



House of Commons
Treasury Committee

Reviewing the Office for Budget Responsibility

Seventh Report of Session 2015–16



House of Commons
Treasury Committee

Reviewing the Office for Budget Responsibility

Seventh Report of Session 2015–16

*Report, together with formal minutes
relating to the report*

*Ordered by the House of Commons to be printed
9 February 2016*

Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

Current membership

[Rt Hon Mr Andrew Tyrie MP](#) (*Conservative, Chichester*) (Chair)

[Mr Steve Baker MP](#) (*Conservative, Wycombe*)

[Mark Garnier MP](#) (*Conservative, Wyre Forest*)

[Helen Goodman MP](#) (*Labour, Bishop Auckland*)

[Stephen Hammond MP](#) (*Conservative, Wimbledon*)

[George Kerevan MP](#) (*Scottish National Party, East Lothian*)

[John Mann MP](#) (*Labour, Bassetlaw*)

[Chris Philp MP](#) (*Conservative, Croydon South*)

[Mr Jacob Rees-Mogg MP](#) (*Conservative, North East Somerset*)

[Rachel Reeves MP](#) (*Labour, Leeds West*)

[Wes Streeting MP](#) (*Labour, Ilford North*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website at www.parliament.uk/treascom and by The Stationery Office by Order of the House.

Evidence relating to this report is published on the [inquiry page](#) of the Committee's website.

Committee staff

The current staff of the Committee are James Rhys (Committee Clerk), Chloe Challender (Second Clerk), Gavin Thompson (Senior Economist), James Mirza Davies (Committee Specialist), Shane Pathmanathan (Senior Committee Assistant), Amy Vistuer (Committee Assistant), Elektra Garvie-Adams (Committee Support Assistant), Toby Coaker (on secondment from the NAO), David Hook (on secondment from HMRC), George Barnes (on secondment from the Bank of England) and Foeke Noppert (on secondment from the FCA).

Contacts

All correspondence should be addressed to the Clerk of the Treasury Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5769; the Committee's email address is treascom@parliament.uk.

Contents

1	Background to the recent reviews of the OBR	3
2	Issues raised by the reviews	4
	Succession planning	4
	The Memorandum of Understanding between the OBR and Government departments	5
	“Party policy costings”	10
	Enhancing fiscal credibility?	10
	The balance of opinion on party policy costings	11
	The views of MPs and political parties	13
	Conclusions and recommendations	14
	Formal Minutes	17
	Witnesses	18
	List of Reports from the Committee during the current Parliament	19

1 Background to the recent reviews of the OBR

1. The Budget Responsibility and National Audit Act 2011 requires that the OBR be externally reviewed at least once every five years.¹ The legislation requires that the OBR's non-executive Committee commission a suitably qualified person or body to lead the review. The OBR's first statutory external review was led by Kevin Page, former Parliamentary Budget Officer for Canada. It reported on 3 September 2014.²

2. In Autumn Statement 2013, the previous Government announced its intention to conduct its "own review of the OBR at the start of the next Parliament".³ The review, which was announced on 11 June 2015, was commissioned by the Chancellor and led by the Treasury's Chief Economic Adviser, Sir David Ramsden.⁴ It reported on 3 September 2015.⁵ At the same time as the review made public its report, the Government issued a press release accepting "all [its] recommendations in full". The same press release announced the Chancellor's support for Robert Chote to be reappointed as chairman of the OBR.⁶

3. Both the external and Treasury-led reviews are described on the gov.uk website as "Independent report[s]". When he appeared before the Committee on 14 October 2015, Sir David was challenged about this description, as applied to his report. He said that it was "a Treasury review produced by me"⁷ and that whether it was independent "depends what you mean" by that term.⁸ He added that "I feel as if I reached conclusions independent of the Chancellor and Nick Macpherson".⁹

4. In his reappointment hearing on 15 September 2015, Robert Chote was asked by the Committee about the independence of the Treasury-led review, and in particular whether the Chancellor's view coloured its outcome, Mr Chote said "It is a Treasury review; it is not pretending to be an independent review in that sense".¹⁰

5. Sir David is a reliable, highly competent and loyal Treasury official, bound by the Civil Service code, reporting to the Chancellor, and with a duty to support Government policy of the day, whatever that happens to be. He is therefore manifestly professionally incapable of conducting an independent review of the OBR. It would have been difficult for Sir David to have reached conclusions that differed substantially from those of Ministers. The fact that the Government accepted his recommendations on the day his review was published, in full and without comment, suggests that he may not have attempted to do so. The conclusions reached by Sir David are consequently of little relevance for assessing the independence and effectiveness of the OBR's work.

