

Treasury Committee

Oral evidence: The OBR: 15 years on, HC 15

Tuesday 16 June 2026

Ordered by the House of Commons to be published on 16 June 2026.

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Members present: Dame Harriett Baldwin (Chair); Jim Dickson; John Glen; John Grady; Catherine West.

Questions 166 - 237

Witnesses

I: Torsten Bell MP, Parliamentary Secretary, HM Treasury; Steve Farrington, Director of Fiscal Policy, HM Treasury.

Examination of witnesses

Witnesses: Torsten Bell and Steve Farrington.

Chair: Good morning. This is Harriett Baldwin sitting in for our normal Chair this morning at the Treasury Select Committee, where we have our fourth and final session of our inquiry into the Office for Budget Responsibility 15 years on.

With us this morning we have the Parliamentary Secretary from the Treasury, Torsten Bell MP, and the director of fiscal policy at the Treasury, Steve Farrington. Good morning.

Q166 **John Grady:** Minister, the last chair of the OBR, Richard Hughes, resigned on 1 December 2025, which is six and a half months ago. The recruitment campaign was launched on 20 February 2026, almost three months after the resignation.

The Treasury has to give 10 weeks' notice to the OBR of the Budget. If the Budget was, say, on 25 November, that means 15 September; if the budget was on 28 October, that means 18 August for the notice. Are you absolutely confident that a chair of the OBR will be in place by that 10-week deadline?

Torsten Bell: Obviously, the OBR is an important body, and the chair of the OBR is an important role in our economic policymaking institutions.

On the nature of the recruitment, we are following exactly the normal process that was followed the previous time. There has only been one other time we have recruited a chair. The obvious difference here is that the initiation process for that happening was in less good circumstances, following the first resignation we have seen of a chair from the body.

We are following that process. We are in the final stages of that process now. We are very alive to the important role of the TSC in an appointment process. The Chancellor said in a letter to this Committee that we intend for that to be in place before the autumn Budget.

Q167 **John Grady:** Are you confident that the chair will be in place by the 10-week deadline to which I referred?

Torsten Bell: As I said and as the Chancellor said to the Committee back in March, so quite some time ago, yes, the process is in its final stages and we intend it to be at its completion before the Budget.

Q168 **John Grady:** The Chancellor wrote to this Committee on 20 February 2026. The Chancellor talked about the recruitment process and then she said, "Once a process has concluded, we would usually appreciate your assistance by facilitating your pre-appointment scrutiny before the summer recess". Is it still the plan that the candidate is brought before this Committee before the summer recess?



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Torsten Bell: It is not for me to pre-empt the Committee in choosing its sessions but, as I say, the process is in its final stages and we would hope to have an update for you. Then it is not for me to decide when the Committee does its hearings.

Q169 **John Grady:** Does the Treasury have a contingency plan? This Committee consents to the appointment, and of course it can withhold its consent. What happens then? Do you have a contingency plan if this Committee does not approve the Chancellor's nomination?

Torsten Bell: The Committee has an important role in this process. That was set out in the legislation. It has exercised that twice in the past. It absolutely has the right to exercise it in the case of this.

All I would say is that the Act is equally clear that the OBR is operating fully within the Act as it stands now, with two members of the Office for Budget Responsibility. It showed that in the spring forecasts. Again, we will be nominating a highly competent individual for the post, and I would obviously hope that the Select Committee takes that into account, but that is without any prejudice to the Select Committee's important role.

Q170 **John Grady:** On the question as to whether the OBR is operating competently, schedule 1, paragraph 1 of the Budget Responsibility and National Audit Act 2011 provides as follows: "The office is"—and "is" is the key word here—"to consist of a member to chair it, appointed by the Chancellor of the Exchequer with the consent of the Treasury Committee of the House of Commons".

Currently, the office does not consist of a member to chair it, appointed by the Chancellor of the Exchequer with the consent of the Treasury Committee. We have this dual interim act between two very qualified people, but the office currently is not properly constituted within the meaning of the Act.

Torsten Bell: I agree with the first bit of what you said, which is that there are two highly competent individuals. The Act sets out the process for appointing a chair, which is exactly as you have set out and I have reinforced. The Act is also clear that the OBR is operating as it is now. It produced two forecasts exactly in line with that Act back in March, but our intention is to have a chair in place before the Budget.

Steve Farrington: If I can add just briefly on that, the Act does also provide for vacancies. There is an explicit provision within the Act that specifies that the committee can continue to operate if there is a vacancy.

John Grady: Mr Farrington, generally what I would say to that is just that the Act is quite clear that it needs to have a chair. After a certain point, it would be difficult to say that having a situation where there is not a chair appointed as contemplated by the Act respects what Parliament intended in the Act, but I guess it is not for me to give evidence.



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Q171 **John Glen:** Minister, why did it take over seven months to get to the point of nearly appointing a new OBR chair? While I am sure that the Government want to get the best possible candidate, it is probably true that there are not thousands of people who would be suitable. It seems a long time.

Torsten Bell: To some degree, you have answered your question. We want to make sure we get the best possible candidate. As the Chancellor said to you on a previous occasion, these are unusual circumstances. We have never had a resignation of a chair before. That led to a period before the advert came out in February. Since then, we have been following the normal process and will nominate a candidate to be the chair in due course.

Q172 **John Glen:** Have you used a new head-hunter or something? Seven months seems a very long time to get from commission to finding somebody, to longlist, shortlist, interview, and to this point.

Torsten Bell: The best thing I can do is to say that, as I said before, we are in the final stages of the process, and we hope to update the Committee in due course because it has an important role to play.

Q173 **John Glen:** A former OBR chair said to us in one of our previous sessions that he thought that the OBR "had in good faith and pretty professionally done the tasks that Parliament has set for it", whereas Louise Haigh, a significant figure previously in the Government and perhaps in the future very soon, called the OBR an "unelected institution dictating the limits of government ambition". Do you see the contrast in those two statements? What do you think about the role of the OBR?

Torsten Bell: The Select Committee inquiry is a good and important one because it is good to be clear about what the role of the OBR is, and it is good to review after what is a substantial period of time since the 2011 Act.

When we are being clear about what its role is and what its role is not, you would step back and say that the key feature of our fiscal council is that its role is to remove optimism bias risks, particularly in the fiscal forecasts. That is the central task for the Office for Budget Responsibility. It does that in a unique way compared to any other country in the world by producing the fiscal forecast that underpins fiscal events. Nowhere else in the world does that.

That is unusual, but it has big upsides such as, as I say, removing optimism bias, which the evidence suggests it has broadly managed to do, but it means that we probably need to be clearer than you would in some other countries that it is not about a policy role. The OBR does not have that policy role.

That is important because you are trying to be really clear about the joint role at the same time as a Budget or fiscal event is happening. It is about providing the baseline for that decision making. The Government are



always free to not accept that baseline if they wish to, but every Government have always chosen to do that, and that is important in terms of recognising that core task of removing optimism bias.

There are secondary tasks such as informing public debate; those are important. The OBR has also fulfilled those roles, but the key thing is to be clear about what it is and is not trying to do. It is trying to take optimism bias out of the forecasting process; it is not trying to make policy decisions. We need to be clear to segment those roles.

Q174 John Glen: The criticisms that we see, implicit at least in what Louise Haigh has said, are a function of frustration with the honesty of the OBR. Is that a fair characterisation?

Torsten Bell: No. If I step back, there should always be challenges. We are all—almost all, sorry—elected representatives. We believe in a democracy where decisions are made by individuals, and we have to protect that. That comes with all independent institutions.

There is always a delegation of responsibilities, delegated usually by Parliament, as in the case of this Act. That does not mean that we should not keep making sure that we are living up to what has been delegated and what has not. There will always be some tensions in that.

I am trying to step back and say, “What is the most important objective that we wish to have a fiscal council to achieve? It is to remove optimism bias”. If we know it is that, we will then make better decisions about how, for example, we consider reform proposals that I have heard discussed at this Committee.

Q175 John Glen: We will come on to look at what happened last year in terms of communications, but it is fair to say that, in a situation where the OBR is potentially putting some quite difficult interpretations of macroeconomic data into that discussion in that pre-Budget conversation with the Treasury, it would be only natural for Treasury Ministers to be frustrated with it.

