United Kingdom

Office for Budget Responsibility (OBR)

Established: 2010.


Mandate: To examine and report on the sustainability of the public finances.

Budget: GBP 2.075 million (2014).

Staff: 22 (three Budget Responsibility Committee, two non-executive members, 17 secretariat staff).
1. Context

Under the 1998 Code for Fiscal Stability, two fiscal rules were in place in the UK in the decade prior to the financial crisis: a “golden rule” that allowed the government to borrow only to cover net investment (and not current spending) over the economic cycle and a sustainable investment rule that required that public sector net debt as a proportion of GDP be held over the economic cycle at a stable and prudent level, in practice no higher than 40% (OECD, 2009).

While the economic forecasting record under this framework was good, fiscal forecasts from 2000 onwards were consistently optimistic. As the government itself decided the dates on which the economic cycle started and finished, it could also gain fiscal leeway by making ex post changes to its dating of the cycle, thus undermining credibility of the rule as a constraint on behaviour. The framework was also largely retrospective and governments risked having to make politically unfeasible cuts in spending at the end of a cycle in order to make up for previous overspending.

In the event, government spending increased significantly from 2002, but tax revenues disappointed. As a consequence, the budget deficit did not narrow as the government had hoped in the years prior to the recession. When the recession struck, the deficit then widened dramatically between 2007-07 and 2009-10 as a fall in nominal (as well as real) GDP weakened receipts (especially in cash terms) and pushed up public spending (especially as a share of GDP). In response, the fiscal rules were suspended in late 2008 and replaced by a temporary operating rule to “improve the cyclically adjusted budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full” (OECD, 2011a). Subsequently, the 2010 Fiscal Responsibility Act also “set targets to reduce the deficit as a share of GDP in each year to 2015/16, to halve the deficit by 2013/14, and to set debt as a share of GDP on a downwards path by 2015/16” (OECD, 2011a).

The idea for an Office for Budget Responsibility (OBR) was first formally proposed in September 2008 by the then opposition Conservative Party as part of their economic policy document, Reconstruction: – Plan for a strong economy. Following the May 2010 elections, the newly installed Conservative-Liberal Democrat coalition government launched the OBR in interim form as one of its first acts. The new government also replaced the rules set out in the Fiscal Responsibility Act with a “fiscal mandate” to balance the cyclically adjusted current balance by the end of a five-year rolling horizon, and a supplementary target that public sector net debt be falling at a fixed date of 2015/16 (OECD, 2011a).

In its interim form the OBR comprised a three-person Budget Responsibility Committee (BRC), chaired by Sir Alan Budd (former Treasury Chief Economic Adviser) and aided by a small secretariat of Treasury employees. They produced two forecasts in the first six weeks of the coalition government’s tenure: one before the June “emergency budget” and another taking into account the measures announced on budget day. The interim OBR was also tasked with providing advice on the arrangements for the permanent OBR, which it duly
The interim OBR experienced a brief period of controversy when its first Chair left earlier than external commentators had expected and the OBR’s independence was called into question by some in parliament and the media.

On 15 July 2010, the House of Commons Treasury Select Committee (TSC) announced a swift inquiry into the permanent arrangements for the Office for Budget Responsibility to “assess the arrangements proposed by the interim OBR” and “consider alternative arrangements and international comparisons”. It specifically called for evidence on: “the remit of the permanent OBR, appropriate means of ensuring both independence and accountability, and appropriate resources for the OBR.” The TSC’s report was published in September 2010. Key recommendations were for:

- the establishment of the OBR as an institution with its own legal personality, responsible for appointing its own staff;
- a requirement on the OBR to act transparently, objectively and independently;
- a clear remit and set of core tasks;
- a requirement that the responsible select committee should have a veto over appointment or dismissal of the Chair of the permanent body and the members of the Budget Responsibility Committee;
- a small group of non-executive directors to support the Budget Responsibility Committee;
- a requirement that government officials support the OBR when it is preparing forecasts; and
- a requirement that the OBR have a right of access to the information it needs.

The TSC further expressed the view that the legislation establishing the OBR should not require future governments to use OBR forecasts and that the “arrangements adopted for the permanent OBR should be subject to comprehensive review no later than five years after it is established by statute”. The TSC’s key recommendations were all taken on board in the legislation and related documents. In its deliberations, the TSC touched briefly on other models in the United States, Canada and Europe, including evidence from the Chair of the then recently established Hungarian Fiscal Council; however, it did “not conduct an exhaustive examination of the various ways in which a fiscal council could be structured but focus[ed] on the government’s proposals and how they can be made to work”.