1 Budget Responsibility and National Audit Act 2011, Schedule 1, Para 11

2 External Review of the Office for Budget Responsibility, 3 September 2014

3 HM Treasury, Autumn Statement 2013, Cm 8747, 5 December 2013, Para 1.139

4 Written Statement HCWS31, 11 June 2015

5 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015

6 HM Treasury press release, Chancellor backs Robert Chote as Chair of the Office for Budget Responsibility, 3 September 2015

7 Q4

8 Q5

9 Q5

10 Oral evidence to the Treasury Committee on the Reappointment of Robert Chote as Chair of the Office for Budget Responsibility, 15 September 2015, Q60

2 Issues raised by the reviews

Succession planning

6. The OBR is led by the three members of the Budget Responsibility Committee: Robert Chote, Professor Steven Nickell and Graham Parker. Both reviews highlighted the importance of the OBR's leadership to its success during its first five years and the necessity for long-term succession planning to mitigate the risks arising from the transition of its leadership. As the Treasury-led review put it: "shortcomings in this area could have significant implications for the organisation's sustainability and for the quality of the forecasts".¹¹

7. Professor Nickell's term of office expires in October 2018 but he is planning to serve only until October 2016. Likewise, Graham Parker's term of office expires in October 2019 but he is planning to serve only until October 2017.¹² Sir David told the Committee that "work to find their replacements is under way".¹³

8. The Treasury review recommended that one way to address the difficulties in replacing BRC members would be to offer a more flexible job description, including part-time working arrangements, to encourage a wide range of candidates.¹⁴ However, in evidence to the Committee, Sir David said of Graham Parker, the fiscal expert on the BRC, "Graham has a particular expertise, experience and skill set which would be very hard to replicate in someone part-time".¹⁵

9. Sir David recommended in his Report that prospective BRC members be offered part-time working arrangements. In evidence he said that this flexibility could not apply to the fiscal expert on the BRC. Given the difficulties of replacing Graham Parker, it would seem particularly important to offer flexible working arrangements for this post in order to broaden the potential base of candidates.

10. Despite the importance attached by both reviews to succession planning and the smooth transition of the OBR's senior leadership, the Chancellor announced his preference for Mr Chote to be reappointed on 3 September 2015, just one month before his term of office was set to expire.¹⁶ The announcement coincided with the publication of the Treasury-led review. In its Report on the Reappointment of Robert Chote, the Committee concluded that the late decision "could have left the OBR without a Chair, damaging its reputation and its ability to meet its statutory duties." It recommended that nominations to the BRC should be proposed by the Chancellor at least four and a half months before the postholder was due to leave office.¹⁷

11 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015, Para 5.46

12 Office for Budget Responsibility, Annual report and accounts 2014-15, HC 253, 16 July 2015, Para 3.4

13 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015

14 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015, p79

15 Q57

16 HM Treasury press release, Chancellor backs Robert Chote as Chair of the Office for Budget Responsibility, 3 September 2015

17 Treasury Committee, Reappointment of Robert Chote as Chair of the Office for Budget Responsibility, First Report of Session 2015-16, HC 459, 18 September 2015, Para 7

11. Asked about the Chancellor's late nomination of Robert Chote, Sir David said that "the issue with Robert's first five year term was that it did bridge an election period. The judgment was taken not to attempt to find a way of resolving this".¹⁸ Asked why no announcement was made between May and September, Sir David said that "we had a lot on".¹⁹

12. The current Parliament will see the first changes to the OBR's senior leadership since it was put on a statutory footing. It has been widely argued – not least by the independent review conducted by Kevin Page – that the OBR's early success has been closely linked to the quality of its current leadership. Arguably, the OBR does not yet have an institutional reputation distinct from that leadership, making the succession process a risk to its credibility. The Committee agrees with the findings of both OBR reviews about the importance of long-term succession planning and welcomes Sir David's assurances that work to find replacements for Professor Nickell and Graham Parker is already underway.

13. The importance attached to succession planning by both OBR reviews is at odds with the Chancellor's late announcement of his preference for Robert Chote to be reappointed as Chairman of the OBR. The Committee has recently recommended that, in the absence of exceptional circumstances, nominations to the BRC should be made by the Chancellor at least four and a half months before the postholder plans to leave office. The Committee expects the Treasury to adhere to this timetable. 'Exceptional circumstances' do not include general elections taking place under Section 1 of the Fixed Term Parliaments Act 2011 or regular fiscal events such as the Budget and Autumn Statement.

