assess the resourcing required to ensure model development is prioritised appropriately. One of our extra posts is dedicated to leading on this work outside the core forecasting periods. We have started the fiscal forecast model performance assessment and plan to report on initial findings in the 2017 *FER*.

The fiscal forecast timetable is considered in detail and agreed ahead of each fiscal event. The forecast timetable for Budget 2017 was more compressed than normal at the Treasury's request, in order to factor the latest GDP release into the third round of the forecast process rather than the fourth round as would normally be the case. This reduced the amount of time that can be allocated to quality assurance of the final pre-policy-measures forecast, illustrating the trade-offs that are sometimes necessary in setting the forecast timetable.

Transparency and accessibility

Recommendation: *The OBR should conduct more in-depth analysis on specific fiscal sustainability issues.*

In 2016 we published a series of fiscal sustainability analytical papers ahead of the postponed long-term projections that were published in our 2017 *Fiscal sustainability report*. These analytical papers covered a number of sustainability issues, including drivers of long-term health spending and the long-term effects of recent savings and pensions measures. We have also reported more systematically on any long-term effects of policy measures in the policy costing annex of each *EFO*. In October 2016 we published a discussion paper on the content of our first *Fiscal risks report*, which will address a number of specific issues relevant to fiscal sustainability.

Recommendation: *The OBR should improve the accessibility of its website, taking into account user feedback, to increase the prominence of key material and improve the organisation of data and information.*

Recommendation: *The OBR should increase accessibility of its material to a wider range of stakeholders, engaging through more diverse communications approaches, and making better use of online and social media channels.*

We have carried out a programme of work to improve the accessibility of our website. It was updated in January 2016 to ensure that we are able to introduce new ways of presenting our forecasts and other analysis. We have taken advantage of the new site to add 'at-a-glance' sections for our major publications and 'in-depth' areas to share more of the wealth of information that we consider when producing our medium-term forecasts. This will facilitate more timely publication of developments in our modelling in individual areas of the forecast than was previously possible when they were contained in a briefing paper covering all aspects of the forecast. More recently, we worked with the ONS to produce an interactive tool that helps to illustrate the sensitivity of our long-term projections to different assumptions. We have also made more and better use of our social media channels to increase the reach of our publications and the key areas of analysis, including videos of our *EFO* press conferences.

Recommendation: *The government and the OBR should ensure greater availability of tools and data to allow third parties to cost alternative policy options.*

The legal requirement that the OBR "may not consider what the effect of any alternative policies would be", means that we do not feel that we should take the lead in this area. We have added some links to our website that we hope users will find helpful (e.g. to HMRC's direct effects of illustrative tax changes) and published an annex of ready reckoners to allow others to estimate changes on the fiscal forecast that result from variations in the economy forecast. As we increase the breadth of material in the 'forecast-in-depth' sections of our website we will publish up-to-date ready reckoners where possible.

Recommendation: *The OBR should undertake more systematic engagement with Parliamentarians and devolved administrations to enhance understanding of the OBR's role and encourage greater use of the OBR's output.*

The Budget Responsibility Committee continue to give regular evidence to the House of Commons Treasury Select Committee and the Chairman also gave evidence to the House of Lords Committee on the long-term sustainability of the NHS, following the publication of our *Fiscal sustainability analytical paper* on long-term health spending. Engagement with other Parliamentarians remains limited. But one simple and powerful way in which the House of Commons could broaden and deepen its engagement with OBR analysis – and strengthen its scrutiny of fiscal policy – would be to delay the Opposition response and debates on Budgets and Autumn Statements until all members have had chance to read our *Economic and fiscal outlook* publications and watch our presentations on them rather than beginning immediately after the Chancellor sits down. We have also stepped up our engagement with the devolved administrations and the Chairman has undertaken more regular appearances at the Scottish Parliament finance committee.