How would you respond to that? Essentially, the OBR in its removal of optimism bias is dealing with a Treasury that is trying to make the politically popular or right decisions. We are in a pretty difficult position, are we not? Is that not at the core of this? Whatever the theory of the OBR, in the reality of where the public finances are now, it makes it a very messy dynamic.

Torsten Bell: That is too pessimistic. It is right that the OBR is powerful in the sense of having the ability to set out an independent forecast. We all agree about that.

Then the question is how the Government respond to that. Our view is that the Government’s job is to accept that as the baseline for fiscal decision making, subject to politicians taking views about what the fiscal



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policy and the fiscal rules should be that then operate or overlay on top of those fiscal forecasts.

There is then a different thing. If you accept that, that does not mean that you have to accept that as your destiny. There is a difference between making decisions on the basis of that forecast and what you are trying to achieve as a Government. We are taking steps to support a different growth path. There will be disagreements among this Committee about whether those are the right ones.

Overall, if you look at some of the outturn data, particularly on growth in the shorter term, those have been better than the OBR has expected on some occasions.

Q176 **John Glen:** You have acknowledged that the OBR has more responsibilities than comparable independent fiscal institutions.

Torsten Bell: It has different responsibilities; it has more in some cases and less in others.

Q177 **John Glen:** Do you not think that its authority in our national life effectively means that, although in theory a Chancellor could make different decisions that do not align with the OBR, in practice that is now virtually impossible in terms of presentation?

Torsten Bell: It depends on what that means. I would just go back to where you started. What is the actual thing that is constraining Governments? It is the substance of fiscal policymaking in a more different world where we have inherited higher debt levels from the previous Government, and then on top of that we have seen those debt levels come at the same time as a big increase in global borrowing costs.

Put those two things together and you see a 2% of GDP increase in debt interest payments. That is the single most important fact to understand about the fiscal circumstances we find ourselves in. That is why this Government have been setting out to bring down borrowing levels, which fell 1% last year. That is what is driving most of what you are talking about.

There are then decisions about how your institutions interact with that. Again, you see that around the world. You see that with fiscal councils, but you also see it with monetary authorities. The underlying thing that is really driving what you are getting at in terms of constraints is the actual constraints of fiscal policy.

Q178 **John Glen:** On this issue of the OBR's responsibilities, it has more responsibilities than independent fiscal institutions elsewhere in comparable OECD countries. Would you offer any reflections on whether that is right, or whether in fact it could do less? Would that be a problem? How do you feel about its overall responsibilities and load?



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Torsten Bell: The way I think about it is to encourage people to start from what the OBR is doing. I have set out my view on what that is. That is consistent with the Act. It was generally a matter of cross-party consensus.

It is not right to say that the OBR has more responsibilities than all fiscal councils around the world. It has a specifically unusual job, which is to provide the actual fiscal forecasts underpinning a fiscal event. Other bodies, the Dutch for example, produce the economic forecast that underpins a fiscal event; again, that is unusual in and of itself.

Most fiscal councils assess the reasonableness of economic and fiscal forecasts that a Government provide. They are a check on what the Government are doing. As part of that, they may produce their own forecasts at a different time and a different place over the course of the year.

Those bodies that are not producing the government fiscal forecast often tend to have wider roles that the Office for Budget Responsibility does not have, particularly over policy. Some of them get close to advising on policy. Some of them are certainly involved in looking at opposition and government party policies running up to an election or in a coalition period; for example, the Dutch do that as well.

Those are bigger roles. I am encouraging us to think about and be clear on the overall objective we are trying to achieve. For example, I sometimes hear people say that the OBR is too powerful, and their answer is to say that they want to get the OBR involved in more things, such as a bigger role in policy. That is the mistake I am trying to nudge against. The reason we do not have the OBR more involved in policy in the UK is that it has this unusually large role when it comes to producing those fiscal forecasts. That involves a much greater involvement with Government Departments at the official level than you see elsewhere.

Q179 **John Glen:** People watching this will think, "Who is in charge?" The OBR does significant macroeconomic forecasting, yet the Chancellor makes the decisions. Could you describe the dynamic between the Treasury and the OBR in terms of the use of the macroeconomic forecasting that it does? Does the Treasury rely on that? Tell me about the dynamic with the OBR in terms of adherence to what its models suggest.

Torsten Bell: I am slightly reluctant to tell someone who was a more senior Treasury Minister than I was how the process works.

John Glen: I was always very junior.

Torsten Bell: That is nonsense, as you are well aware. There is a reason why it says "right honourable" on your nameplate.

At one level, it has not changed very much since what you experienced, if I am honest about that. There are some specific changes around how DEL budgeting works; you will be aware of the DEL review and some of the



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problems that emerged towards the end of the last Conservative Government. Then there are specific changes around the ability of the OBR to produce forecasts in a world where a Chancellor has chosen to ignore it. I will not rehearse all the arguments about that because the Committee has heard them lots of times before.

Beyond that, on the economic forecast side, if you looked at the OBR's record as a whole, it is pretty close to consensus forecasts over the course of those 15 years. It is maybe providing more detail than some other forecasters, but they are pretty consensual forecasts.

There will be exceptions to that. The productivity forecast towards the end of the last Government was slightly more optimistic than you saw in consensus forecasts, but broadly you would say that it is pretty consensual.

As I say, the unusual thing about our system is the fiscal forecasts. Those are provided well ahead of fiscal events. There is then a process in which the OBR has previously published the timelines. I might come back to that shortly in terms of how that information is updated but, broadly, think about it as a pre-measures process and then a "discussion of policy measures" process.

In terms of my reflections, I worked in the Treasury before 2010, so I will offer you some reflections on things that maybe are worth thinking about, and why I am slightly emphasising the specificity of what the role of the OBR is and what that brings with it in terms of how we think about the policy side of things.

Richard Hughes spelled this out when he was in front of you for this inquiry as well, saying, "We are not interested in being the arbiter of growth policy; we are meant to inform the policy debate and not be part of it". I am basically endorsing that and saying that we should all live up to that as well and understand why that is important, given the structure we have chosen for our fiscal council. Obviously, other structures are available. I have heard some of them suggested by people speaking to this Committee.

Things to think about are how, in practice, the Office for Budget Responsibility goes about its business. For good reason, over the course of the 15 years of the last Government, you saw an increase in the volume of transparency-producing timetables for when things were being done, for example, and setting those out in public.

Those were done for good reason. As a side effect, they have probably increased what is already quite fevered speculation around Budgets. It was a good thing that the OBR chose not to produce that timetable around the spring forecast. It should be in the business of doing its core job, which is removing optimism bias for the forecasts and making sure that people can rely on those as a good basis for policymaking.



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I hope that the OBR is informing the public debate in important ways, not just with the main fiscal forecast but also with the fiscal sustainability report and other areas. You want to have as calm a basis for policymaking as you can.

Q180 John Glen: I have one more question. The equivalent in Australia, which is the Parliamentary Budget Office, provides costings of opposition party policies. You referred to the inherited debt; I could go back to 2010 with the inherited deficit. Do you think there is some merit in the OBR, given its authority now in our national life, doing some basic evaluation of the feasibility of opposition parties, particularly where we have so many parties now active?

Torsten Bell: I am definitely in favour of opposition parties and government parties having scrutiny of their pre-election plans. The OBR should not be the organisation doing that. Lots of other bodies can do that as well.

Q181 John Glen: What about the Resolution Foundation?

Torsten Bell: You name one very good example, John. Other organisations are available. Britain is, to some degree, better than most European countries in those terms. Obviously, they are too lightly funded; any philanthropists out there should be heavily funding economic think-tanks.

Q182 John Glen: You have so many. You have the Resolution Foundation. You have the IFS. You have other serious think-tanks. The problem is that every one is prayed in aid to substantiate a different perspective on the public finances. Would it not be helpful? Given the OBR's authority in the formal Budget process for the Chancellor, it would bring more weight to the evaluation of fantasy economics.