The Memorandum of Understanding between the OBR and Government departments

14. The OBR is a small organisation, consisting of just 21 staff in addition to the three BRC members.²⁰ In fulfilling its mandate, the OBR relies heavily on information, analysis and expertise provided by other Government departments, particularly HM Treasury, the Department for Work and Pensions, and HM Revenue & Customs. The external review of the OBR estimated that it was dependent on 125 full-time equivalent employees from other government departments and agencies to produce its core reports, including 64 from HMRC, 44 from DWP, eleven from the Treasury and six from the ONS.²¹

15. Arrangements governing the relationship between the OBR and the Government departments on which it depends are contained in a Memorandum of Understanding.²² These set out each institution's responsibilities, the co-ordination of the forecast process and the process for information sharing. The Treasury-led review recommended that the Memorandum, which was last revised in April 2011, should be reviewed by September 2016:

18 Q51

19 Q52

20 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015, Para 5.30

21 External Review of the Office for Budget Responsibility, 3 September 2014, Table 0.C

22 Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions and HM Revenue & Customs, April 2011

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.²³

16. Among other things, the arrangements for information sharing contained in the current Memorandum make provision for the OBR to share a draft of its publications, or material therefrom, with Government departments. The terms on which this information can be shared are set out in paragraph 23 of the Memorandum. Among other things, the paragraph states that the OBR may share such material from its publications “where early access [...] may significantly improve the accuracy or usefulness of another publication, and the publication is intended to be published at the same time as, or shortly after, that material”.

17. These arrangements are known as “exceptional pre-release access”. Sir David described how they work in practice at each Budget and Autumn Statement:

I write to Robert [Chote] asking for prerelease access. Under the MoU they send over the report [the Economic and Fiscal Outlook] on the Friday, and when they send it over, in the emails they send across, they make it very clear that it is their obligation to say if they want any factual checks. I think that is how paragraph 23 of the MoU works.²⁴

18. As worded, the Memorandum does not envisage or explicitly sanction any changes to the OBR's publications as a result of their being made available under exceptional pre-release access arrangements. Paragraph 23 goes on to say that “the OBR may share material from these products at an earlier stage [than the exceptional pre-release access period] if it requires factual comments on the presentation of analysis or forecasts that have been produced with the assistance of Treasury, DWP or HMRC officials, but is not obliged to do so.”

19. On 14 September 2015, correspondence was published by The Times following a Freedom of Information Request.²⁵ This included emails sent from a Treasury official to a member of OBR staff during the exceptional pre-release access period leading up to the publication of the OBR's December 2014 Economic and Fiscal Outlook (coinciding with the Autumn Statement 2014). The first of these emails begins:

Here are some of the collected thoughts GEP [the General Expenditure Policy team of HM Treasury] on Chapter 4 [of the OBR's December 2014 Economic and Fiscal Outlook; Chapter 4 is entitled Fiscal outlook]. It won't come as a surprise I'm sure, but we haven't strictly stuck to the “factual changes only” requests so we're giving you our full download and suggestions.

As usual, we would be grateful if you could consider these and the phrasing around a lot of this.

23 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015, Box 0.A

24 Q48

25 The Times, Treasury has sought to meddle with OBR forecasts, 14 September 2015

20. The emails in question go on to request a number of changes, some of a factual nature and others relating to drafting and language. Some were reflected in the final version of the Economic and Fiscal Outlook, including:

- The removal of the word “topslice” to refer to spending reductions and its replacement with the term “Budget measures”
- The removal of a conclusion that the Coalition Government was achieving a fiscal surplus in 2018-19 by virtue of changes to its assumption for public spending beyond 2015-16 (the end of the Spending Review period)²⁶
- The removal of the words “rather convoluted” to describe the Coalition Government’s post 2015-16 spending assumption

21. The post-2015-16 spending assumption was contentious at the time because, on the one hand, it was a key determinant of the fiscal outlook, but on the other, it did not reflect the plans of either party in the Coalition. Although it was not, in the end, spelled out in the Economic and Fiscal Outlook, Robert Chote made clear the implications of this in his briefing to the press following its publication:

Needless to say, ministers could not claim to be on course to balance the budget and achieve their fiscal mandate with room to spare if they disowned the very policy assumptions that they had provided us with to ensure that this was the case.²⁷

22. In evidence to the Committee following the Autumn Statement, Robert Chote also described the spending assumption as “very complicated”.²⁸

23. Sir David said of the correspondence that “apart from one phrase where a relatively junior official had flagged a description, it looked to us to all be consistent with factual checking. We did not think that it was a big issue at all, but obviously the press think it is a bigger issue.”²⁹

24. During his reappointment hearing with the Committee, Robert Chote was asked about this correspondence, and whether the Treasury had erred in asking for changes that were not strictly factual. Mr Chote said:

Drawing a line between fact and interpretation is difficult to do. Personally I am relaxed about the idea of particular officials—in this case we are dealing with a relatively junior official—wanting to offer us unsolicited drafting advice. We would be in a pretty weak state if we were not able to be robust to that. Sometimes the things you get are sensible and useful; sometimes they are not.³⁰

