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POTENTIAL EMERGENCY BUDGET

Dear Mel,

Thank you for your letter of 23 August asking about: (i) what work the Office for Budget Responsibility is undertaking in preparation for the possibility of an early fiscal event under a new Prime Minister and Chancellor; and (ii) what information we would be able to provide should a forecast be requested for such an event on either 14 September or 21 September.

Background

As you know, the *Budget Responsibility and National Audit Act 2011* (the *Act*) requires the OBR to produce at least two forecasts in each financial year, which must contain an assessment of performance against the Government's fiscal rules. Our most recent *Economic and fiscal outlook (EFO)* was published alongside the Spring Statement on 23 March 2022, so we have yet to produce a forecast this financial year. The accompanying *Charter for Budget Responsibility* (the *Charter*) states that it is for the Chancellor to choose the particular dates on which those forecasts take place, one of which will accompany the Budget. The *Charter* also requires the Chancellor to announce the date of the Budget in advance to Parliament. The *Memorandum of Understanding (MoU)* between the OBR, Treasury, DWP, and HMRC that sits beneath the *Charter* states that the Chancellor will normally give the OBR at least 10 weeks' notice of a forecast date "*in the absence of exceptional circumstances*".

The normal 10-week period allows for a multi-stage iterative forecast process to be undertaken, but in exceptional circumstances forecasts can be, and have been on six previous occasions, produced more quickly. Three recent examples of forecasts and scenarios produced to faster timetables include:

- In autumn 2019, we agreed a truncated forecast process due to exceptional circumstances in respect of Brexit deadlines – but in the event this forecast process was terminated before being completed when the General Election was called.¹

¹ See letter from Robert Chote to Sir Tom Scholar, *Cancellation of the 6 November Budget*, 29 October 2019.

- On 14 April 2020, three weeks after the UK entered lockdown for the first time, we published a *Coronavirus reference scenario* that provided our initial view on the near-term economic and fiscal implications of the Covid pandemic.²
- And in our July 2020 *Fiscal sustainability report (FSR)*, we presented further Covid scenarios that updated our near-term analysis and presented an initial assessment of the medium-term implications of the pandemic.³ These *FSR* scenarios published on 14 July of that year factored in the cost of all policies that had been announced up to 26 June, while providing separate commentary on the fiscal impact of the then Chancellor's 8 July 'Summer Economic Update' – the details of which were finalised too late to include in the published scenarios.

Preparatory work currently underway

Given the importance of providing the new Chancellor and Government with an up-to-date picture of economic and fiscal prospects and the possibility that they may want a forecast to accompany a potential emergency budget or other fiscal event next month, the OBR, with the Treasury's agreement, commenced on 29 July the preparatory work that would be necessary for us to be ready to publish an economic and fiscal forecast in September.

As with any forecast, the initial stages of this process have involved OBR staff analysing the latest economic developments and how they compare to the assumptions and judgements that underpinned our most recent forecast in March. We have also commissioned HMRC and DWP to do the same with respect to individual tax and welfare spending lines. Neither of these processes has yet been completed.

These analytical inputs will provide us with the starting point for an initial draft economy and fiscal forecast that will in due course be shared in confidence with the new Chancellor, in accordance with the terms of the *MoU*. As in any forecast process, this initial round will not represent the final 'OBR forecast' under the terms of the *Act*. At least one subsequent round will be required to refine key forecast judgements, take on the latest data (including from highly volatile energy markets), and reflect the economic and fiscal impact of any Government policies before the forecast reaches the point of publication, whether that be in September or later.

Content of any September forecast

As was the case for previous forecasts produced to accelerated timetables in exceptional circumstances, producing a forecast for mid-to-late September would necessarily require some reduction in the breadth and depth of the analysis and information that we would be able to provide. The *Charter* sets out minimum requirements for our forecasts in terms of:

- **time horizon:** it would need to cover at least the next five fiscal years to 2027-28;
- **economic and fiscal variables:** it would need to include, for example, estimates of economic aggregates including GDP, inflation,

² *Commentary on the OBR coronavirus reference scenario*, 14 April 2020.

³ See our 2020 *Fiscal sustainability report*, 14 July 2020.

the labour market, current account and the output gap, and fiscal aggregates including public sector receipts, expenditure, borrowing, and debt;

- **government policy:** it would need to take account of all government decisions that may have a material impact on the fiscal outlook;
- **fiscal rules:** it would need to assess whether the Government is on track to meet its fiscal rules and by what margin; and
- **risks:** it would need to include analysis of the key risks surrounding the economic and fiscal outlook.

In a normal *EFO* publication, we provide far more information than the statutory minimum, both in the *EFO* document itself and in dozens of supplementary tables that are made available in spreadsheets on our website. In an accelerated process of the sort that would be necessary to publish a forecast in September, we would satisfy the core requirements of the *Charter* and aim to provide as much additional detail on our economy and fiscal forecasts as possible – highlighting where we felt that the methodologies used in this case resulted in greater uncertainty around forecasts than in a full iterative process. We would necessarily have to pare back our published material, partly due to less time for preparatory analysis and partly due to the time needed to physically produce printed copies of what would be a Command Paper for Parliament. The *EFO* would be shorter, with less detailed breakdowns of some economic and fiscal aggregates, less commentary on smaller elements of the forecast, and fewer historical and international comparisons which help to put the forecast in context. We would also be unlikely to be able to produce the usual set of online supplementary tables but would, as always, respond to requests for supplementary information if we hold it.

We would seek to include the economic and fiscal impact of all new policy measures being announced alongside the forecast, as well as those that have been announced since our last forecast in March – consistent with the statutory requirement that our forecasts must reflect current Government policies. Where policy announcements involve the reversal of a previously announced measure that is already factored into our baseline forecast, it would be more straightforward to reflect its cost and economic impact in a forecast that is being produced quickly. Of course, we may not be able to include the effects of *all* new policies if the detail of a particular announcement (or announcements) were still being developed as our forecasts were being finalised. But that is an issue common to all forecasts, and particularly so when the Government is responding to events that are evolving quickly.

Summary

In summary, if asked by the new Chancellor to produce a forecast on 14 or 21 September, we would be able to do so to a standard which meets the legislative requirements of the *Act* and *Charter*. And we have already, with the Treasury's' agreement, commenced the preparatory work which would enable us to publish that forecast. As with other forecasts produced to an exceptionally accelerated timetable, they would provide less complete analysis supporting the key judgements, less detailed breakdowns of the key economic and fiscal aggregates, and less contextual and supplementary information than in our *EFOs* produced in normal times. But we would do our

best in the time available to give the Government, Parliament, and the public the most complete and up-to-date picture of the economic and fiscal outlook as possible, focusing on: the key drivers and changes in the economy and public finances since our March *EFO*; the impact of the major new policy announcements since then; and the implications of both for the economy and public finances and for performance against the legislated fiscal targets. And, as always, we would be as transparent as possible about the central forecast and the risks and uncertainties around it, which are particularly large at the moment due to the extreme volatility in wholesale energy markets.

I am copying this letter to the Chancellor of the Exchequer.

Warmest regards,

A handwritten signature in black ink, appearing to read 'Richard Hughes'.

Richard Hughes
Chair