Torsten Bell: I do not agree that that is our lived experience. Based on the lived experience of the elections that I have been actively involved in, which is fewer than you, that is not the case. The issue is not that people pick and choose between different institutions.

I take you back to what I said. What is the most important thing? If you want a stable institutional framework where you have an Office for Budget Responsibility whose core job is to produce the forecasts on which a Government will make decisions, you do not want it then overstepping into what would be taking views on the quality of policy and, in this case, a wide range of policy across a wide range of different parties.

For example, you will then create a situation where the OBR is making much more detailed judgments than it does now about the actual quality of different policies. That is risky. Other people do that job and that is what politics and democracy are for, with wider institutions in a plural, liberal society and other people commenting on it. We do not want to set up one organisation as doing everything.



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You will also build tension into the institutional framework. For example, you do not want a situation where somebody forms a Government having been through an election campaign where they have called the OBR a bunch of liars all the way through it. The set-up you are proposing is walking in that direction, so that would not be a good step unless you want the OBR not to carry out its current job, in which case it is easier for it to do different things.

Q183 John Grady: This is just a quick follow-up. It is a very interesting chapter of discussion with Mr Glen, but I am just thinking about explaining this to constituents. There are people who want to abolish or severely constrain the OBR. Is your point simply this? It is not the OBR that is the constraint; it is the fact that we have debt to GDP of 100%, so we are heavily indebted as a country, and borrowing costs for Governments are going up across the world, including here. Do not blame the OBR for the real-world constraints we are in.

Torsten Bell: All institutions should be held accountable. You guys will hold the OBR to account, and so should the Government. It should be challenged. They are not elected individuals, so that is perfectly reasonable. All organisations fulfilling a mandate, in this case set by Parliament, should have public discussions about whether they are doing that job. We should not go straight to the conclusion.

It is not because of the existence of the OBR that this Government have raised taxes in the recent past; it is because of the state of public services we have inherited, and it is because debt interest payments need to be paid and we need to put the public finances back on a stable footing. What I am trying to encourage is that those big-picture questions about what is right for Britain are for us to debate and decide; they are not for fiscal councils to decide.

Q184 John Grady: If there was a radical reform to the OBR and we constrained its role in some way, how do you think the bond markets would react to that?

Torsten Bell: Having read all the evidence you have heard from other people over the course of quite a long time now, my reflection is that too often you are getting proposals for change that do not start from a diagnosis of what the OBR is actually for and doing. That is what I am gently nudging at. There are lots of different fiscal council models that are available that other countries around the world, many of which have lower or higher borrowing costs than us, are able to exercise. That is perfectly feasible. That is a good subject for debate.

It is a better debate if you start from what you want this body to achieve. In other countries, they often say, "We just want them to provide a check of the reasonableness of forecasts that are used". As I say, we have chosen a different approach. Our approach probably does a better job of having certainty of removing optimism bias, but what comes with it is not



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then straying into giving the OBR other responsibilities, partly for democratic reasons but also to protect that core role.

Q185 **Chair:** Can I just go back to the appointment of the current chair? The first ever chair of the OBR, Sir Alan Budd, had to resign very shortly after his appointment because he was seen as not neutral enough, but George Osborne appointed a new chair very quickly.

Something has clearly gone wrong with your recruitment process here, because it took until February for the Treasury to even advertise the position, and we are now in mid-June. I thought you might come along this morning, frankly, and tell us who your candidate was, but it sounds like we are not going to hear who the candidate is.

I just wondered what has gone wrong here. When you advertised the job in February, did a lot of candidates come forward?

Torsten Bell: I just do not agree with that characterisation, obviously.

Q186 **Chair:** What about that specific question?

Torsten Bell: You have just offered two characterisations of the process and I am rejecting those characterisations. That is the answer to your question. Nothing has gone wrong. We are following the normal process. Yes, we did not advertise the post until February. The Chancellor explained the reasons for that at a previous Committee hearing. We are following the normal process and it is in its final stages.

Q187 **Chair:** Could you tell us how many people came along and applied to that advertisement in February?

Torsten Bell: We have a good field of candidates. We will nominate somebody and that will come forward to the Select Committee to carry out its important role.

Q188 **Chair:** It has taken four months to evaluate the candidates who came forward. How many came forward?

Torsten Bell: I would just gently nudge that there have been some things happening in the world over the course of the last few months. The Government take this role very seriously. We will be nominating a candidate and we have been following the process in the normal way. It is in its final stages.

Q189 **Chair:** You are saying that so much is happening in the world that you cannot focus on appointing to this important role with some alacrity.

Torsten Bell: No, I am not. I am saying that we are following the normal process that we follow. The Chancellor has written to you and said that we intend to have a chair in place for the Budget, and that is what we intend to do.

Q190 **Chair:** It takes the Treasury four months to not even get to the point this morning where you have narrowed it down to a shortlist and been able to



tell us who your preferred candidate is.

Torsten Bell: No. I said we are in its final stages, so that includes being significantly past shortlisting. It is the Chancellor's job to nominate a candidate. She will do that in the normal way, and then this Committee will carry out its important role.

Chair: It is fair to say that the Committee feels it has taken a very long time.

Q191 **Jim Dickson:** On the accuracy of OBR forecasting and some of the factors that play into it, we have talked about eliminating optimism bias, but there are other biases that may well play their part. It does appear that, over time, Ministers have frequently put figures for spending and borrowing to the OBR, and the OBR has tended to believe them, but they do not materialise in practice. Often, it is spending and borrowing towards the end of a period in which the forecast is being made. Why do you think Ministers have historically failed to stick to those plans that they have allowed the OBR to publicise?

Torsten Bell: There are a number of different things within what you have just said. You do not need my word for it on the spending side, because the OBR itself has carried out its DEL review in the fairly recent past because of the very significant problems in terms of the information that was provided to it for the spring 2024 forecasts.

The Government have accepted all those recommendations in full, which require us to provide much more information to the Office for Budget Responsibility about the level of spending pressures that exist in year, and to provide that on a quarterly basis to the OBR so that it can make an accurate assumption about what is happening on the DEL spending side.

There is then a separate set of issues around what previous Governments have done in terms of longer-term spending plans. Then there is a separate set of issues that is really important to the longer-term fiscal outcomes, which is that decision making in a crisis in the UK has tended to lead to large ratchets in debt, and that has very lasting fiscal consequences.

That is separate from the other issues that you are raising, but again, reflecting on the commentary you have heard over the course of your hearings on this, there was less focus on that. If I am honest, that is odd given the scale of what that has done to the public finances.

Q192 **Jim Dickson:** Would you reject the characterisation that Ministers have tended to game the system by using unrealistic forecasts for spending and borrowing to make the numbers add up at a particular time, then those do not materialise, and that that is one of the reasons why debt is ratcheting up?



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Torsten Bell: The Government never provide any assumptions for borrowing; the Government provide longer-term spending assumptions for DELs over time. Yes, if you look historically at some of the 2010 forecasts for DELs, those did include numbers that then turned out to be lower than the outturns when they came through.

In some ways, that reflects the stage of the public spending cycle going through at that time. If you are in the business of significant cuts to departmental spending, and then you pencil in further cuts further out, I suppose it is not absolutely surprising that they were unable to deliver those or chose not to deliver those, given the consequences that then came through.

We have not only given the OBR more ability to scrutinise DELs; as important if not more important is the fact that the fiscal rules are no longer on a never-never basis but are on a three-year basis. From five years, they have been brought forward to three years. That means that they are then biting within the timeline that we talk about for spending reviews where the Departments have actual budgets. It is not about assumptions. That provides a really big, important change.

Also, if you step back, when we talk about headroom, we often talk in absolute pounds versus a fiscal rule. You should think about the quality of headroom as well. If the headroom is versus a fiscal rule that is biting in three years, we should have significantly more confidence in that headroom than we do when it is five years out. You have given one reason for that, which is that it is more likely to be based on assumptions rather than on firm policy, but there are lots of other reasons why longer-term forecasts will tend to be less accurate than shorter-term forecasts.

Q193 **Jim Dickson:** Some people have suggested that this Government are falling into the trap that the last Government did of putting in their forecasts unrealistic assumptions about what departmental expenditure is likely to be and what is politically possible in terms of the likely levels of departmental expenditure.

