



Economic Affairs Committee

Corrected oral evidence: The UK's fiscal framework

Tuesday 3 February 2026

3.05 pm

Watch the meeting

Members present: Lord Wood of Anfield (The Chair); Lord Burns; Lord Liddle; Lord Petitgas; Lord Razzall.

Also present: Lord Lamont of Lerwick; Baroness Liddell of Coatdyke; Lord Londesborough; Lord Turnbull.

Evidence Session No. 8

Heard in Public

Questions 110 - 118

Witnesses

I: James Murray MP, Chief Secretary to the Treasury, HM Treasury; Steve Farrington, Director of Fiscal Policy, HM Treasury.

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Examination of witnesses

James Murray and Steve Farrington.

Q110 **The Chair:** I welcome our witnesses to this, the eighth and last evidence session for the committee's inquiry into the UK's fiscal framework. We are delighted to have with us the Chief Secretary to the Treasury, James Murray MP, and Steve Farrington, Director of Fiscal Policy at HM Treasury. Thank you both very much for your time. We are very grateful to you. This is being broadcast on Parliament Live TV, and we will make sure that a full transcript is taken and passed on to you shortly after the meeting so that you can make any factual corrections.

Let me start with a general question, a question which actually points to recent history of the operation of the fiscal framework. I think we will all agree that the main purpose of a fiscal framework is to encourage stability, predictability and reliability in fiscal policy-making and policy-making more generally. Therefore, would you agree that the experience of what happened in the run-up to the Budget at the end of 2025 was unfortunate and perhaps counterproductive, in the sense that policy was intimated, announced, and then reversed in the run-up to the Budget? Was that something that you think undermines the stability of the fiscal framework that everyone seeks, and do you think that perhaps Governments of all varieties should spend more time consulting and developing policy in the run-up to Budgets, Chief Secretary?

James Murray: First, thanks very much for inviting me back to the committee to speak again. If you look at what happened in the run-up to the Budget last year, the Chancellor made her feelings clear about all of the speculation, and obviously the leak that happened, the fact the leak inquiry is under way and indeed the OBR publishing its report before the Budget was announced itself, all of that process, views have been set out in quite some detail following the Budget process.

I would not want that to distract, though, from the importance of the fiscal framework for embedding that stability in our approach to the public finances, which is so important for investment and growth, because we know that having that stability in the public finances, having that stability in the economy helps to give businesses the confidence to invest, and we know how crucial the investment is for growth.

If you look at the wider fiscal framework and all of the processes that we set up around that: so having one major fiscal event per year, for instance; having the change that we are making now whereby the OBR will assess performance against the fiscal rules once a year at Budget; making sure that we have spending reviews every couple of years that set out the Government's spending intentions over the coming years; and also having the buffer, which was delivered at the Budget last year against the fiscal rules—the headroom of £21.7 billion against the stability rule, the current Budget balance. All that really helps to deliver the stability, which, as you rightly said, is so important for the Government's focus on investment and growth. I think that what the

Budget actually delivered and the framework around it are delivering that stability, which we see is so important.

The Chair: Thanks for that answer. I have a follow-up. We have had evidence—including from Richard Hughes, the former head of the OBR—about the frequency with which fiscal rules have changed over the last 15 years. Of course, the Labour Party went into the election committing to the fiscal rules and then tweaked them soon afterwards. Do you think it is desirable that when fiscal rules are changed—or even the OBR remit is changed in some future world perhaps—that the Government set out their plans and consult on them rather than drop it on the country from a great height? What do you think is the right way to go about revising the fiscal framework, whose role in generating stability and reliability is so important?

James Murray: You are right to say that the fiscal rules in recent years before 2024, before the general election, had changed more frequently than in other comparable countries and more frequently than is desirable. Since we came into office, though, at the first Budget the Chancellor set out the fiscal rules of this Government—her fiscal rules—and they have remained non-negotiable since that date. So I would slightly challenge the way you framed it there, because I think we were very clear that we would introduce fiscal rules upon coming into government. The Chancellor set them out at Budget. They have been the fiscal rules and they have not changed. They have been non-negotiable as this Government's fiscal strategy. The focus that we have on making sure that we have the stability rule for day-to-day spending and then the investment rule, which gets debt falling, has remained a non-negotiable element of our fiscal strategy.

You asked: if a future Government at some future date were to consider changing fiscal rules, would they consult on them? That is for a future Government long into the future to decide, but I suppose instinctively I feel that it would not necessarily be the kind of thing the Government would consult on because they are an expression of the Government's fiscal policy. If the Government of the day at some point in the future have a mandate, they will have a mandate to introduce fiscal rules, just as we had a mandate to introduce fiscal rules after the general election in 2024. I feel we were elected on that clear mandate. The Chancellor introduced those fiscal rules. They have remained non-negotiable, and that actually brings the stability that you referred to in your previous question.

The Chair: I am not suggesting this is happening at all at the moment, but what about the OBR's role and its remit? If a Government wanted to change that at some point, to tinker with it, tweak it, refine it, would that be something that a Government should consult on, do you think, or something that could be announced without consultation?

James Murray: I would not speculate on the future role of the OBR. What I know about the OBR, from our point of view, is how important its independence is and how important the institutional set-up is for us.

Again, we have enshrined that in the Charter for Budget Responsibility. My parliamentary memory is failing me, but I think it was the first thing we did pretty much. It was very early on at any rate. We made sure that that was in there right at the very beginning after the general election, to really enshrine the centrality of the OBR and its current role, as an independent forecaster, with a clear separation, in that the OBR provides the forecasts and the economic analysis, and the Treasury and its Ministers and the Chancellor take policy decisions. In opposition we made it clear that that was really important to us and we embedded that when we came into office.

Q111 Lord Burns: You say that the present rules are non-negotiable, but have you seen any downside from the present rules? I think we appreciate that no rules can be perfectly designed, but have the experiences so far in government suggested that any aspects of those rules are more difficult than others?