In October 2010, Robert Chote, a former Director of the Institute for Fiscal Studies (IFS), was appointed as the second OBR Chair with the assent of the TSC. In December 2010, the OBR moved out of the Treasury building. These measures were seen as enhancing OBR independence. In March 2011, the Budget Responsibility and National Audit Act passed the parliament and, on 4 April, the OBR became an “executive non-departmental public body”. The establishment of the OBR was endorsed across party lines, with the opposition expressing some concern about the adequacy of safeguards for its independence.

2. Relationship with the executive and the legislature

The OBR is under the executive rather than the parliament, but is a legally separate, arms-length entity with its own oversight board. It does buy some administrative support services from the Treasury (e.g. human resources and finance services, set out in a service level agreement) and from the Attorney General’s Office, with which it now shares accommodation (e.g. IT support, also set out in an agreement).

The OBR’s core functions are established by legislation, including the responsibility to provide the official economic and fiscal forecasts to the Chancellor of the Exchequer.
However, neither the government or the parliament have a right of direction over OBR analysis and the OBR takes full responsibility for the content of its publications and other pronouncements. OBR work requires close communication with government departments, particularly to get the information and data needed for its forecasts. HM Treasury, the Department for Work and Pensions, and HM Revenue and Customs all provide external expertise used in the core OBR reports (see the Memorandum of Understanding below) and this interdependence gives the OBR access to capacity far beyond its actual staff size. The first external review of the OBR estimated that the OBR can draw upon the power of approximately 125 full-time-equivalent staff from other government agencies. To safeguard its independence, the OBR makes information on such contacts publicly available. The OBR has no formal relationship with the Bank of England, although their respective staffs meet regularly to discuss forecasting issues of mutual interest.

There are a range of mechanisms built in to ensure appropriate oversight of the OBR by the parliament and to help safeguard the OBR’s independence. The parliament scrutinises the OBR budget and the Treasury Select Committee has a veto on leadership appointments and dismissals. Although pre-appointment hearings by parliamentary committees are common, veto power over appointments or dismissals is extremely unusual in the UK context. All OBR reports must be published and sent to the parliament and the OBR answers parliamentary questions and appears before parliamentary committees.

While there are both think tanks (such as the Institute for Fiscal Studies, IFS or the National Institute of Economic and Social Research (NIESR)) and private sector institutions that provide independent forecasts and complementary analysis, they do not have the access to confidential government information and data that the OBR has.

Box 1. Role of the legislature in the budget process

The United Kingdom is a parliamentary system with a bicameral legislature: the House of Commons (or lower house) with 650 members elected under the first-past-the-post system, and the House of Lords (or upper house) whose members are appointed. The House of Commons plays the dominant role in the budget process.

In March/April, just prior to the start of the fiscal year, the Chancellor of the Exchequer makes the budget speech in the House of Commons. The speech includes: a review of how the United Kingdom economy is performing, forecasts of how the economy will perform in the future and details of any changes to taxation. The Chancellor’s statement is followed by several days of debate. Budget resolutions (tax measures announced in the budget) are agreed and the Finance Bill starts its passage through the parliament in the same manner as any other public bill. Between 1997 and 2010, the Chancellor of the Exchequer also presented an annual pre-budget report (in effect a second budget) to the House of Commons in November/December which included a report of progress since the previous budget, an update on the state of the economy and details of any proposed changes to taxation. From 2010, the new government replaced the Pre-Budget Report with an Autumn Statement (again, much like a second budget), at which the Chancellor presents the OBR’s updated economic and fiscal forecast to the parliament and may also set out new policy measures.

Under resolutions dating back to the 17th century, the House of Commons asserts its sole right to initiate and amend money bills; the House of Lords may not reject and can only delay such bills for a month. Its Economic Affairs Committee appoints a subcommittee to consider certain policy aspects of the Finance Bill and to make recommendations. The
3. Legal basis for establishment

The enabling legislation\textsuperscript{13} for the OBR is the Budget Responsibility and National Audit Act 2011 which provides for the establishment of the office and sets out its functions and broad governance structure. The Act also requires the government to lay before the parliament a Charter for Budget Responsibility (April 2011) which sets out the OBR's remit, how it is to perform its duties, the required content of its key publications and the arrangements for determining the timing of its forecasts and other key publications. Several additional documents also serve to determine the OBR's functioning in greater detail:

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Box 1. **Role of the legislature in the budget process** (cont.)