Would you say that there is some risk there, and quite a high level of risk being carried in those future assumptions around expenditure, in the same way as there were for the last Government in terms of their future forecast?

Torsten Bell: Across a number of independent think-tanks, I read things that say that sometimes. They make a mistake of thinking that all that matters is rates of change; levels matter. What matters is levels of public spending in each Department. What is different now versus the early 2010s? A big £50 billion increase in current expenditure for Departments rather than a decrease. That should feature in how you think about what is and is not plausible.

If you are asking whether there are public spending pressures in Britain in the medium term, as we will probably come on to, then the answer is



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obviously yes, but the idea that you should treat future spending paths as irrelevant to the actual level of departmental spending that is happening right now is a bit odd.

Q194 Jim Dickson: One suggestion from people who have submitted evidence to us is that what the OBR could do is produce more scenarios based upon what may happen over that forward period for spending and borrowing. If economic growth is at a certain level or expenditure plans come in at a certain level, here is what might have to happen. We have a range of possible pathways to think about, both the Government and us as scrutinisers of Government and commentators as well.

Torsten Bell: The OBR already does a large amount of that. Going back to my theme that is hopefully coming across in this evidence, I am a bit nervous about you asking the OBR to suddenly start trying to fix every problem that you see in the undergrowth.

In the end, what matters is actual fiscal policy and fiscal outturns. When it comes to that, what matters is things that are shorter term than the fiscal rules, but as I say, with how the fiscal rules are operating, it is a very material change that they are biting three years out within the timeline of spending reviews. That is about government decision making, not about you loading the OBR with more tasks.

You have just heard from one of our colleagues about people not wanting to see bodies becoming too powerful. Leaving aside some of the language that is used around that, we all have a duty to consider the balance between democratic and other decision making.

Q195 Jim Dickson: On this issue of optimism bias, it does appear that, certainly recently, compared with the other forecasters that are out there for economic growth in the UK economy, the OBR has tended to be more optimistic than the Bank of England, the IMF and the OECD. Do you still see some optimism bias in the way in which the OBR looks at the growth trajectory for the UK economy?

Torsten Bell: The most important thing, if I am honest, is that all forecasters showed far too much optimism bias all the way through the 2010s. That is the big thing that has happened. There was far too much optimism bias across the board as people reconciled themselves to a world with lower growth, with that lower growth surprising again and again in how bad it was right the way through the 2010s, and then into the pandemic for different reasons. That is the main area.

You can still say that government optimism bias was removed from that process. It was not politicians making those decisions. It was about a hard learning that Britain was on a different growth trajectory from the one that we all hoped it was on and the one that it was on in the 2000s.

Q196 Jim Dickson: That appears to be carrying on. If you look at the forecasts for growth in 2025 and 2026, again, the OBR is an outlier in being more optimistic about UK growth than these other forecasters. Despite the



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badmouthing of OBR forecasts by some who may wish to say that it is acting as a constraint, it appears that that optimism bias is continuing.

Torsten Bell: If you look at last year's outturns, the Bank of England was too pessimistic about the level of growth.

Q197 **Jim Dickson:** The OBR was 2%; the Bank of England was 1%; the IMF was under 2%.

Torsten Bell: Yes, and the Bank of England was wrong. Growth came in stronger than that.

Q198 **Chair:** Going back to the pass-fail nature of the fiscal rules, you mentioned the three-year time horizon, which we are rolling into. We have been focused on 2029-30 and we are not quite there yet. In terms of the way in which that pass-fail drives policy behaviour, it was very apparent last year, with the Chancellor trying to come up with some numbers for welfare reform, if you recall, that then could not get through Parliament.

Is there a way that the OBR is driving policy by the pass-fail element of the fiscal rules that everyone focuses on? Could that be changed?

Torsten Bell: We should be discussing that. Your description of how the three-year rules are working and when the rolling will take place is absolutely right.

For all of us, we should focus on all aspects of fiscal policy, not just on the fiscal rules. It might be a little bit unfair, but, if you look at the years before the 2024 election, we saw no reduction in borrowing as we emerged from the pandemic; it was stuck at 5% of borrowing. That was consistent with the fiscal rules, yes, but clearly unwise and clearly different from what we saw across most other advanced economies that got on with dealing with it. We were providing tax cuts at a time when we clearly could not afford them. You probably agree with that now in hindsight.

It is clearly right that fiscal rules will not always lead to perfect fiscal policy. We should be held accountable for what is happening year to year, not just in terms of the fiscal rules or those who are providing the fiscal anchor. Fiscal policy more generally matters. Also, longer-term fiscal policy and long-term decision making matters.

This Committee rightly holds sessions on the fiscal sustainability report, but, more generally, longer-term policymaking has big consequences for fiscal outcomes. Preparations for crises and how well prepared a country is for an economic shock, including what that means in terms of the policy levers that are available to let you deal with that shock without spending more money and putting more future pressure on the public finances than you need to, are all really important.

You are right in terms of your characterisation of how British public policy debates tend to focus on a single-point estimate about one or two rules in



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X years' time. You are right that we should focus on a broader range of metrics, but that does not mean that the individual metric is not important. It is important to have a fiscal anchor that people can know the Government will stick to. That is what this Government will do. We will not be changing the fiscal rules. That provides an important anchor, but you are right that our discussion of fiscal policy should go across the piece.

Q199 **Chair:** If I could bring in Mr Farrington now as director of fiscal policy, we have had evidence from the Office for Budget Responsibility that one of the biggest areas where there is optimism bias, pressure in terms of public spending, and focus currently for the Government is defence spending. Consistently, the pressure in terms of defence spending has been for an upward share of GDP, but also the things that we have already agreed to spend money on often turn out to be more expensive than the Ministry of Defence thought. Would you agree with that characterisation of the current discussion about defence spending?

Steve Farrington: I would start by saying that I am not an expert on the details of defence spending, but I would go back to a point that the Minister made earlier on. It is as much a question of what level of defence spending the UK is undertaking at the moment. The Government increased defence spending at the start of this Parliament up to 2.6% of GDP and are spending £270 billion on defence over the next four years. That makes us the third highest in NATO in terms of defence expenditure. The Government's record on defence expenditure is a very strong one internationally.

Q200 **Chair:** I was asking more about whether you recognise the characterisation that the Office for Budget Responsibility gave us, which is that there is continued upward pressure, and also that the Ministry of Defence keeps finding that the things that it has agreed to buy are costing more and more. They have been subject to inflationary pressure. Would you agree with that characterisation?

Torsten Bell: Let me answer your question, Dame Harriett. You received a letter from the Chief Secretary on Friday, and she is looking forward to coming to give evidence in lots of detail on defence spending once the DIP is published in the coming days.

More generally, to your wider question, has Britain, like lots of other countries, faced challenges about the value for money of all aspects of defence spending? Yes, like in all Departments, that is right. There are some very famous examples. Ajax would be a very good one.

It is not right to say that you have consistently seen upward pressure on defence spending. In the first six years of the last Conservative Government, there was a 22% real-terms cut in defence spending.

Q201 **Chair:** I am talking about the evidence we had from the Office for Budget Responsibility about the future pressure on Government spending.



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Torsten Bell: I know. That is not quite what you said.

Q202 **Chair:** If I may, I would like to go back to asking about Mr Farrington's role in this as director of fiscal policy. My understanding would be therefore that you are in quite a lot of discussions at the moment in terms of the fiscal implications of increasing defence spending. We did have the Defence Secretary resign over this last week, so it is a valid question to be asking the director of fiscal policy at the Treasury at the moment.

Steve Farrington: There are ongoing discussions across Government at the moment around the final settlement for funding the DIP, but the Government have been clear that that will operate within the parameters of the fiscal rules.

Q203 **Chair:** Is your diary crowded with meetings on this subject at the moment, Mr Farrington?

Steve Farrington: My diary is crowded with many meetings around public spending pressures at the moment, and that does include defence.

Q204 **Chair:** Would you characterise defence as the biggest pressure at the moment in terms of public spending?