James Murray: By their design, the rules force choices to be taken that are not always easy, but in a way that is the point of the rules, so that the Government are clear about the basis on which they will take decisions, and then take decisions even when they can be difficult at that moment in time, but as part of a wider fiscal strategy.

The example I will give you is what I think you saw in recent Governments of the past, is that, whenever there were pressures on day-to-day spending, they would raid the capital budget and investment would suffer, so money that could be invested would be going toward day-to-day spending. However, because we have made a clear separation—because we said that day-to-day spending has to be paid for through tax receipts and then we will deal with investment in future infrastructure and so on separately—it helps to protect that capital investment.

In a way, the decisions that we have had to take at the last two Budgets to meet the first fiscal rule, the stability rule—the rule that says day-to-day expenditure has to be paid for through tax receipts—means that we have had to take a number of decisions on tax. Taking decisions on tax is rarely easy. We have had to take those decisions because of that fiscal rule, but the strength of the fiscal rule, above and beyond the broader stability that it engenders, is that, alongside the investment rule, it helps to protect that capital investment so that we can break the cycle of investment budgets being undermined and then the country not benefiting from the investment that we know is so needed.

Lord Burns: One of the issues that we have heard quite a lot about is that, under the present plans, there is no real decline in the ratio of debt to GDP over the period, if you compare it with what it was at the beginning. It is coming down, and is projected to come down towards the end of the period, but overall it is relatively flat, relatively stable. We have had a number of people suggest to us that debt should come down more quickly; it should come down over a period of time if we are to get to a position where we can deal with any other adverse shocks in the

future. Richard Hughes mentioned in his evidence to us that, the way things are designed, there is no strong reason why we should expect the debt ratio to decline from where it is at the moment, or where it was at the beginning of the Parliament.

James Murray: I suppose what I would point towards, though, are the fiscal rules targets and why we target them. The reason we target having debt falling as a proportion of GDP is that we need to have our fiscal strategy that reduces debt and borrowing, while at the same time enabling that step change in investment to grow the economy. The rules need to underpin that strategy. That is the explicit choice of this Government, which is to get—

Lord Burns: It is certainly happening right at the end of the period, is it not? When I look at the numbers for the debt ratio across the five years or so, you need a microscope to see any decline in the debt ratio.

James Murray: There is a question about when the fiscal rules are met—and, Steve, please jump in if you need to correct me on anything I am saying.

In the first Budget, that was in year five, when the two fiscal rules were going to bite, that then comes forward and so it ends up being in year three of the forecast. Now, as it happens, we are meeting the fiscal rules early, even though it is not yet year three. The idea with having year three as the target date for when the fiscal rules have to bite is to avoid a situation where the fiscal rules are put off towards the end of the five-year period, the end of the forecast. Given how long Parliaments are, five years tends to put the decisions a little further down the line; whereas, if you have it in year three, that means they bite earlier in the process and they are more realistic.

Steve Farrington: To add to what the Chief Secretary was saying, I saw Mr Hughes's evidence and people suggesting that the UK's fiscal rules are historically very loose, which I think is a mischaracterisation, actually, and at best a very partial picture if you look at what the rules are requiring us to do in terms of the adjustment in borrowing.

To get debt falling in the fourth year of the forecast, consistent with the rule, is requiring the Government to run a primary surplus of around 1.5% of GDP in that year. To me, that metric, if you did not know what the Government's fiscal rules were and you were looking at their fiscal metrics and you saw that we were running a primary surplus of 1.5% of GDP in year four, you would say, "That looks like a pretty tough set of fiscal plans that are underpinned by a detailed spending review plus legislated tax increases".

If you take that as a degree of fiscal effort, which I think is appropriate because what it is doing is stripping out the impact of debt interest on our borrowing costs, those debt interest costs are being driven by the elevated debt stock that we have at the moment, plus the rising global interest rates that we have seen. Both of those have pushed up the UK's

debt interest payments. Both those factors are largely outside the Government's control and were essentially inherited and the Government needed to deal with it. The best metric for me of fiscal effort is that primary balance.

Lord Burns: I am not disputing that there is quite a tough fiscal prospect ahead. A lot of work has gone into it. If one really focuses on the question of whether the way we are heading is actually going to bring down the debt ratio over a period of time, I cannot really find the justification for that. If I look at the OBR's long-term projections of where things are going based upon present assumptions, it shows longer-term increases in that debt ratio. I am slightly concerned that the focus is on the short term being tough, but do we have a mechanism in place that is going to look after the longer term? As far as debt interest is concerned, of course it has to be paid. It may be outside the Government's control, but it still has to be paid.

James Murray: One thing I would point to, in terms of the long-term sustainability of the public finances, is the OBR's fiscal risks and sustainability report. Obviously, people focus on the economic forecast that is published at the time of the Budget, but the fiscal risk and sustainability report is important as well. For a long time, the OBR has highlighted some of the issues around the tax base and fuel duty receipts going down and what we have done around e-VED for electric vehicles. It is an important long-term change. The actual impact of introducing e-VED within the scorecard in the coming years is significant, but the really significant achievement of introducing that is the long-term sustainability impact. There are things that should be on the scorecard that are worth looking at too.

Lord Petitgas: Fundamentally, the issue we are going around—and we are not going to solve it here—is the debt rule. I credit you that you brought it back by one year. But as long as it is only year on year between the penultimate year and the last year, every Government will have the temptation to grow the debt from year one, year two, year three, and then in year four, take it down slightly, adjusted for interest. So, fundamentally, we are just going like this, like this, like this. That is what I think Lord Burns is saying. I know you do not have the answer to it, because it is too painful, but the reality is the debt is not falling from the beginning of the period. It is obviously going to be higher in year four than it is in year one, unless I am missing something.

Steve Farrington: I was just going to add that the pace of deficit reduction in the Government's plans is pretty significant and front-loaded. The Government started with a deficit post Covid of 5% of GDP. Inevitably, that takes time to correct, and over the period debt is rising. In the next fiscal year, borrowing is due to fall by 1% of GDP. This is a front-loaded fiscal consolidation that the Government are undertaking to turn the corner on the increases in debt that have been happening in the past.