House of Commons has the power to amend the budget, but it may only decrease existing expenditures or revenues. In practice, the House of Commons almost never makes amendments to the government's budget proposal against the government's wishes. Party discipline is particularly strong during budget debates and by convention a vote on the budget is considered a vote of confidence in the government.

Unlike the majority of OECD national parliaments, the House of Commons does not have a dedicated budget or finance committee to oversee or co-ordinate the budget approval process. Sectoral committees formally consider appropriations for each respective sector and the Treasury Committee examines the expenditure, administration and policy of HM Treasury, HM Revenue and Customs, and associated public bodies, including the Bank of England and the Financial Services Authority (OECD, 2011b). Committee meetings are open to the public and committee reports are published. While the United Kingdom Parliament has had a tradition of relatively weak \textit{ex ante} scrutiny of the budget, it has a strong tradition of \textit{ex post} oversight of the public accounts through the Commons Public Accounts Committee (PAC).

The United Kingdom Parliament significantly increased its research capacity with the 2002 establishment of the Scrutiny Unit to provide specialist expertise to select committees with a focus on financial matters and draft bills. This new unit was the result of modernizing efforts within the House of Commons, more specifically recommendations from the Procedure Committee (1998/99), the Liaison Committee (2000) and the Modernisation Committee. Today, the Scrutiny Unit has a staff of around 14 including lawyers, accountants, an economist and a statistician, as well as House of Commons Clerks and a small team of administrative staff. Staff are often seconded from government departments. Within its remit to provide financial expertise to House of Commons departmental select committees, the Scrutiny Unit undertakes systematic reviews of the estimates, departmental reports, resource accounts and spending review settlements. These reviews are then discussed with the relevant select committees and may lead to written questions for departments or briefings for oral evidence sessions. The Scrutiny Unit also assists select committees to improve the quality of the financial information provided by government departments. For example, it is currently supporting the House of Commons' engagement with the Treasury's "Alignment Project", which aims to simplify the presentation of financial information on public expenditure. It also prepares guidance notes, shares examples of best practice, and gives presentations and training to Members and their staff.

Note:

1. The number of members of the House of Lords is not fixed. See [www.parliament.uk](http://www.parliament.uk) for more details.
2. In election years, after a change of government, a budget will usually be introduced by the incoming Chancellor of the Exchequer, whether or not the outgoing Chancellor has already delivered one.
4. Mandate

The Budget Responsibility and National Audit Act mandates the OBR “to examine and report on the sustainability of the public finances”.\(^\text{14}\) It also specifies four main tasks:

1. Producing the official five-year economic and fiscal forecasts twice a year. The Chancellor sets the dates at which the OBR should produce these forecasts, one of which will be alongside the spring budget in March or April. To date, the other has been in the autumn.

2. Assessing the government’s progress in achieving its fiscal targets alongside its forecasts.

3. Assessing the accuracy of its previous forecasts.

4. Analysing the long-term sustainability of the public finances (based on 50-year projections). This analysis is published in the OBR Fiscal Sustainability Report in summer.

The Act also specifies that in producing its forecasts the OBR should consider the effect of government policy, and to this end the OBR scrutinises and – if it is content to do so – certifies as “reasonable and central” the government’s costings of new policy measures.

The OBR can also undertake analysis relevant to its mandate on a discretionary basis. While the mandate at first appears fairly broad, the above tasks take up most of OBR capacity during the year. In addition, the OBR operates under several restrictions. Like the majority of the office’s counterparts in other countries, it is precluded from making normative policy recommendations (Article 4.12 of the charter). More unusual, however, is the restriction that the OBR confine its analysis to existing government policies and not look at the impact of alternative policy options.