Steve Farrington: There are always a large range of pressures on public spending. Clearly, defence is one of the biggest strategic decisions that the Government are going to need to take, but that is why it is important that the Government have been clear that they are going to do that within the parameters of the fiscal rules.

Q205 **John Grady:** Could I just come in on long-term forecasts? Minister, you mentioned the fiscal risk and sustainability reports, which provide a long-term view of the sustainability of UK public finances. In political and public debate, do you think that the long-term sustainability of our public finances is getting enough attention?

Torsten Bell: As someone who has spent 20 years in this space, I am always for more public debate on all aspects of economic policy, and that includes longer-term fiscal risks and pressures.

I am a bit more optimistic than some of the evidence you have heard. If you look at the level of attention that was paid to last July's fiscal sustainability report, there was significant attention paid in the media but also in Parliament, and that is to be encouraged. You held a session on that yourselves. It is not always "the more, the merrier", but a bit more is no bad thing.

Q206 **John Grady:** Would you consider it to be a good idea to have an annual debate in the House of Commons Chamber on the fiscal risk and sustainability reports so that people can look at this in more detail, and MPs across the Benches can look at this in more detail?



Torsten Bell: They can anyway. I am quite a new Minister, but I have learned that that is definitely a question for the business managers rather than the junior Ministers in the Treasury. I am sure the inquiry will think about ways in which it wants to recommend extra attention to the longer-term reports.

You want that debate to be in the round. Dame Harriett talked just now about the dangers of single focuses on one particular number. There is a version of that that applies in longer-term public finance reports. In previous lives, I have been involved at the margins in helping to produce those. You need to know exactly what you are looking at. I occasionally see people looking at one line of a projection of public debt levels and drawing very firm conclusions.

The fiscal sustainability report's central projections are telling you that, if tax is held totally constant as a share of GDP, and then some stylised assumptions for spending profiles are put in, some spending pressures exist. You need to know what you are looking at rather than interpreting it as a destiny or as a central estimate of what will actually happen. That is just a fact about how the process works.

Also, if you want to be more optimistic, there is clear evidence that some long-term decisions informed by long-term fiscal impacts are being taken. Look at the decision we made back in the autumn on eVED. One of the big things that is being highlighted for years is the need to decide how you deal with the fiscal pressures that come from a collapse in fuel duty revenues. We are getting on with doing it. That is happening now; some people said it could not happen.

Let me give you two other examples. Changes to salary sacrifice within pensions is directly in my area, as is inheritance tax and the treatment of pensions. On both of those, we are acting to stop an erosion of the tax base that would make a very big impact on the public finances in 15 years' time. Those are responsible, long-term fiscal decisions that are being made within the current framework.

Q207 **John Grady:** Minister, you have given some examples of steps the Government are taking. The Institute for Government has suggested that the Treasury should respond in more detail to these reports, the inference being that the Treasury's response is fairly slight. Is there merit in a longer ministerial statement, perhaps, on fiscal sustainability? Obviously, the Chancellor or a Minister like you could set out all these good things you are doing, and maybe also point out some things that need to be looked at across the House.

Torsten Bell: "Think-tank calls for longer reports" may be one of the less interesting recommendations made by think-tanks. I am all for longer reports. You should judge us on our actions as well as on our response—the response that we set out at the time of the Budget. We have set out that we will always respond within a year to the fiscal sustainability report. The length of that report is neither here nor there; what matters



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is the quality of the response to it and then the engagement with the issues.

You should be holding us to account for the policymaking. That is why I encourage you to focus on the decisions we have made. You might then critique us on the decisions we have not made. We are showing that we will make long-term decisions that are important for the public finances not in the next three or five years, which is what most of the discussions in fiscal policy focus on, but that are important in the next 15.

Q208 Catherine West: On the resources for the OBR, does the OBR need more funding and resources? What is the role for Parliament and this sort of Committee in keeping an eye on the resources so that they are not too constrained, given the tension between the OBR and the Treasury, and the importance of the role?

Torsten Bell: Given where we started, on the actual job of the OBR, there are two important constraints to make sure its independence is protected, beyond the obvious one of the legislative basis.

One is the ability to access the information from across Government that is required to provide those fiscal forecasts, which is unusual for us. The Government are under a legal duty to do that, and with the DEL review have strengthened the provision of information to the OBR to make sure that it can do that. The lock also means that it cannot be ignored when a big fiscal event turns up.

Then if you look at fiscal councils more broadly, the way their independence can be challenged is on resourcing. There have been debates about that in some countries quite close to the UK over the course of the last 10 years.

That is why, to provide you with reassurance on that, I would say two things. One is that the level of resourcing to the OBR has gone up very significantly indeed. The spending in 2011 was £1.7 million; it has risen to £6.4 million in 2026. We are talking about an organisation growing from 17 FTE to about 50 FTE. The evidence is pointing to the organisation having grown, not having shrunk. You can then debate whether it should itself be thinking about value for money, like all public organisations, but the budget has grown significantly.

Secondly, we have put in place a certainty of that budget. It is always three years ahead, so the people running that organisation know that they have the budget right the way out to 2028-29. That provides the protection against things that would impinge on their independence.

Q209 Catherine West: In an ideal world, would the OBR have the resources to undertake its own detailed analysis of tax revenue and some of the tax changes? For example, has the OBR done an analysis of some of the measures that you just mentioned around inheritance tax and salary sacrifice?



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Torsten Bell: The nature of our model is that you have an Office for Budget Responsibility that will draw on expertise across Departments. That is unavoidable. The only way not to be in that situation is not to have it producing the fiscal forecast that underpins the Budget, given the sheer range of inputs to an official forecast.

Q210 **Catherine West:** That was not the question. The question was, "Has the OBR commented on your introduction of the IHT changes?"

Torsten Bell: Absolutely, it is required to assess as reasonable all government costings.

Q211 **Catherine West:** For example, in terms of projections around future election results, I will never forget the day we came back into Parliament after Brexit. Regardless of what side you are on in the debate, nobody thought it was going to happen, and therefore there was no preparation. The OBR has an interface with other Government Departments. In terms of the economic shocks argument, what sort of planning is there for shocks, be they electoral or other shocks, so that it is not just the Treasury that owns that but it is also across Departments?

Torsten Bell: Lots of contingency planning takes place in Government. It is the OBR's job to produce independent forecasts to underpin fiscal events, not to be involved in contingency planning by Government.

There have been occasions in the past when the OBR has been asked to produce updates outside of fiscal events to inform wider discussions. That can be a valid thing, but I would take us back to whether we are clear on what the OBR's job is and is not. Its job is not to drive contingency planning for different scenarios for Government.

Q212 **Catherine West:** For example, it is now widely held that there has been a 4% drop in the economy due to Brexit. What is the role for the OBR in terms of the research function or the holding-to-account function? What do you consider your role in that to be over the years, Mr Farrington?

If you look back at that as a shock, which it was because there was no preparation at civil service level, what would be your analysis of how that could have been done better, regardless of the outcome of that and without getting into the politics of it, given that it was a 4% drop in our total budget?

Steve Farrington: There was a very good collaboration between Treasury officials and OBR officials in terms of trying to understand quite quickly what the potential implications of Brexit would be. It is a very large question. As such, I think the OBR took the right approach, which was to rely on the weight of external evidence. It published a working paper back in 2018, so two years post the vote, which summarised and synthesised all of the available academic literature.



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That exercise, rather than the OBR undertaking its own detailed economic research, was the right way to go, given the range of different factors that were involved. That seemed like a sensible approach to me.

Q213 Catherine West: You are confident that, if a party came along and was elected and said, "We are getting rid of the OBR. We are going to have a very robust approach to the Bank of England", for example, you both feel that you would have a robust approach, and that we have the checks and balances in place to protect what we consider to be our fiscal scaffolding.

Torsten Bell: That is a highly political question. We should all be taking that seriously. Our responsibility is in making sure that we argue the case for the institutions that we believe underpin good policymaking and the long-term prosperity of the United Kingdom.