26 The OBR subsequently noted in written evidence to the Committee that this text was removed “for factual reasons as it reflected an earlier iteration of the fiscal forecast and was no longer true on the basis of the final fiscal forecast”. (Letter from Robert Chote to Andrew Tyrie MP, 18 December 2015)

27 Office for Budget Responsibility, December 2014 Economic and Fiscal Outlook Briefing, Chairman’s speaking notes, 3 December 2014

28 Oral evidence to the Treasury on Autumn Statement 2014, HC 870, 10 December 2014, Q227

29 Q48

30 Oral evidence to the Treasury Committee on the Reappointment of Robert Chote as Chair of the Office for Budget Responsibility, 15 September 2015, Q4

He added that the Treasury “know very well that we write what we like and if they want to offer views on that we are robust to it and will say what we want. I feel entirely relaxed about it”.³¹

25. Mr Chote was asked by the Committee to supply all emails sent between the Treasury and the OBR during the ‘exceptional pre-release access period’ leading up to the publication of the OBR’s December 2014 Economic and Fiscal Outlook (i.e. 28th November to 3rd December). Mr Chote agreed to provide this.³²

26. On 29 September 2015, Lord Burns, the Chair of the OBR’s Oversight Board, wrote to the Chairman of the Committee to decline this request.³³ He highlighted the importance of free and frank exchange of information between the OBR and Government officials, and argued that disclosing the correspondence could “compromise the OBR’s ability to deliver its statutory duties”. The letter gave assurances that the Oversight Board (comprising him and Dame Kate Barker) had reviewed the correspondence, and that “almost all of [it] [...] is consistent with the MOU”. He added that, while there were occasional examples of “unsolicited drafting suggestions” from the Treasury, these had been handled appropriately by the OBR. Lord Burns also noted that new procedures had now been established whereby OBR staff and members of the BRC would routinely collate correspondence from Government departments containing ‘non-factual’ suggestions. These would be reviewed by the Oversight Board after each fiscal event.

27. The Committee did not consider this to be an adequate response to its request. In subsequent discussions and correspondence, an agreement was reached whereby the OBR would identify those emails where non-factual suggestions had been made by the Treasury. These would be submitted to the Committee as written evidence (with names of junior officials redacted). Committee staff would visit the OBR beforehand to see all the emails between the Treasury and OBR during this period, and to confirm that the OBR did not intend to withhold anything inappropriately.³⁴

28. Committee staff visited the OBR on 4 December 2015 to review this correspondence. Their opinion was that the emails the OBR intended to withhold dealt with fact-checking, quality assurance and the publication process for the Economic and Fiscal Outlook. They were satisfied that none of them contained requests for ‘non-factual’ changes to content on any reasonable interpretation of that term.

29. In total, seven email exchanges were submitted by the OBR to the Committee, including one which had already been partly published following The Times’ FOI request.

30. Of these, the exchange originally partly released following The Times’ FOI request contained the largest number of non-factual requests. The OBR’s submission also contained its response to that email. The OBR official wrote that:

Our language is our own. And – in the friendliest possible way, I have to say that – in order to protect our independence we have to be careful not to be wrongly seen as influenced by undue comment.³⁵

31 Oral evidence to the Treasury Committee on the Reappointment of Robert Chote as Chair of the Office for Budget Responsibility, 15 September 2015, Q6

32 Q11

33 Letter from Lord Burns to Andrew Tyrie MP, 29 September 2015

34 Letter from Robert Chote to Andrew Tyrie MP, 12 October 2015

35 Exchange of correspondence between OBR and HM Treasury officials (email timestamped 29 November 2014, 11:54)

31. Of the remaining emails, one contains non-factual suggestions that originate from the then Chief Secretary but are channelled through officials.³⁶ Another email exchange, at official level, deals with the composition of local authority financing over the forecast period. It describes the OBR's intended presentation of this as "misleading", and offers advice on how its charts should be drawn "to ensure the reader cannot misunderstand".³⁷ The OBR did not alter the Economic and Fiscal Outlook in response to these suggestions.

32. The full correspondence on this matter, together with the email exchanges submitted to the Committee by the OBR, have been published as correspondence alongside this Report.

33. Exceptional pre-release access is intended to improve the accuracy or usefulness of the Budget or Autumn Statement. The current Memorandum of Understanding does not sanction any changes, factual or otherwise, to the OBR's publications as a consequence of their availability under these arrangements. It is clear that the Economic and Fiscal Outlook benefits from a fact-checking and quality assurance process involving officials in other Government departments. Provision for officials to request factual changes during the exceptional pre-release access period should be more clearly set out in the Memorandum of Understanding, as should the scope and limits of acceptable requests.