Lord Petitgas: In practice, year one was X, year four, it will be more

than X. Are you saying the debt is actually going to go down from the beginning of the period to the last year, or are you saying the debt is going to go down from year three to year four?

Steve Farrington: Any fiscal path that would deliver debt falling in the next two years would require a very significant reduction in borrowing over the next couple of years, which you then have to test as to whether that is an appropriate stance on the economy, and that is what we are trying to balance.

Lord Petitgas: I understand, but I am just saying, as long as the rules are such that it is only between the penultimate year and the last year—heroic efforts or not—my bet would be that the debt will be higher than at the beginning of the period, and in fact I will probably win the bet in every four-year period. It is a fiscal rule. It is what it is. Lord Burns was asking a question. He was worried about the debt growing. I think that is the answer.

Lord Liddle: On the credibility of the exercise, the debt is falling at the end of the period, but of course we have only a single number for the public spending limit at the end of that period. Yet we all know that we have forward defence commitments, for example: 3.5% of GDP. We all know that welfare spending is difficult to control and the demands of the health service are very severe. Those three big things together make you doubt whether the public spending assumption at the end of the forecast is realistic. Is that not a real problem with the exercise?

James Murray: One of the important things around public spending for me, certainly in my role as Chief Secretary, is the focus on efficiency and productivity in the public sector. You mentioned health. Health is one of the biggest contributors towards the efficiency targets that we set in the spending review, because we know that there is a significant contribution that greater productivity and greater efficiency in the health service can make toward the public finances.

We know that the level of productivity in the NHS is currently lower than it was before Covid. There is work that can be done to improve its productivity, to improve how public money is spent in the health service. That is just one example where making changes in terms of efficiency and productivity can have really quite large impacts on the long-term pressures on different parts of public services.

That is not to say there will never be any decisions where we have to prioritise, because of course that is part and parcel of being in government, particularly in the Treasury. But those decisions are between parameters that can be influenced by a focus on efficiency and public sector productivity.

Steve Farrington: One of the specific design features of the Government's fiscal framework is precisely to address the problem that you describe. As the Chief Secretary was saying, the target for the fiscal rules now is 2029-30. We will continue to roll forward towards that next

fiscal year, the point at which the horizon of the rules is three years. From that point forward, the target year will stay three years into the future.

The reason that is important is that is the period of time covered by spending reviews. A spending review is precisely the exercise that forces the Government—as the Chief Secretary knows all too well—to make the choices that you are talking about on spending considerations and to make those plans add up across all departments, across all of government. The deliberate alignment of the horizon of the fiscal rules and the spending review is, as I say, designed partly to tackle the issue you address.

Lord Turnbull: You said that the pace of deficit reduction is substantial. I think you could say “as projected, is substantial”, but I think that is flawed in two respects. One is the assumption that, overall, in real terms, TFE is expected to grow by 1% and only 1%, when probably the health service alone will absorb that. The other is that the fuel duty indexation will be restored after 11 years of holding it in abeyance. If we make those two assumptions, you can get the kind of reduction that you want, but it does not sound very plausible to me.

James Murray: I come back to the central point here around why having fiscal rules is so important, because those fiscal rules need to be met and they need to be met at every Budget, which is what we have done in the two Budgets we have had so far. In showing by our actions that they are non-negotiable, we are showing that we will make sure we meet those fiscal rules.

As I was saying to your colleague earlier, that then makes the Government make difficult decisions at some points. We have had two Budgets where we have had to take a series of decisions that we think were right and necessary but not everyone has agreed with, and we have had to explain why we are doing them. Those kinds of decisions are crystallised by having fiscal rules that are non-negotiable because you have to make sure that you are meeting both those rules in the target year.

Lord Turnbull: Is not the truth that difficult decisions are being announced, but difficult decisions are not being implemented?

James Murray: I disagree with that, I am sorry. Since coming into government, we knew that we had inherited a difficult fiscal situation. Look at the example of raising employer national insurance contributions. It is not something that any of us wanted to do. It was the toughest decision I think we took at that first Budget, but we were determined to make sure that we would restore stability to the public finances and get the NHS and other public services back on their feet. That decision on employer national insurance is already in place.

You asked me: are there difficult decisions that you have taken and implemented? That is one significant example. I could give you numerous

other tax changes that we have made that are already in place, others that have not yet come in are being legislated for or consulted on the policy detail of. But if you look at the decisions we have taken, they were all necessary to hit the fiscal rules, to have that long-term fiscal sustainability, and many of them are already in place.

Lord Turnbull: You have almost as many U-turns as you have things going in the right direction.

James Murray: I can see that you are perhaps making a political point here—

Lord Turnbull: I am not making a political point. I am just telling you what is actually happening.

James Murray: One example where we have changed the policy is around the threshold for agricultural property relief and business property relief. That is one where we have maintained the principle of what we have done. That principle behind the policy remains the Government's position, but we adjusted the threshold. That is one example there, but there are numerous other tax choices I could go through, many of which have been tough choices, such as the employer national insurance that I mentioned, but we think that they are the right and necessary choices.

If you asked me, "Why did you choose to take decisions around national insurance or any of the other choices?", I would point you to falling NHS waiting lists. I would say that we are getting NHS waiting lists down, getting public services back on their feet. Restoring stability to the public finances was a promise this Government were elected on.

Steve Farrington: The decisions the Government took in the Budget last year net increased the Government's headroom against its fiscal rules. That was a difficult set of tax choices that the Government were making to increase the margin of headroom that the Government held against their fiscal rules. The subsequent decisions since the Budget—there have been a couple—have not fundamentally changed that position and that fiscal strategy.

The Chair: We should make progress on these questions. Lord Lamont.