It is relatively minor in the grand scale of things, but that includes an Office for Budget Responsibility where we are clear about what its role is. It is not for the Office for Budget Responsibility or others to stand in for the political debate. It is perfectly reasonable for someone to argue that they do not want to see an Office for Budget Responsibility, but then they will need other answers for how they avoid optimism bias in the fiscal forecasts. I have not seen a case made for an alternative approach.

Q214 Catherine West: Two years after the ballot in 2016, the report came out in 2018, which was very academic. Some shocks have an impact way before two years. I will just leave it there, perhaps for another Committee, but it is important that we can ask you, as the people in the field doing it every day, whether there would be enough of a framework if there were an election result that produced something quite unorthodox around the economy.

Steve Farrington: On this specific point about it taking two years, the OBR made immediate adjustments to its forecast in the subsequent forecast after the Brexit decision. It was not unreasonable. Obviously, there were a wide range of possible choices around the ultimate Brexit settlement. It was not clear immediately post the Brexit decision what the ultimate future settlement was going to be with the EU. That only became slightly clearer over time and as research emerged about what the likely potential economic impact would be. That is what informed the OBR's decision. It has also, on several occasions, gone back and revisited that judgment, which is clearly the right thing for it to do.

Q215 John Glen: Could I turn now to the lead-up to the Budget? Many commentators have given us evidence where they suggest that the OBR's pre-measures forecast should be published in order to avoid weeks or indeed months of speculation over what it is saying to the Treasury and what the Chancellor's options are. Are you sympathetic to that suggestion, Minister?

Torsten Bell: It would not achieve the objective that you have just set out in its own terms. If you are arguing that publishing more details



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earlier than a Budget would lead to less speculation, that is an odd argument to run for anyone who has met the British debate.

Q216 John Glen: The point of it, I would imagine, from those who have suggested it, is that for months leading up to the Budget there was speculation in the press and the commentariat over what would need to happen to taxes, etc. The OBR was not permitted to publish that. We received evidence that said that the Treasury already spends three months leaking partial information; I am sure you would contest that.

The point is that we can acknowledge that, for several weeks and months leading up to the Budget, there was a degree of uncertainty over what choices existed. For Richard Hughes to publish that letter, and indeed for the Chancellor just a week before the Budget to have a national media moment, surely shows that the process was not working well. That speculation was fundamentally not in the interests of sound and straightforward policymaking.

Torsten Bell: The Chancellor partially agreed with you when she came and spoke to this Committee in January or February, in the sense that the process in the autumn was not what you would want. That is true in terms of the leaking of the EFO on the morning of the Budget, which is why we are recruiting a new chair in the first place, why the review that has taken place has taken place, and why the EFO in future will be published on gov.uk with tighter security.

It is also true in terms of the Treasury, where we have put in place a process to make sure that we have a tighter control of information security about who needs to know what is and is not in a Budget. We have a new Budget market-sensitive security label, and IT system changes that facilitate that, to make sure that information cannot be shared more widely.

I would agree with you if you are saying that there was too much discussion.

Q217 John Glen: Just a minute. There is a bit of a difference between the OBR chair resigning over the technical issue of uploading a document 40 minutes early, and the fact that there were weeks of unprecedented, market-moving uncertainty about uncertain proposals of what the Chancellor was going to do.

I respect what you are saying about what you are going to put in place in terms of technical fixes, but the way that the dynamic between the OBR and the Treasury, which I know happens in private, was put out into the public domain really undermined the British economy.

Torsten Bell: I am not sure I agree with that characterisation, but I take your general point, which is that there was more speculation than you would like to see. Some of that, as I say, leads to changes inside the Treasury on our control of information. Some of that is driven by wider things outside of the control of Government. We all believe in a free press



and all the rest.

In terms of the interactions between the Treasury and the OBR, the Act passed by Parliament gives the OBR flexibility over how it goes about its business. It probably is worth us all thinking about the balance there. In the end, the purpose of the OBR is to provide a fiscal forecast without optimism bias that provides a stable basis for fiscal policymaking. How the OBR goes about that does have some impact on that. I have talked about the timetable. Setting out the timetable so clearly does lead to speculation around particular dates. That is why the OBR has chosen not to publish that in the spring, and that probably is an improvement.

Q218 John Glen: We had a Chancellor a week before the Budget on national television openly opining about the OBR's unpublished productivity downgrades yet the OBR is not allowed to publish anything. How can that possibly be the right thing to happen?

Torsten Bell: That is a clearer case. I just do not agree with that at all. We should be clear. Let me answer your question, John.

There is a difference between a forecast, which is the basis for detailed fiscal policymaking, and the ability of politicians—we all believe in a political debate as the way in which we get to outcomes—to lay out the case that they believe in fiscal responsibility, but also in rescuing the NHS and driving down borrowing levels. That is what the Chancellor laid out in that speech. She was very clear about that on the day and she has been very clear about that since. We should be careful to distinguish between forecasting and politicians making arguments about what they think is the right future for the country.

What I am trying to say is that it is on us to do a better job of that. You do not change the OBR to deliver better political debates. We should do our job.

Q219 John Glen: I do not dispute the right and indeed responsibility of the Chancellor to make serious statements about the intent and policy of the Government. I am speculating about whether, if we had transparent earlier publication of the OBR's forecasts, the Chancellor would not have half pre-empted her Budget statement the week before with some commentary around what those forecasts were.

Torsten Bell: That would have been very good news for me in my previous life. You would be providing journalists, think-tanks and the rest lots of content and they would spend the entire autumn talking about nothing else. It would achieve the opposite of what you are suggesting.

Q220 John Glen: I have one more point on this issue. People in the real world will take or not take decisions about investment, or accelerate decisions where they live and what they do with their tax affairs, based on the speculations generated. We did not find out from the leak inquiry where responsibility for this lay. What do the general public and those watching this think about that process? How can they know it is not going to



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happen like that in future? We have had assertions that it will not happen again, but, if we do not change the way we do things in terms of the certainty of what is published when, how can we be confident that will not happen?

Torsten Bell: We are changing how we do things. That is exactly what the information security review was looking at. All its recommendations are being put into place with tighter security. I agree with what you have said, and the answer is that we are acting.

Q221 **John Glen:** Let us move on, then, to the issues around some of the pension reforms. You have taken some legislation through Parliament, and indeed both the previous Government and this one made some progress in terms of the Mansion House statement and then accords around investing 5% of workplace pensions in UK equities.

A lot of pension fund managers would say, "If we were making better returns in the UK, we would naturally invest more, but those returns are to be found elsewhere". How do you deal with that criticism or that dilemma that they face? How do they reconcile their responsibility to get a decent return and the poor returns that they get from some investments in the UK.

Torsten Bell: I would point to lots of foreign investors investing heavily in the UK.

Q222 **John Glen:** You do not think there is a problem there in terms of the autonomy that pension fund managers need to have and you do not see that as a conflict.

Torsten Bell: They absolutely should have the autonomy, and they do.

Q223 **John Glen:** There have been assertions by many in the City about the direction of travel. You have had many of the reserve powers that you wanted to have trimmed back. They are time limited over the next three or four years. That will essentially render government action on this pretty meaningless.

Torsten Bell: I am not sure I am quite following the actual line of argument.

Q224 **John Glen:** What I am trying to say is that you have reserve powers that have now been somewhat trimmed back in terms of their extent and the fact they are time-limited. Pension fund managers have essentially called the shots on this. They are making the decisions.

Torsten Bell: No. My honest view is that the Conservative Party let us pass the reserve power, exactly as we said it needed to be, to deliver exactly the objective that we said, and then attempted to redefine what had happened to save face about having let a Bill pass that included something that it said was the end of the world but in fact was totally sensible. That is the answer on the first bit.



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On the second bit, what is the truth? We should be clear to specify which bits of the pension market we are talking about. You are talking about, largely, the DC workplace pension market because the DB schemes are in a very different place. The open DB schemes that exist already do invest, one, more in the UK and, two, in a much wider range of asset classes, as you and I have discussed on a number of occasions both in Select Committees and in the House itself.

We are talking about the DC market. We are seeing the evolution of a market that has grown very fast from a very low level under the last Government because of the excellent progress made on automatic enrolment. That market needs to move into a world where we are in a smaller number of larger schemes that are able to have the level of expertise required to invest in a wider range of assets.