34. Some of the requests made by the Treasury for changes to the December 2014 Economic and Fiscal Outlook strayed beyond the factual. It is concerning that Treasury officials did not recognise that these requests were inappropriate. They appear to have been made routinely at previous fiscal events. Sir David's comment that "we did not think that it was a big issue at all" does little to assuage the Committee's concerns about a lack of understanding in the Treasury about the importance of the OBR's independence. The OBR's independence — and public confidence in its independence — is a precious asset that is hard-earned and easily squandered.

35. Evidence received by the Committee of requests for changes to the Economic and Fiscal Outlook originating from the then Chief Secretary is particularly concerning. It is far from clear why Ministers should have the opportunity to offer views to the OBR during the exceptional pre-release access period when, given the level of technicality, it is highly unlikely that they could make constructive contributions to any fact-checking and quality assurance process. Pre-release access should be limited to the minimum number of people necessary for this purpose. If Ministers require early sight of the OBR's draft publications for other purposes, this should separately be made clear in the Memorandum of Understanding.

36. A number of Treasury requests for non-factual changes appear to have been taken on board by the OBR. This is unacceptable. The removal of words such as 'topslice' to describe spending cuts, and 'complicated' to describe the then Government's fiscal assumption, cannot be held to have improved the clarity of the Economic and Fiscal Outlook, nor did they make it more factually accurate. Nonetheless, the Committee is satisfied that, on this occasion, the changes the OBR made in response to Treasury requests made no material difference to the analysis contained in the final document.

36 Exchange of correspondence between OBR and HM Treasury officials (email timestamped 30 November 2014, 16:05)

37 Exchange of correspondence between OBR and HM Treasury officials (email timestamped 28 November 2014, 17:08)

37. The Committee has confidence in Robert Chote’s personal resilience to pressure from Ministers and officials, and his willingness to speak his mind. It is also encouraged by evidence from the email exchanges of the assertiveness of OBR staff in dealing with the Treasury. However, if the OBR is to remain demonstrably institutionally independent, the terms of engagement with Government departments must be clarified. At a minimum, a revised Memorandum of Understanding should explain the purpose of exceptional pre-release access, which Ministers and officials are granted access and why, and the sort of changes to OBR documents that are envisaged during this period.

38. The OBR requires a close working relationship with Government departments, based on free and frank exchange at official level. The subjection of all communications between OBR staff and Government officials to routine public scrutiny could prejudice this relationship. However, the Committee considers the exceptional pre-release access period to be a particularly sensitive time, not least because it is the Treasury’s first opportunity to see the OBR’s conclusions and judgements in full. The Committee may, from time to time, repeat the exercise it has carried out on this occasion, to ensure that Ministers, special advisers or officials have not sought to influence the OBR’s judgements and conclusions.

“Party policy costings”

Enhancing fiscal credibility?

39. Both external and Treasury-led reviews of the OBR considered the question of whether the OBR’s remit should be expanded to include the certification of costings of political parties’ tax and spending policies in the run-up to general elections (hereafter referred to as “party policy costings” for expediency). The external review found that, among the stakeholders interviewed, there was “a consensual view that the challenges [of doing party policy costings] could be mediated but not without putting the OBR at some risk, the level of which is unknown”.³⁸ It recommended that “caution be exercised in considering the expansion of the OBR’s mandate (e.g. costing certification of party manifestos)”.³⁹

40. The Treasury-led review contained a more extensive discussion of party policy costings, which eventually concludes that:

the costs of relaxing the restriction on considering alternative policies are likely to outweigh the benefits at this stage, and by potentially undermining the OBR, it may serve to reduce rather than increase fiscal credibility in the UK.⁴⁰

In evidence, Sir David said that it was on grounds of fiscal credibility in particular that he rejected the idea: “I was not saying that it was impossible, but I was asked to do a review on whether I thought it was going to add to fiscal credibility”.⁴¹

38 External Review of the Office for Budget Responsibility, 3 September 2014, Para 7.28

39 External Review of the Office for Budget Responsibility, 3 September 2014, p14 (Recommendation 4)

40 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015, Para 3.92

41 Q18

41. The Committee asked Sir David about the basis for his judgement that involving the OBR in party policy costings could not add to fiscal credibility:

The way I think of fiscal credibility is Governments doing what they say they are going to do. That means that once you become the Government you set out your programme and then you are held to account for that, in this case by the OBR [...] I can see how that could inform the debate in the run-up to the election, but I think of credibility in terms of the actual programme that a Government then puts into place once it becomes the Government and being held to account against that.⁴²

42. Robert Chote disagreed with the review's conclusion that party policy costings could not enhance fiscal credibility:

I would probably order my reasons to be anxious about this somewhat differently from the way in which the Treasury did in the review. They say it would not have a great deal of impact on fiscal credibility. I think it could have an impact on fiscal credibility.⁴³