Q112 **Lord Lamont of Lerwick:** On Mr Farrington's point, could I follow-up about the whole question of headroom, as there has been a lot of attention post this last Budget on the subject of headroom and whether that attention has been at the expense of longer-term stability. Why did the Government run so close to the limits of the rule? Compared with previous Budgets, the margin was very, very tight. The closer it gets to the limit, the closer it gets to 50:50 as to whether the rules themselves are going to be broken.

James Murray: I would start off by saying that the benefit of having greater fiscal headroom is that it brings stability, because in the last Budget the Chancellor secured £21.7 billion of headroom against the first fiscal rule, the stability rule, the day-to-day spending, current Budget

balance. That helps to underpin stability because it means that there is a greater buffer should unknown pressures come our country's way.

If the headroom is lower, if unexpected pressures come our way, it can then engender more speculation about how the Government might respond to that; whereas having a larger headroom—as I said, £21.7 billion—enhances stability because it means there is that buffer to absorb or to weather any challenges that might come our way. I would see a decent-sized headroom as being part of underpinning stability.

Steve Farrington: Some of the comparisons of the Government's current level of headroom versus historical or previous estimates of headroom are not entirely on a like-for-like basis, in the sense that what they overlook is the quality of the consolidation that underpins the headroom. That goes slightly to Lord Liddle's earlier point. In some of those previous rules the target year was year four and five, so they were being delivered by spending assumptions significantly out into the future, which had much less detailed plans, or indeed no plans, underpinning them, so essentially a spending assumption number was delivering a large headroom number on paper.

As I said, the design of the fiscal rules currently ensures that we will have that alignment between the headroom and the spending reviews. The degree of headroom is underpinned by legislated tax plans and detailed spending plans, so that you can have more conviction around the quality of the headroom that is being delivered.

Lord Lamont of Lerwick: Thank you. I will look at that closely. I did not disagree with what the Chief Secretary said. My question was whether the Government were really living up to that with what had happened. Surely the Treasury should operate with a greater buffer if it thinks that growth is less positive than was previously forecast.

James Murray: I am sorry if I misunderstood your question, Lord Lamont. But I think having a headroom of £21.7 billion, if you look at the market reaction to that, that was seen as being a very substantial buffer, which helps to engender that stability based on what everyone expects to happen with the economy and how the OBR forecasts the economy will perform over the coming years.

Obviously, we look at a series of different reactions, but looking at the market reaction is important in that the market is responding positively to seeing that level of headroom being delivered and the stability that that underpins.

Steve Farrington: The level of headroom the Government have is larger than the average move from one OBR forecast to the next. The average change in the forecast headroom from one forecast to the next has averaged around about £20 billion. The headroom that we have is deliberately in excess of the average degree of volatility in OBR forecasts. That was part of the calibration of the size of the headroom.

Lord Londesborough: Understanding your points about increased headroom, I am still perplexed as to why in your Government's first Budget you did actually go for a headroom sub £10 billion. That created all sorts of problems, not least of which was this productivity issue. That is really my question. There was almost overwhelming evidence from 2020 to 2025 that the productivity forecasts that the OBR had in its model were ripe for a downgrade. We are talking about a body with 50 staff and the Treasury with 2,000 staff. I am interested in how the Treasury prepared for a downgrade. Obviously, you have access to all the numbers, and it was fairly clear that a downgrade was coming. It was when, not if. Yet the feeling from the outside was that when you were informed of the downgrade, there was shock and perhaps even irritation that this downgrade had been left to so late in the day. Yet was it not fairly clear to the Treasury that a downgrade was coming?

James Murray: This comes to the fundamental nature of the separation between the OBR and the Treasury that we spoke about earlier. The OBR is an independent forecaster. It has full discretion over the judgments underpinning its forecasts. Therefore, its decision to review its forecast assumptions—in this case, productivity—was its choice to make. The outcome of that was for the OBR to determine and for us, as a separate body, to then respond to that forecast or to have our proposed measures interact with the forecast as then presented by the OBR.

A point that the Chancellor made at the Budget—and it is important for me to underline again today—is that we do not see the forecasts as being a limit on what we can do in the future. They are a forecast, and we know there are actions we can take to improve growth, to strengthen the economy and to improve productivity.

We do not see those forecasting outcomes from the OBR—particularly the productivity downgrade—as being a limit to our ambition. They are just what they say on the tin. They are the forecast of the OBR based on its forecasting assumptions and the outcome of its analysis as an independent forecaster. It is then for us, on the basis of that view of the world, to set out our policies, in some cases to do better, because we want to exceed forecasts. In fact, we have done that already in terms of growth. We want to make sure that we are exceeding expectations, not just from the OBR but from others, in terms of growth and productivity, so we do not see it as a limit on what we can do.

Steve Farrington: The Government's response to the OBR's forecast downgrade was to increase the degree of headroom against the fiscal rules. That was historically very unusual. As you have heard in evidence, there has been a repeated pattern with Governments. When there have been positive surprises from the OBR that has been spent, and when there were downside surprises, that has come through in reduced headroom. What was unusual about the Government's response is that they chose to increase their headroom in response to the forecast downgrade.

Q113 **Lord Turnbull:** There have been a number of changes to the fiscal

framework that are beneficial: the shorter time horizon, the larger buffer, and the separation of current and capital spending. There are still things left for debate. One of the things that has been announced but not yet implemented is the one/two: one fiscal event but two forecasts. There is interest in how those two things work together—where you place the sustainability report. Instead of becoming more prominent over the years, it has tended to become less prominent. Can you build that up? Where is it best placed? Is there a commentary on what has just been announced or is it rolling the pitch for what comes next?

The other feature is: if after the first six months the borrowing is not on the trajectory, are the Government going to resist the temptation to do something and tell people, "Sorry, we are not going to act now. We will wait and see, and we will keep to the discipline of one announcement a year"? That may mean that you have to do some education of your audience: markets and press commentators—if the second forecast is not quite on plan, they should not necessarily expect that there will be a response at that point.

James Murray: If we separate out forecasts and fiscal events, there has been a long-standing practice of having two official forecasts in the UK, which pre-dates the OBR. The convention of having two forecasts is a long-standing one. The change that we are making means having one major fiscal event a year, which will be strengthened by having the fiscal rules looked at by the OBR once a year in alignment with that major fiscal event.