The truth is that that is the actual evolution that is going on. The actual barriers to institutions are building the capacity to invest successfully in a wider range of assets. It is not that there is something unique about British defined contribution schemes that means they should invest differently from every other pension system in the entire world, which invests in a wider range of assets. They just need to get on with building the capacity to do that. As we discussed at very great length during the passing of that Act, there were some collective action problems that got in the way of that happening.

If I am honest, what you started with about whether there are UK assets to invest in is a complete red herring. There are, because they are being invested in by pension schemes from around the rest of the world.

Q225 John Glen: On your reserve powers, I will ignore the politics around it, but, for clarity, can you explain where you see Government acting to use those reserve powers in reality?

Torsten Bell: I do not expect Government to need to use those powers because pension schemes themselves have recognised that investing in a wider range of assets, as we see in every pension system, including in the UK and abroad, is the right thing to be doing for the interests of their members. There is a huge amount of literature making that case. They are just asking how to do it and they are working through the process, as I say, of changing their institutions to be able to do that.

They all wanted to do that anyway. The reserve power just solves one particular barrier to that, which is the collective action problem. The wider substantive barrier is about institutional change, and we are seeing that. For example, I spend my life talking to schemes about how they do not have the expertise currently to invest in venture capital, but over time they are looking to build that either collectively or individually. That is the bread and butter of what is actually going on in this area. That is what matters. That is an important change. The most important thing to say is that that is an important change that needs to happen in the interests of pension savers.



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Q226 John Glen: Can I just ask some questions about pensions generally? You have been quoted as previously referring to the triple lock in pensions as “rubbish”. Clearly, you had a previous role. We see this with the new head of the PRA. When she was at Barclays, she probably had a different view on ringfencing than she does now. Now you are in Government, what has happened to your view on the “rubbish” triple lock?

Torsten Bell: Let me say a number of things to your slightly fair question.

John Glen: It is not unfair.

Torsten Bell: I said “slightly fair”, which is a fair characterisation.

Chair: It is entirely fair.

Torsten Bell: You did not cross into the unfair category.

The Labour manifesto sets out very clearly what we will do when it comes to the triple lock throughout this Parliament. That is what we are going to do and that is the right thing to do because it was in our manifesto.

That is particularly important when you have around 1 million pensioners who are reliant on either the state pension or wider government support broadly. We have about 1 million pensioners in that space.

Q227 John Glen: A week or two ago, your successor at the Resolution Foundation said that it has been more expensive than had been anticipated and it does not have the effect on the poorest that was envisaged. She is a serious person. You worked with her closely. Was she wrong when she said that?

Torsten Bell: I did not get to work with her because she replaced me. I have worked with her in previous lives, but let me come on to answer your question directly.

In how you think about that, you should distinguish between the mechanism of the triple lock and the policy outcome. The mechanism—I would probably choose the adjective slightly more carefully now—is clearly a messy mechanism in the sense of how the interactions work between the timing of the movements in different economic variables, prices, earnings and the rest. As the last Conservative and Lib Dem Government found, it is hard to accurately predict the exact year-to-year impacts of the triple lock.

It is messy. That is distinct from the outcome. The overall outcome of the triple lock is a higher state pension relative to earnings. That is the best way to think about it. The policy objective is not this particular thing. It is, “Do you want to raise the level of the state pension relative to earnings?” The view of the last Conservative Government was yes and our view is also yes. We are undoing the impact of the Thatcher decoupling of—



Q228 John Glen: Is it the most effective way to deal with the poorest? If your objective, which I would have thought most Governments would have, was to increase the income of the poorest deciles, would the triple lock be the best way of achieving that objective, with all its messiness that you describe?

Torsten Bell: Raising the basic level of the state pension has an impact on the vast majority of state pensioners because the state pension is a very large part of almost all of their incomes. That is particularly true for the poorest pensioners.

You are right to highlight that the triple lock was introduced in the 2010s, at a time when pensioner poverty itself also went up slightly—not loads, but it went up slightly. You are right to say that we should learn lessons from that. There is a wide range of lessons from that.

One of them is that, if we step back and look at the pension system as a whole, you would say that the biggest burning platform is on the private pensions side. That is where the biggest challenges are. Those are the biggest challenges in terms of average adequacy levels and what you are nudging me to talk about here, which is inequality and poverty measures, where the gaps are much wider.

On the state pension, we have now moved to a flat rate where everybody more or less will get the same over time. That has also removed the gender gap almost entirely on the state pension side.

On the private pension side, there are serious questions. Our own projections show that people retiring in 2050 will be on a lower private pension than people retiring today. That is the main focus of our reform agenda. That is what is going on with the Pension Schemes Act, which you have already mentioned, but it is also what the Pensions Commission is looking at, and it will report back early in 2027 for the next stage of reform to that system for exactly the reasons you are highlighting. Even if we are delivering okay outcomes for the majority of pensioners today, they are unequal in some ways. On the private pension side, there are questions about how adequate that will be for future pensioners tomorrow.

Q229 John Glen: Can I just ask one question on the lifetime ISA? We have not yet seen the Government's plans on the lifetime ISA. For the self-employed, they can put in £4,000 a year up to the age of 50 with a 25% government top-up, giving them a tax-free pot alongside their basic state pension. It seems to me that that would be a significant boost to supplement self-employed people's pension.

In some correspondence we have seen a reference to SIPP's being a mechanism, but, for most people on relatively low incomes from self-employed employment, would retaining the lifetime ISA for that purpose be a useful supplementary savings mechanism?



Torsten Bell: First, it is definitely right that we should think about the self-employed a lot more in this space. If you look at the interim report of the Pensions Commission, which came out quite recently, one of the facts that has not had enough attention is that, across the self-employed population overall, their pension saving has fallen from about half to less than one-fifth. That is less than one in five of the self-employed.

That is not new. The interesting fact is that, if you just focus on those who are only self-employed and who do not have an employee job at the same time, the number falls to 4%. It is basically none of the self-employed who are only self-employed.

That is a core focus for the Pensions Commission. I do not want to prejudge where its work is going to get to. I will take what you have just said as a submission to it and encourage it to read the transcript of this hearing because we do need to do a better job of being clear about what the mechanism is for helping the self-employed.

The self-employed includes a lot of different kinds of people with different needs and different circumstances. What the right pension outcome is for a high-earning self-employed person in their 50s who is a lawyer is very different from someone who is on a delivery bike and is in their 20s. We absolutely do need to think that through, but I do not want to prejudge the work of the Pensions Commission.

John Glen: There is so much more that I could ask, but I feel I have had my share.

Chair: We are straying so much into the Department for Work and Pensions at this stage.

Torsten Bell: I was enjoying that. I was waiting for the link to the Office for Budget Responsibility.

Q230 **Catherine West:** I have a couple of final questions about intergenerational inequality. To what extent will inheritances ameliorate or enhance the problem of intergenerational inequality?

Torsten Bell: I will say some things with higher and lower levels of certainty. We know that inheritances are growing. Their role in society will grow very significantly. We know that because, one, we can see it in the outturn data—the wealth and assets survey and others give us that—and, two, we know that household wealth in the UK, one, is higher than in most other similar countries and, two, has grown very significantly relative to GDP over time. That will feed through into inheritances being a bigger part of British society in the coming decades than it was in the past.

Some of that will come at the point of inheritance. Some of it will be passed down earlier. You can see that talked about a lot in the space of access to the housing ladder, the bank of mum and dad or the bank of grandma and grandad. That is having an effect. In my previous life, we



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produced studies showing that the correlation between your parents' home ownership situation and your own has grown over time for all the obvious reasons. That is one illustration of how that has been taking place.

The aggregate effect of inheritances per se, rather than just the wealth of parents, is probably a bit more nuanced. It is not as straightforward as inheritances pushing up wealth inequality in each generation straightforwardly. That is partly because there is a decent level of randomness. There is a lot of luck and other situations involved in that process.

What you can say with confidence is that the role of inheritance is probably to increase wealth gaps. Even if inequality as measured by ratios and the rest does not go up, more wealth being passed down means that in the generation that receives the wealth you will probably see a widening of the distribution, i.e. the pounds and pence gaps between those with not much wealth and those with lots. You will see a stretching of that.