There have been several proposals to expand the OBR mandate to include the costing of pre-election policy proposals. This possibility was first raised by the Treasury Committee in 2010 and, with the 2015 general election looming, saw renewed interest and discussion culminating in a one-off evidence session on the topic in March 2014.\(^\text{15}\) While not ruling out the possibility of taking on this new role – and noting the potential for improving the quality of policy development for individual parties and the quality of public debate in the run-up to an election – the OBR Chairman pointed to capacity constraints and the need for a clear consensus on the “rules of the game” (e.g. which parties should be involved, the scope of policies to be assessed, the timetable, the involvement of civil servants, etc.). The proposal to expand the OBR mandate was not supported by the Chancellor of the Exchequer who raised concerns about putting the OBR in highly politically contested territory during the first general election after it was created. It remains to be seen whether this issue will be raised again for subsequent elections.
The first external review of the OBR also took a cautious stance saying: Given that the organisational underpinnings of the OBR are in their institutional infancy and are interdependent with a host of government departments and agencies, it is recommended that caution be exercised in considering the expansion of the OBR mandate (e.g. costing certification of opposition manifestos). The OBR may not have the organisational capacity to expand its remit without further drawing on the resources of other government departments. In addition, the particularly narrow legal framework of the OBR and its interdependencies with the executive branch may risk creating perceptions of conflicts-of-interest. (Recommendation 4)

Subsequently, an HM Treasury Review of the OBR led by Sir Dave Ramsden and published in September 2015 (the Ramsden Review) considered whether the OBR’s remit should be expanded, to include the costing of opposition policies or other areas that have been proposed. The Ramsden Review recommended that no changes should be made to the OBR’s remit and underpinning legislation.

5. Functions

The OBR has been tasked with producing the official forecasts for the economy and public finances. These five-year forecasts are published twice a year in its Economic and Fiscal Outlook (EFO) publication. Its spring EFO is published at the same time as the budget and incorporates the impact of any tax and spending policy measures announced in the budget. The OBR also produces an annual Forecast Evaluation Report that examines what lessons can be learned from its recent forecasting performance in order to improve the techniques used. The Ramsden Review of the OBR also recommended that the OBR should work systematically with forecasting departments on model development, building on existing practice to ensure key models are fit for practice.

The OBR assesses the long-term sustainability of the public finances through its annual Fiscal Sustainability Report which includes long-term (50-year) projections for different categories of spending and revenue on a bi-annual basis; analyses the public sector’s balance sheet; and reports different indicators of long-term sustainability. The Ramsden Review of the OBR also recommended that the OBR produce a new report on fiscal risks.

While the OBR is not tasked with producing the costings of new policies, it is required to scrutinise the costings of budget measures produced by government departments. In particular, during the run-up to budgets and other policy statements, the OBR subjects the government’s draft costings of tax and spending measures to detailed challenge and scrutiny. It then states in the EFO and the Treasury’s costing documents whether it endorses the costings that the government finally publishes as reasonable central estimates, or whether it did not have sufficient information to do so. In the event that the OBR disagrees with a government costing, it would incorporate its own preferred costing in its published forecasts. Since December 2014 the OBR has also published an assessment of the uncertainty surrounding each costing.

The OBR is also tasked with assessing progress towards the government’s fiscal targets. Currently, the government has set itself two medium-term fiscal targets: to balance the cyclically adjusted current budget five years ahead and to have public sector net debt falling in 2016/17. The OBR includes an assessment of whether the government has a greater than 50% probability of hitting these targets under current policy when it prepares the EFO.
The OBR assesses the government’s performance against the welfare cap and, in order to facilitate open and constructive debate about welfare spending, publishes information on the trends in and drivers of welfare spending in its annual Welfare Trends Report.

In addition, the OBR has decided to publish on a monthly basis brief analyses of the latest public finances data released by the Treasury and Office for National Statistics, explaining how it should be interpreted in light of the most recent OBR public finances forecast for the current year. It publishes Briefing Papers (describing its work and explaining the material it presents), Discussion Papers (seeking views on aspects of its work), Working Papers, Occasional Papers (for example, an Assessment of the Effect of Oil Price Fluctuations on the Public Finances) and answers to parliamentary questions. It has made an effort to enrich public debate on public finances through presentations and talks in various fora.

The OBR does not assess alternative policy paths and measures and, as is the case with the majority of independent fiscal institutions today, it does not provide normative commentary on the merits of policy. These constraints were seen by its designers as critical to avoid the perception that the OBR is advocating or arbitrating between alternative policy approaches in a way that could undermine its independence or the credibility of its forecasts. The OBR does not have a role in costing election platforms.

The first external review of the OBR found that:

“The OBR’s products satisfy its legislative mandate and are methodologically sound. The quality of analysis and commitment to transparency often surpass those of its international peer group and the work done previously by HM Treasury, and improve with each successive publication.”