That is what the Government are doing to improve the way that operates, and that is on the basis of recommendations by the IMF. I think it is seen by others internationally as being a good way of balancing having that twice-yearly forecast with also having one fiscal event that helps to engender that stability, obviously—just to reference the previous discussion—made more viable by having the headroom that we have now over the course of the year.

On your point around what happens between forecasts, I suppose, all forecasts are inherently uncertain, and there are small fluctuations between Budgets. It is right that the Government takes fiscal decisions in the round at the Budget, and that is the stable flow of the year that we have now established by having one major fiscal event, two forecasts, significant headroom and it means that we can have that stability in our response to forecasts as they change.

Lord Turnbull: All strength to your arm in delivering that. You are doing the right thing. I just hope it comes about.

Q114 **Lord Razzall:** I will turn to the issue of who makes the economic forecast. Clearly the OBR does now, but there has been a debate about this, not only triggered by Andy Haldane, as to whether it would be better for the Treasury to do it. What are your comments on that? Do you see a case for the Treasury taking over responsibility for the economic forecast, or are there circumstances in which that should happen?

On a subsidiary issue, I do not think that since the OBR started doing this, the Government have ever disagreed with the OBR forecast. Can you envisage circumstances where that would happen? If so, what do you think the market reaction would be?

James Murray: The independence of the OBR and of the forecasts being delivered by the independent OBR is a real core tenet of the fiscal strategy and the framework that we have established as a Government.

Lord Razzall: In many other countries, the Government produce the forecast and whatever the organisation is comments on it.

James Murray: It is up to them to set up their arrangements, but it is for us to make sure that the forecast is seen as being truly independent and is not developed with any political proximity. I think that is really important for market credibility and for underpinning the credibility of us meeting our fiscal rules. You asked: what if the Government disagreed with the OBR forecast?

Lord Razzall: Which they never have done publicly.

James Murray: I suppose the point is that, because it is an independent forecast, what we have control over is not the forecast itself but how we respond to it.

There was a question earlier about the OBR's decisions around productivity and what it might project in terms of growth over the coming years. The Chancellor has been clear that, as I said earlier, the forecasts are not our destiny. We might accept—

Lord Razzall: You make tax and spend decisions in the context of what the OBR has said.

James Murray: Yes, absolutely. Well, we look at the forecast the OBR gives us. That then helps to determine what options are available to us. The measures we put forward are then interacted with the OBR's forecasting for it to then project what impact the measures we land on are likely to have, and the OBR sets that out in its forecast. It is a kind of iterative process of its forecasting, us deciding our measures, putting our measures back to the OBR, and iterating them, and then coming up with a final package.

The distinction I was trying to make is that, because of the value we place on the OBR's independence, and it having the responsibility for forecasting, the way the Government interacts with that is to respond to the forecast as the OBR determines it to be. What that does not mean, though, is that we have to accept the forecast, as I said earlier, as our destiny somehow.

The forecast might have particular projections or forecasts around growth or productivity. The Government can and are doing everything they can to improve productivity and increase growth, and that is where we see the Government's core agency as being—impacting the outcomes rather

than interfering with the forecast, which is the starting point. The forecast as a starting point is rightly done independently to give it credibility. Where we step in is deciding the policies, underlining that the forecasts are not the limits of what we can do.

Lord Razzall: You never ever say that. You have the forecast, "We think the growth estimates are too low, therefore we are not going to take relative action either on spending or on tax because we think that the forecast is wrong". You have never said that, even though it might be implicit in some of the decisions you take.

James Murray: No, because the point about having an independent forecaster is that it sets out that forecast without any interference from us.

Lord Razzall: Yes, but you make the decisions then.

James Murray: Yes, but we make decisions on the basis of what the OBR forecasts is going to happen in the economy. Those decisions are entirely ours to make. The OBR then sets out how it expects the forecast to change on the basis of the decisions that we are proposing to take. Indeed, even if the OBR's forecast sets out a particular rate of growth or particular assumptions about productivity over the next five years, we do not see that as being set in stone.

We know that we can take actions as a Government that we then expect the OBR would at some point reflect in its forecast to show the outcomes of the decisions that we have taken. It is just trying to separate out the actions we take in the context of the forecast, while not accepting the forecast as somehow locked in in perpetuity. While respecting entirely the independence of the forecast and not seeking to challenge the forecast itself, setting out what we can do to change the outcome over time.

Steve Farrington: The last Budget was a perfect example of the value of having the OBR as an independent forecaster, because what happened is that it chose to revise down its productivity forecast. Most people were anticipating that to lead to a large impact on the public finances. In practice, it was a smaller impact than people were expecting because at the same time it chose to revise up its wage forecast, and that slightly offset the hit to the public finances. The hit to the size of the Government's headroom against its fiscal rules was smaller than people were expecting because it made this offsetting judgment.

Now, the OBR did that and people spotted it, observed it, and said, "That is interesting". Then we move on to the discussion of the policy, which is as it should be. You can imagine a world in which the Treasury, having done its own independent analysis, had produced that forecast and then said, "We are revising our productivity, but at the same time we are making this change, which offsets the impact on the public finances". That would have been very difficult for the Treasury to produce credibly, even though we would have been doing exactly the same analysis that the OBR has used to make its decisions, but the difference is that, quite

rightly, the OBR was seen as credible. I think that is the real value of the institution.

Lord Razzall: I see that. Lord Burns is smiling.

The Chair: It is a rare moment when that happens. Lord Petitgas.

Q115 **Lord Petitgas:** Thank you so much. My question is about dynamic scoring of the system. Any system, of course, is imperfect and leads to gaming. It is good to have dynamic scoring because obviously it allows everybody to evaluate things. We had a couple of remarks on this in the evidence from Sir Robert Chote. One was the sense that there was an endless stream of ideas and policies, and a bit of tinkering on policies to feed into the big computer to generate money, a bit like an ATM. The second was that it is very difficult to predict GDP with any sense of accuracy, really—that ultimately, there were no real measures, apart from massive measures that never come through, which had any real meaningful impact on GDP.