One thing that I see is that lots of the public discussion in this area focuses on the impact on the housing market. That is important. I did say this before I was the Pensions Minister, but we are underestimating the effect on pensions and retirement.

I will give you a simple way of thinking about that. People talk as if inheritances will get you on the housing ladder, but the average age of inheritance is the early 60s. It is not in your 30s and 40s. What we are underestimating is that, in a world where we have raised the state pension and we are worried about private pension incomes in the future, inheritances may be deciding not who is a homeowner or not—that is done by wealth transfers earlier in the life course—but who can retire early. It is worth us thinking very hard about how that interacts with our wider policymaking in both the private and state pension space.

Q231 Catherine West: In the same Treasury Committee evidence that you gave in 2021, you said that policymakers have to support demand for people's first and primary home but penalise other forms of ownership through the tax system. I am wondering what your thoughts are on second home owners and whether they should be taxed much more.

Torsten Bell: You are now stretching my memory back slightly. I think the point I was making in that hearing is that one thing we have learned from the last four decades is that what matters for home ownership rates is the effective demand of different groups. In a world where interest rates come down, which means that house prices relative to income levels rise, the deposit barrier to first-time buyers goes up relative to other groups who do not have the deposit barrier, irrespective of the average affordability issue.



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If I am a buyer who does not need a mortgage with a large deposit or a cash buyer, you will see the effective demand being higher relative to first-time buyers. That is one of the things sitting behind this. No one talked about youth home ownership in British politics until about 2006-07, but it started falling in 1989.

The point I was making there is that, given that we probably all would like to see higher home ownership rates among the younger generations, we should build a lot of houses. That is a good idea for a whole host of reasons. I am very much in favour of that. I hope I made that point at the Committee. If I did not, I should have done.

One of the roles of the tax system can be to think about the relative position of those different groups. We have already moved quite significantly in the direction of what I was talking about in that hearing. You can see that in the stamp duty space, the council tax space and a number of other areas.

Q232 Chair: I have a few quick-fire questions, if I may. You have made it very clear that removing optimism bias is the most valuable aspect of the Office for Budget Responsibility. What edge does it have that would make that a more successful forecast than just taking the average of what the market is expecting?

Torsten Bell: That is a very good question. We should discuss that a bit more. What is the truth? The truth is that there are not detailed fiscal forecasts from anybody in the market. I will be honest about it.

You have lots of people doing economic forecasts of different time periods and with different levels of detail. When it comes to fiscal forecasts, there are a handful, but, if I am honest, they are very short term. If I am really being unfair, a lot of them are taking the OBR's forecast and tweaking it. They are not going to say that, given the context of what they are doing. There is a big edge.

What is unique about the UK is that the OBR is being informed by all that government information. In other institutions, you are seeing the institution doing an economic forecast that is not being done that differently from all the other market participants that you are referring to. They are trying to do a fiscal forecast, but they are doing that without the information that is available within Government. The Government itself, probably paying some attention to what has been said by that fiscal council, then produce their own fiscal forecast, which is informed by all the information within Government. That is how I would think about it. That collapses into saying that the OBR has a very significant edge versus external forecasters.

Q233 Chair: The area where it clearly has an edge is that it gets advance sight of what the policy measures are and can measure those. There has been quite a lot of tension in terms of the supply side measures and a bit of toing and froing in terms of how much impact the supply side measures



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might have. You said earlier, "We don't accept the OBR forecast as our destiny". Do you think there is rightfully tension? Is there anything that could be done to reduce the tension on the supply side impact?

Torsten Bell: There probably is some inherent tension, not institutionally but in what we are trying to achieve. We want the OBR to produce a central forecast. That means taking into account the policy that has been announced. On the first sentence, I would not underestimate that the main advantage for the OBR is probably not in terms of the policy. It is lots of other things, such as what is happening within DWP, what is happening within different tax receipts, and forecasting with that information. That probably makes a bigger difference than the policy side. It depends on the nature of the fiscal event, obviously.

Focusing specifically on your question on the supply impacts, you want them to aim for a central forecast. That does mean trying to think through the supply effects of material policies, where it really matters. I should distinguish that we are talking just about supply here. There is a wider question about the demand effects of the policy package as a whole, which other organisations are much more likely to do. This is specifically on the supply effects, i.e. the growth and productivity effects of changes.

You want them to think about that, but you also want them to do that in a way that does not accidentally bring them into policy debates. That is where there is some tension. As I say, that goes back to what I am trying to encourage you to do, which is to think about the structure as a whole. As the Government, our job is to pursue policies that we think will affect growth.

Chair: Should the Treasury be more explicit about where there have been disagreements on the supply side impact? Mr Grady, did you want to ask your follow-up question as well?

Q234 **John Grady:** You mentioned the OBR staying out of policy. We have had it not just under this Government. In the previous Government, Jeremy Hunt's former economics adviser has written about this. We have this annual to and fro about what causes growth and what does not cause growth. If only we knew. Does that not just take the OBR into politics? Does it score the trade union legislation or not? Does it score this or not? Should we just draw a close under the debate on scoring individual growth measures in some way? It breaks your rule of keeping the OBR out of politics.

Torsten Bell: As adults, we should just recognise that there are tensions in the objectives that we want. I do not agree with the point, by the way, about us not knowing what causes growth. We know that Britain's low investment levels are a very large obstacle to growth. That is why we are raising public investment levels. That is why we should stay focused on raising private investment levels. We know that higher employment



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rates, which the UK currently has, are really important for that. We do know some of the things that are really material to growth.

There are things within total factor productivity that, to be honest, are less well understood, but we know the important role of innovation and the diffusion of that innovation. There is too much fatalism in the British public policy debate about what will make a difference to growth. We do know lots of the things that would make a difference.

Specifically on your question, there are challenges. Those are inherent within, as I say, the two things we are trying to weigh up. The OBR rightly will want to produce as central a forecast as it can because it knows that is the basis for policymaking and those policies have come out at the same time as the forecast, but it needs to do that without entering into policy debates. It wrestles with that reasonably well.

The move to the 0.1% threshold for considering supply impacts is a sensible one in terms of avoiding lots of time being spent discussing small measures where the short-term growth effects are relatively small. Remember that we are talking about short-term effects. We have said to the OBR, "Feel free to set out the longer-term growth effects of policies", but the time period that the forecast covers is not going to get into those.

It is more on us to debate whether we think policies are good and bad for growth. People will disagree about those. The OBR should do its best where the literature is really relatively straightforward and clear about the growth effects of policies. There are challenges with that. Will there be disagreements about that around the edges? Yes, there will be. That is unavoidable. Using a threshold and the OBR taking very seriously its job, as set out in the legislation, not to get involved in the policy debate, as both the previous chair and the current chair have set out for you in this Committee, are really important things for us.

I hear a lot of people saying, "The OBR is too powerful. Please can it do this other stuff as well?" That does not make any sense.

Q235 Chair: You made that point. You made the point earlier that you disagreed with the cuts to national insurance in the last Parliament. To close this session, you have not reversed them at any Budget so far. Can you commit that you will continue not to reverse them in any future Budget during this Parliament?

Torsten Bell: I get to decide what I was saying, and what I was saying was that the previous Government were totally irresponsible with the public finances in the years after the pandemic. They talked tough but then made decisions that were deeply damaging to the public finances, including—you asked me the question—running 5% deficits consistently year after year while other countries were reducing their deficits. That was unwise. Jeremy Hunt, the then Chancellor, said so himself.

Q236 Chair: A simple yes will do. Could you agree that you will not reverse



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those tax cuts?

Torsten Bell: We have not reversed those tax cuts. What we are dealing with is the mess that was left to us in terms of both public services that were collapsing and public finances that were unsustainable.

Q237 **Chair:** That was longer than a yes. You are not going to reverse those tax cuts, are you?

Torsten Bell: That is a ridiculous question. Our policy has been set out very clearly across a number of fiscal events.

Chair: Are there any more questions from anyone? In that case, I shall say order, order.