43. In evidence on the Autumn Statement and Spending Review 2015, Mr Chote was asked again about party policy costings, and how the OBR treats manifesto pledges once a Government is formed. He said that manifesto pledges “are not in our forecast. [...] We will treat them as policy when they are expressed formally as policy at fiscal events, if and when they are expressed at fiscal events”.⁴⁴

44. The terms of reference of the Treasury-led review required Sir David to “assess the effectiveness of the OBR in enhancing UK fiscal credibility”. Sir David told us that he took “UK fiscal credibility” to mean the credibility of the existing government’s fiscal programme, rather than the credibility of parties that might imminently form a government. By interpreting the terms of reference in this narrow way, Sir David was logically bound to reach the conclusion on the costing of party policies that he did.

45. The benefits to fiscal credibility of the OBR carrying out party policy costings before general elections are now becoming clear. Had it been able to do so at the last election, the public would now have to hand a more rigorous assessment of the costs of the present Government’s manifesto pledges. As it stands, the OBR — even now — has not assessed the implications of these commitments because the Government has chosen not to identify them as ‘formal policy’ measures. The current arrangements permit prospective Governments to make fiscally incredible pledges in their manifestoes, but avoid full and timely accountability for them once in office.

The balance of opinion on party policy costings

46. Sir David was also asked about the evidence collected during his review, and the extent to which this supported his conclusions on party policy costings. He said that:

42 Q30

43 Q60

44 Oral evidence to the Treasury Committee on Spending Review and Autumn Statement 2015, HC 638, 8 December 2015, Q107 and Q109

we talked to about 50 stakeholders and they were consistent in their praise for how the OBR carries out its current remit. I was very struck when talking to a wide range of stakeholders that some were not persuaded that there was any case at all, given how successful the OBR was on its core remit, for moving beyond this. Some were supporters of moving into Opposition costings, but were sceptical about the case for doing it now. That was very interesting to me.⁴⁵

47. Pressed further, Sir David was unable to give a sense of the number or proportion of respondents who thought that broadening the OBR's remit in this way would be undesirable. James Richardson, Director, Fiscal, at HM Treasury, said that "we promised them [the interviewees] that the contents of what they said would be kept confidential".⁴⁶

48. In places, Sir David's report does give an indication of the balance of opinion among those from whom the review team sought an opinion, e.g.

Most stakeholders agreed that the OBR's clearly-defined and focused remit is a key strength [...]⁴⁷

There is universal agreement among stakeholders that the OBR adds to the credibility of the UK's fiscal framework [...]⁴⁸

There is a consensus among stakeholders that personnel have been the driving force behind the OBR's successes⁴⁹

However, no indication of the balance of opinion is provided in the report's discussion of party policy costings.

49. In its discussion of party policy costings, the Treasury-led review references Institute for Government research. Specifically, the review states that broadening the OBR's remit to include party policy costings might lead to better policymaking, but that:

there is no guarantee these benefits would be realised. As research for the Institute for Government notes: "Pre-election policy costings are not a guarantor of 'better' policies – they do not, for example, assess the implementability of a policy" and conversely they "may discourage innovation by incentivising parties to develop more cautious or safe policies with lower up-front costs."⁵⁰

50. Following the publication of the Treasury-led review on 3 September, the Institute for Government issued a press release to clarify the balance of arguments in its research. In full, it reads:

The Treasury's review of the OBR references Institute for Government research into the independent costings of manifesto policies. As we argued in the run up to the last election, allowing the OBR to independently cost opposition party policies would inject much needed clarity into election campaigns. So

45 Q14

46 Q28

47 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015, p6

48 Ibid, p8

49 Ibid, p79

50 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015, Para 3.67

while the review published today correctly references what we identified as the challenges of costing opposition policies, it does not include our argument that these barriers should not be exaggerated.⁵¹

The views of MPs and political parties

51. The issue of whether the OBR should cost parties' fiscal proposals was discussed when the office was being established. In October 2010, before legislation putting the OBR on a statutory footing was introduced, the Chancellor said that the examination of Opposition party policies was:

genuinely a matter that should be debated in the House in a non-partisan way, because it does not affect just this Parliament. There is a question of whether we want the OBR to be able to cost Opposition policies at the time of a general election. I propose to have discussions with Opposition party leaders about whether that is the appropriate thing to do, and it would be a legitimate matter for the House to debate and decide.⁵²

52. In evidence to the Committee on his reappointment, Robert Chote also highlighted the important role political parties would play in any decision to extend the OBR's remit in this way. Noting that involving the OBR in opposition policy costings was "potentially very valuable",⁵³ he said that "the logistical consequences [...] are considerable and [...] at least as considerable for the Civil Service and for the political parties as it would be for us".⁵⁴ The Treasury-led review also stated that "Parliamentarians are a key stakeholder group for the OBR"⁵⁵ and that "the feasibility of all major political parties being able to undergo this process is key".⁵⁶ However, the review did not take any evidence from political parties or Members of Parliament.