Therefore, it is not a question of gaming the system, it is more: there is this dynamic scoring and does the fact that we are a little bit on the edge on fiscal position as a country, lead to, in effect, excessive tinkering of policy, leading to not further growth but an element of uncertainty in the marketplace? In a way, it is true that in the last Budget—and perhaps previous Budgets, I do not know, but certainly the last Budget—there was a sense of a lot of policies coming out, and therefore new things, and a number of small things. Is that because of the dynamic scoring system? Is it because of the position we are in? How do you see it, and could the Treasury rein in this endless stream of ideas that come through and are being fed into the big computer?

James Murray: We should start by reflecting on the scale of the challenge we had to confront in the first Budget. Indeed, because of some of the changes to the forecast and the productivity review and so on, and our desire to increase headroom, there were then further changes in terms of taxation and spending that we had to make in the second Budget as well.

The first Budget was a big fiscal event to restore stability after what we inherited. We had to take a number of significant decisions at the second Budget to increase the headroom, as I said, and to respond to the forecast that we had. In a way, it is right that the Government come up with policies that support us delivering our goals in terms of investment and growth in living standards and all the principles on which we were elected and to which we have committed in government.

One of the dynamics is that the OBR will consider our policies and some of them will be reflected in its scoring, and some of them will not be in terms of their growth impact. That is obviously part of its independent process. It is up to the OBR to decide whether things are scored or not. There are decisions that we have taken that we feel confident will have a growth impact, which might not be scored but we think are important to do anyway.

For instance, reducing hospital waiting lists, we think has a positive growth impact. Some of the aspects of planning and infrastructure reform, which have not been scored yet, we think will have a positive growth impact. The OBR can take its decisions about whether it thinks things can be scored, whether they cross its thresholds, but we also have to take our decisions based on what we are confident is right to increase economic growth in the country.

It is not the image you painted—or at least the way I formed that image in my head, based on what you said—of feeding all these ideas into this OBR machine. We do have to share our policy with the OBR. There is a transparent relationship. It is an iterative relationship where we share our ideas and the measures with the OBR. It then explains to us what it forecasts the impact of our measures as being, but the decision about whether to take forward measures is really driven by what we are confident is right for our policy goals, whether that is public services, growing the economy or helping the cost of living.

Steve Farrington: That is the most important aspect here. The OBR has been on a similar journey to that of the US Congressional Budget Office, which has introduced more and more dynamic scoring and then ultimately chose to introduce the threshold in much the same way that the OBR has done. That reflects the fact that assessing these sorts of individual growth measures through the lens of a forecast and adjustments to the forecast is not really the best way of evaluating individual growth measures, or rather the Government's growth strategy as a whole.

What is really driving medium- and longer-term growth is the Government's broader macroeconomic and fiscal strategy, the key elements of which include the focus on protecting capital and the reforms to planning, many of which extend out over a longer period than the forecast horizon that the OBR looks at. I actually think that while there is a lot of understandable discussion on these issues, it is actually pretty second order in terms of understanding the real drivers of government strategy are on medium- and longer-term growth.

Q116 Baroness Liddell of Coatdyke: Given that there is now a commitment to only one fiscal event a year, what do you consider to be the optimal number of OBR assessments? We have heard it at one, we have heard it at two. What is the day-to-day relationship with the OBR like, looking at these assessments, and what is the timetable for consultation between the Treasury and the OBR?

James Murray: Thanks for that question. I will just make clear in my response what I am referring to. When you say "assessments", do you mean the OBR assessing the Government against its fiscal rules?

Baroness Liddell of Coatdyke: Yes.

James Murray: Yes. So, under the change that we are making this year, that would now happen only once a year. As I was saying earlier about

having two economic forecasts—which is something that pre-dates the OBR—the UK has long had two forecasts a year. The change we are making, in line with what the IMF recommended, is to have the fiscal rules assessed only once a year at the major fiscal event, at the Budget, because that is the event at which the Government will take all their major decisions around taxation and spending. That is the point at which those major decisions will be taken. Rather than having a twice a year forecasting and testing of the fiscal rules, we will maintain the twice-yearly forecasting, but the fiscal rules will be assessed annually at the Budget, which is the major fiscal event of the year.

Baroness Liddell of Coatdyke: We have heard some scepticism around that. Are you convinced it is robust enough? Should there be more? We have heard as many as four would be the kinds of assessments that would keep you occupied for much of the year.

James Murray: Goodness, it would keep us rather busy.

Baroness Liddell of Coatdyke: I can imagine.

James Murray: Joking and workload aside, I think having one assessment a year is the right direction to move in. So going from two to one I think is the right thing to do. I have not thought about having four a year, but I think the implication of that would be that I would not want to go in that direction because all forecasts are going to have an inherent element of uncertainty. Therefore, where there are small fluctuations in forecasts, it is right the decisions around responding to the forecasts are taken in the round at the Budget.

The balance where we are moving to now is a good way to implement our focus on having transparency about the forecast from the independent forecaster, but also the stability of having one major fiscal event a year. As I say, that changed this year, from twice-yearly forecasts and assessment, to having two forecasts and one assessment. That is a strengthening of the framework in line with what the IMF and others feel is a sensible change to make.

Baroness Liddell of Coatdyke: What about, though, the extent to which there is day-to-day consultation between your officials—not necessarily you, but your officials—and the OBR? How tight is it, or is it completely distinct?

James Murray: Yes, I do not deal with the OBR myself.

Steve Farrington: There is pretty much continuous year-round engagement between OBR and Treasury officials at working level, as you would expect, as the Government are developing policies over the course of the year. Then there are fixed periods, at which point the forecast process starts.

The Government give the OBR 10 weeks' notice to start, and that engages a more formal process where there is an exchange of forecast information from the OBR to us and of policy measures back to the OBR.

As you can imagine, that is a very interrogative, intense process between officials over a period of time, but with the clear lines of decision-making very clearly set out institutionally, and they have operated pretty well.

James Murray: That might be why, as Ministers, we feel more removed from the OBR because of that separation, whereas officials will have those conversations because there has to be an exchange of information. It happens within the established protocol. Obviously, I interact with Treasury officials on a daily basis, but I do not have that relationship with OBR. That is separate.

Q117 **Lord Londesborough:** Back on 1 December last year, as you know, Richard Hughes resigned as chair of the OBR. At that point, the Treasury announced it would, “launch a competitive external recruitment process in the coming weeks to appoint a new Chair”. We are now, what, two months on—how is the process going? When can we expect a new chair and does this external process include internal candidates?

James Murray: There is going to be an external recruitment process to appoint a new chair.

Lord Londesborough: There is going to be, so that sounds like it has not started yet.

James Murray: It has not been launched yet, no. I was going to say it will be in the coming weeks.

Lord Londesborough: Shortly.

James Murray: Shortly, yes. Obviously, the way it works is that it is an appointment by the Chancellor, but it is subject to the Treasury Committee of the House of Commons consenting to that appointment. That will take place in the coming weeks and months.

There are two members of the Budget Responsibility Committee at the moment: Professor David Miles and Tom Josephs. They are jointly leading the OBR until the new chair is in place. The leadership of the OBR is in place, and they can do their job, but this external recruitment process to appoint a new chair will be happening shortly.

Lord Londesborough: What does that mean for when we can expect a new chair? Is this process going to go on for a number of months? It often does, particularly the availability of the new chair. Do we have any sort of guidance on that?

James Murray: When the recruitment process is launched in the coming weeks, that will set out the timetable and the process. As I said, we have to get the Treasury Committee to consider it as well, because it has to approve and consent to the appointment first.

Lord Londesborough: I understand the process. Would it be fair to say that there may well be a six-month period in which there is no chair of the OBR?

James Murray: I cannot speculate on when that appointment will be made. I do not have that timetable.

Lord Londesborough: My supplementary to that is: in advance of this appointment, is there any review ongoing of the OBR's remit in advance of this appointment?

James Murray: It would not be right for me to speculate about government policy in that space. We value the independence of the OBR, and that is something that we remain completely committed to.

Lord Londesborough: If there is, or might be, a review, this would not be publicly announced—is that what you are saying?

James Murray: I am not going to speculate on that.

Steve Farrington: The OBR's remit is set out in the Charter for Budget responsibility. That is the guiding legislation that sets the terms in which the OBR operates.

Lord Petitgas: You need legislation to change it.

James Murray: The point is that the Government—and I as a Government Minister—would not comment on speculation about government policy over the legislative remit of independent bodies.

Lord Burns: I am going to have another go. The OBR has come in for a certain amount of criticism in recent months, and also in that context, people have been questioning whether the remit is right, whether the relationship is necessarily right, because some people feel that it has too big a role; others say that it simply needs to concentrate on the role that it has. Do you have any concerns about these criticisms of the OBR? Do you have any views on what you could say or how you could emphasise the importance of it and correct some of the misunderstandings, as well as deal with some of the challenges that people have made about it? There is no getting away from the fact that the coverage has led to quite a bit of criticism, often from uninformed sources, but it has been going on over recent months.

James Murray: You asked what would concern me. What certainly has concerned me in the not too distant past is when the OBR has been sidelined by Government Ministers, because I think we can all see the impact that that had. That is why it was so important to us when we came into government to make clear how much we value the OBR's role in having that transparent fiscal framework and the OBR having an independent role in that.

The fiscal lock that we introduced very early on in this Government codified our approach to the OBR and to making sure that the fiscal forecasts are done in the proper way, and it cannot be sidelined. In terms of the OBR's role in our fiscal framework as a country, we have seen a recent Government sidelining it and the impact that had and the damage

that caused, and so we wanted to embed policy such that that will not happen again.

Q118 The Chair: I have a follow-up question, if that is okay. We are asking you for reflection, really. Pretty much every single witness we have had in this inquiry has said that clearly the OBR/Treasury relationship in the run-up to the Budget was not perfect. What is your reflection, Minister, looking back, on the lessons that the Treasury should learn from those weeks and months in the run-up to the Budget?

James Murray: As I think the Chancellor said when she reflected on the Budget process, the speculation in the media was frustrating. That is obviously made worse when there are leaks, and we know there was a leak, which was unacceptable, and I think the Budget had too much speculation, and many of the speculated suggestions were inaccurate.

Lord Razzall: She did hold a press conference, though, from which some of those speculations came.

James Murray: Let us be really clear about what the Chancellor set out in that press conference. She set out the challenges that we face as a country. She set out what her priorities were going to be in terms of the NHS and greater stability. She set out that people were going to have to make a contribution. She was very clear about the overall approach going into the Budget. I think that was the right thing to do.

Lord Razzall: She did suggest income tax would go up.

James Murray: No.

Lord Razzall: Or she let the market think that that was what she was saying.

James Murray: That is not correct, if you look at what she said at that press conference. I am sure we can share with you a transcript of what she said, because you will see that that is not the case.

Lord Lamont of Lerwick: Was that not the situation that Lord Razzall described, which was a function of the headroom of March, going back to the Budget in March. You were talking about the Budget later, but the £10 billion figure was thought to be so narrow that it gave rise to people saying, "If the OBR has downgraded its long-term forecast, we are going to break the rules". The volatility and the speculation were encouraged by the very tight headroom that had existed in March.

James Murray: I think that brings us back to the discussion we were having earlier about the importance of headroom and why we were right to increase the headroom to £21.7 billion.

Lord Lamont of Lerwick: The crisis was the result of what had happened earlier.