53. The Committee is unconvinced by the discussion and conclusion on opposition policy costings in Sir David's review. First, the review's independence from the Chancellor, whose opinion on this question it reflects in every respect, is highly questionable. Second, Sir David did not consult the other political parties about it. Third, even among those whom it did consult, it is far from clear where the balance of opinion lies, or that the views they expressed are accurately represented in the report.

54. Sir David's evidence to the Committee on opposition policy costings did nothing to assuage our concerns that he had interpreted and selected evidence to confirm the prior view of the Chancellor. The Review's discussion and conclusions on opposition policy costings add nothing. The matter is an open question for further consideration by this Committee and Parliament as a whole.

51 Institute for Government, Statement in response to HM Treasury review of the Office for Budget Responsibility, 3 September 2015

52 HC Deb, 12 October 2010, Col 142

53 Q64

54 Q63

55 HM Treasury, HM Treasury review of the Office for Budget Responsibility, 3 September 2015, Para 6.55

56 Ibid, Para 3.76

Conclusions and recommendations

Background to the recent reviews of the OBR

1. Sir David is a reliable, highly competent and loyal Treasury official, bound by the Civil Service code, reporting to the Chancellor, and with a duty to support Government policy of the day, whatever that happens to be. He is therefore manifestly professionally incapable of conducting an independent review of the OBR. It would have been difficult for Sir David to have reached conclusions that differed substantially from those of Ministers. The fact that the Government accepted his recommendations on the day his review was published, in full and without comment, suggests that he may not have attempted to do so. The conclusions reached by Sir David are consequently of little relevance for assessing the independence and effectiveness of the OBR's work. (Paragraph 5)

Succession planning

2. Sir David recommended in his Report that prospective BRC members be offered part-time working arrangements. In evidence he said that this flexibility could not apply to the fiscal expert on the BRC. Given the difficulties of replacing Graham Parker, it would seem particularly important to offer flexible working arrangements for this post in order to broaden the potential base of candidates. (Paragraph 9)
3. The current Parliament will see the first changes to the OBR's senior leadership since it was put on a statutory footing. It has been widely argued – not least by the independent review conducted by Kevin Page – that the OBR's early success has been closely linked to the quality of its current leadership. Arguably, the OBR does not yet have an institutional reputation distinct from that leadership, making the succession process a risk to its credibility. The Committee agrees with the findings of both OBR reviews about the importance of long-term succession planning and welcomes Sir David's assurances that work to find replacements for Professor Nickell and Graham Parker is already underway. (Paragraph 12)
4. The importance attached to succession planning by both OBR reviews is at odds with the Chancellor's late announcement of his preference for Robert Chote to be reappointed as Chairman of the OBR. The Committee has recently recommended that, in the absence of exceptional circumstances, nominations to the BRC should be made by the Chancellor at least four and a half months before the postholder plans to leave office. The Committee expects the Treasury to adhere to this timetable. 'Exceptional circumstances' do not include general elections taking place under Section 1 of the Fixed Term Parliaments Act 2011 or regular fiscal events such as the Budget and Autumn Statement. (Paragraph 13)

The Memorandum of Understanding between the OBR and Government departments

5. Exceptional pre-release access is intended to improve the accuracy or usefulness of the Budget or Autumn Statement. The current Memorandum of Understanding

does not sanction any changes, factual or otherwise, to the OBR's publications as a consequence of their availability under these arrangements. It is clear that the Economic and Fiscal Outlook benefits from a fact-checking and quality assurance process involving officials in other Government departments. Provision for officials to request factual changes during the exceptional pre-release access period should be more clearly set out in the Memorandum of Understanding, as should the scope and limits of acceptable requests. (Paragraph 33)