James Murray: As the Chancellor said, there was too much speculation in the media in the run-up to the Budget. Let me just address the speech

that she gave on 4 November, where, as I said, she set out her priorities. Just to be really clear, do look at what she said, rather than perhaps asserting that she said things that were not the case. She said that her priorities for the Budget were to reduce the cost of living, to reduce NHS waiting lists, and to reduce the debt and the deficit. She made it clear she wanted to build more resilient public finances—headroom to withstand global turbulence. That was delivered by increasing the headroom, as we have shown, to £21.7 billion.

The Chancellor said in that speech on 4 November that we would all have to contribute toward the Budget. That is what she said as a principle. That is very clear. If we are going to talk about what happened on 4 November, I would just encourage us to perhaps consult the record of what was in fact said then.

Lord Londesborough: You mentioned the leaks inquiry. I am interested to know when we are going to see the results of that. It is quite timely because we have the national insurance contributions Bill coming to this House tomorrow for Second Reading.

Actually, I was researching that and here is an example of what appears to be a very specific leak coming from the Treasury, in that both the *Financial Times* and the *Times*, three weeks before the announcement of the Budget, basically leaked—what presumably could have come only from the Treasury—very specific details that the salary sacrifice scheme was being capped at £2,000 and that this measure would be coming in in three years' time. That was not sort of guidance, it was very specific, and both those bullet points were absolutely what came out in the Budget.

We had David Miles here a few weeks ago. There is clearly a lot of concern from the OBR in relation to what appears to be specific leaking. Can you comment on that and perhaps tell us when we are going to see results from this leaks inquiry?

James Murray: I will start by reiterating that leaks are unacceptable and, as you said, there is a leak inquiry under way. That inquiry has the Chancellor's full support—all of us, the Treasury, Ministers, all our full support. Alongside that, the Permanent Secretary to the Treasury is conducting a review of the Treasury's information security processes to inform future fiscal events. That Budget information security review is ongoing and that outcome will be published ahead of the spring forecast, as I have said in response to Parliamentary Questions.

Lord Londesborough: Results will be published ahead of the spring forecast?

James Murray: Of the security review. To be clear, there is a leak inquiry, and the Government do not normally publish the outcomes of leak inquiries, but separately the Permanent Secretary to the Treasury is conducting a review of Budget information security. The outcomes of what is learned internally through the leak inquiry will feed into that, I

am sure, but it is the outcome of the Permanent Secretary's review into Budget information security that will be published.

Lord Londesborough: None of the outcomes of the leaks inquiry will become public information, is that what you are saying?

James Murray: The Government do not normally publish the outcomes of leak inquiries.

The Chair: Lord Lamont, you had a quick follow-up here.

Lord Lamont of Lerwick: Yes, just a rather off-ramp question. When you were replying to Lord Burns's questions about the debt, which he thought was not actually coming down, you referred to the sustainability forecast, which of course is the correct thing to do. I get the impression that the sustainability report does not get the focus of attention that it really ought to have. It is so serious, what is projected in the medium term to the 2070s by the sustainability report. My plea to you is: could we have a really serious effort by the Government to get much more publicity given to the sustainability report?

James Murray: I certainly agree with you, Lord Lamont, on how important long-term fiscal sustainability is. The Charter for Budget Responsibility—which the Government published in 2024, shortly after assuming office—reaffirmed the requirement of the OBR to publish an annual sustainability report. That charter is the cornerstone of our fiscal framework, and that reaffirms the requirement to publish an annual sustainability report. The Government also recommitted to publishing a response to it within a year.

Obviously, that helps to increase the transparency of decisions around the long-term public finances. That is an important position for us to take as a Government. In terms of wider coverage in the media or in other places, it is for the media to determine what they want to cover but I think it is an important thing for the Government.

Lord Lamont of Lerwick: I think it is very urgent, I really do.

James Murray: As I said, I agree with you about the importance of it, and we take it seriously in terms of our policy-making—as well as it being there in the charter. I mentioned the e-VED, the electric vehicles charge instead of fuel duty, because fuel duty does not apply to electric vehicles. That is something that the fiscal risk and sustainability report has highlighted in the past.

That report highlighted the long-term decline in fuel duty, stating it was the single largest component of the fiscal cost of net zero across both tax and spending. The report really drew attention to the challenge of fuel duty receipts being in decline. Obviously, we see that as being important as well, so taking the decision around e-VED for electric vehicles is our way of responding to that risk to sustainability by making it sustainable in the long run.

Lord Turnbull: Following up on Lord Razzall's question, the thing that puzzled me was the Chancellor had in the diary a date for the fiscal event. Why did she think it was necessary to speak at all on 4 November? It was only three weeks earlier, particularly when it turned out to be counterproductive. It seemed the best thing she could have done was to say, "Just wait, because I will give you the answers in three weeks' time".

James Murray: I think the Chancellor wanted to set out what her priorities were going into the Budget.

Lord Turnbull: That is what the Budget is there to do. Why should she try to have a pre-Budget before her own Budget?

James Murray: The Budget is not only to set out priorities, but to set out how you will implement policy changes to meet those priorities and to deliver those priorities. There is a difference between the two events. The speech on 4 November was a high-level setting out of what the Chancellor's priorities were going to be in the Budget and what challenges she saw as being important to face. The Budget, of course, is on a totally different scale because it is all the policies that we take and is the whole range of different measures on taxation and spending and, of course, it is evaluated by the OBR.

Lord Razzall: It has not happened before, though, has it?

Lord Petitgas: An annual event now, maybe.

Lord Razzall: Is it going to be an annual event, three weeks before the Budget?

James Murray: The Budget is going to be an annual event.

Lord Razzall: No, a speech three weeks before the Budget—it has never happened before, which is why everybody was so surprised and why the markets misread it.

James Murray: It was a choice that we took to make sure that going into the Budget, we were clear about—

Lord Razzall: My question is: does this mean it will be an annual event?

James Murray: The annual event is the Budget. That is the annual event.

Lord Razzall: I gather that. I do not think I am going to get anywhere on this.

The Chair: Any other final questions to the Chief Secretary? Great. Well, thank you so much for your time. We really appreciate both of you coming. With that, I can declare the meeting closed.