6. Some of the requests made by the Treasury for changes to the December 2014 Economic and Fiscal Outlook strayed beyond the factual. It is concerning that Treasury officials did not recognise that these requests were inappropriate. They appear to have been made routinely at previous fiscal events. Sir David's comment that "we did not think that it was a big issue at all" does little to assuage the Committee's concerns about a lack of understanding in the Treasury about the importance of the OBR's independence. The OBR's independence — and public confidence in its independence — is a precious asset that is hard-earned and easily squandered. (Paragraph 34)
7. Evidence received by the Committee of requests for changes to the Economic and Fiscal Outlook originating from the then Chief Secretary is particularly concerning. It is far from clear why Ministers should have the opportunity to offer views to the OBR during the exceptional pre-release access period when, given the level of technicality, it is highly unlikely that they could make constructive contributions to any fact-checking and quality assurance process. Pre-release access should be limited to the minimum number of people necessary for this purpose. If Ministers require early sight of the OBR's draft publications for other purposes, this should separately be made clear in the Memorandum of Understanding. (Paragraph 35)
8. A number of Treasury requests for non-factual changes appear to have been taken on board by the OBR. This is unacceptable. The removal of words such as 'topslice' to describe spending cuts, and 'complicated' to describe the then Government's fiscal assumption, cannot be held to have improved the clarity of the Economic and Fiscal Outlook, nor did they make it more factually accurate. Nonetheless, the Committee is satisfied that, on this occasion, the changes the OBR made in response to Treasury requests made no material difference to the analysis contained in the final document. (Paragraph 36)
9. The Committee has confidence in Robert Chote's personal resilience to pressure from Ministers and officials, and his willingness to speak his mind. It is also encouraged by evidence from the email exchanges of the assertiveness of OBR staff in dealing with the Treasury. However, if the OBR is to remain demonstrably institutionally independent, the terms of engagement with Government departments must be clarified. At a minimum, a revised Memorandum of Understanding should explain the purpose of exceptional pre-release access, which Ministers and officials are granted access and why, and the sort of changes to OBR documents that are envisaged during this period. (Paragraph 37)
10. The OBR requires a close working relationship with Government departments, based on free and frank exchange at official level. The subjection of all communications between OBR staff and Government officials to routine public scrutiny could

prejudice this relationship. However, the Committee considers the exceptional pre-release access period to be a particularly sensitive time, not least because it is the Treasury's first opportunity to see the OBR's conclusions and judgements in full. The Committee may, from time to time, repeat the exercise it has carried out on this occasion, to ensure that Ministers, special advisers or officials have not sought to influence the OBR's judgements and conclusions. (Paragraph 38)

"Party policy costings"

11. The terms of reference of the Treasury-led review required Sir David to "assess the effectiveness of the OBR in enhancing UK fiscal credibility". Sir David told us that he took "UK fiscal credibility" to mean the credibility of the existing government's fiscal programme, rather than the credibility of parties that might imminently form a government. By interpreting the terms of reference in this narrow way, Sir David was logically bound to reach the conclusion on the costing of party policies that he did. (Paragraph 44)
12. The benefits to fiscal credibility of the OBR carrying out party policy costings before general elections are now becoming clear. Had it been able to do so at the last election, the public would now have to hand a more rigorous assessment of the costs of the present Government's manifesto pledges. As it stands, the OBR — even now — has not assessed the implications of these commitments because the Government has chosen not to identify them as 'formal policy' measures. The current arrangements permit prospective Governments to make fiscally incredible pledges in their manifestoes, but avoid full and timely accountability for them once in office. (Paragraph 45)
13. The Committee is unconvinced by the discussion and conclusion on opposition policy costings in Sir David's review. First, the review's independence from the Chancellor, whose opinion on this question it reflects in every respect, is highly questionable. Second, Sir David did not consult the other political parties about it. Third, even among those whom it did consult, it is far from clear where the balance of opinion lies, or that the views they expressed are accurately represented in the report. (Paragraph 53)
14. Sir David's evidence to the Committee on opposition policy costings did nothing to assuage our concerns that he had interpreted and selected evidence to confirm the prior view of the Chancellor. The Review's discussion and conclusions on opposition policy costings add nothing. The matter is an open question for further consideration by this Committee and Parliament as a whole. (Paragraph 54)

Formal Minutes

Tuesday 9 February 2016

Members present:

The Rt Hon Mr Andrew Tyrie, in the Chair

Mr Steve Baker

Rachel Reeves

Mr Jacob Rees-Mogg

Draft Report (*Reviewing the Office for Budget Responsibility*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 54 read and agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[Adjourned till Wednesday 10 February at 2.00pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry page](#) of the Committee's website.

Wednesday 14 October 2015

Question number

Sir David Ramsden, Chief Economic Adviser, HM Treasury, and **James Richardson**, Director, Fiscal, HM Treasury

[Q1-57](#)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/treascom.

Session 2015–16

First Report	Reappointment of Robert Chote as Chair of the Office for Budget Responsibility	HC 459
Second Report	The appointment of Dr Gertjan Vlieghe to the Monetary Policy Committee of the Bank of England	HC 497
Third Report	The re-appointment of Ian McCafferty to the Monetary Policy Committee of the Bank of England	HC 498
Fourth Report	Appointment of Tim Parkes as Chair of the Regulatory Decisions Committee	HC 735
Fifth Report	Appointment of Angela Knight as Chair of the Office of Tax Simplification	HC 734
Sixth Report	Spending Review and Autumn Statement 2015	HC 638