6. Work programme

The OBR decides its own work programme within the bounds of its legislated mandate which includes timings for reports. It is required to: present medium-term forecasts of the United Kingdom economy twice a year; scrutinise the government’s draft costings of tax and spending measures during the run-up to budgets and other policy statements; produce a report on the long-term sustainability of the public finances and assess the government’s progress towards achieving its fiscal targets. The OBR can and does undertake analyses on its own initiative and both the government and the parliament can request additional analysis, although it is up to the OBR to decide whether to carry out such requests.

7. Budget

The Treasury provided the OBR with an initial annual budget of GBP 1.75 million for the four-year spending review period. The OBR budget is part of the Treasury Group budget (which in addition to HM Treasury includes other arms-length bodies, for example the United Kingdom’s Debt Management Office) and has a separate line in the Treasury’s estimate approved by the parliament. It is subject to the same reporting requirements as the Treasury and other Government departments. In order to “protect the independence of the OBR and ensure transparency in the resources that are provided to the OBR”, the OBR can also submit a memorandum alongside the Treasury estimate and submits its own Annual Report to the parliament each year detailing its budget and expenditure. As such, the main protection for the OBR budget is that it is made public. The Chair of the OBR is the OBR accounting officer and is responsible to notify the Principal Accounting Officer in the Treasury if the OBR is unable to operate within its agreed budget. The OBR budget can be
reviewed at the request of the OBR accounting officer with accompanying business case or at the point at which the Treasury's departmental expenditure limits are reviewed (see Articles 8.7-8.9 of the Framework Document).

In May 2014 the OBR agreed a new delegated budget with the Treasury, which sets out a further multi-annual funding commitment to 2017-18. Whilst departmental spending limits had not been set for other departments for 2016-17 and 2017-18 at that time, the OBR’s delegated budget included an indicative amount for these years. The latest budget delegation increased to GBP 2.146 million in 2015-16, which reflects extra resources required to cover additional responsibilities, such as forecasting devolved taxes and policing the government’s welfare cap.

8. Staffing

8.1. Leadership

The OBR is led by the Budget Responsibility Committee (BRC) which comprises a Chair and two other members. The Chair holds a full-time position while the other two members hold part-time positions (equivalent of three days a week) and remuneration is set along the lines of a similar position in the civil service. The appointment process is set in legislation and in the Framework Document. Appointments to the BRC are made by the Chancellor of the Exchequer following an open competitive process. Appointments are subject to the consent of the House of Commons Treasury Select Committee (following pre-appointment hearings). The Chair is consulted on the appointments of the other two BRC members. Appointments are for a five-year term renewable once.

The Chancellor also appoints two part-time, unpaid non-executive members for a three-year term renewable once. Although the initial recruitment process was led by the Treasury, subsequent candidates must go through an OBR-led recruitment process before being nominated by the OBR to the Chancellor. While the recruitment process is OBR-led, a Treasury official will sit on the interview panel.

The Chancellor may, with the consent of the Treasury Committee, terminate appointments by written notice with immediate effect in the following circumstances:

- the member has been absent from meetings of the office without the office’s permission for a period of more than three months;
- the member has become bankrupt or has made an arrangement with creditors;
- the member’s estate has been sequestrated in Scotland or the member has entered into a debt arrangement programme under Part 1 of the Debt Arrangement and Attachment (Scotland) Act 2002, (asp 17) as the debtor or has, under Scots law, made a composition or arrangement with, or granted a trust deed for, the member’s creditors;
- the member is unfit to continue the appointment because of misconduct;
- the member has failed to comply with the terms of the appointment; or
- the member is otherwise unable, unfit or unwilling to carry out the member’s functions.

The OBR leadership is subject to the office’s own code of practice, the Civil Service Management Code and the “Nolan Principles” (principles for public life set by the United Kingdom’s Committee on Standards in Public Life).

The first external review of the OBR found high confidence in its leadership across stakeholders.
8.2. Staff

The OBR has around 19 full-time-equivalent staff. The first wave of OBR staff (a mix of macroeconomic and fiscal or public finance forecasters, and one long-term-sustainability expert, office manager and media officer) were transferred from the Treasury, mostly remaining in the equivalent of the same post. This was essentially a machinery of government change – in which Treasury staff were given the right of first refusal and guaranteed the same terms and conditions. For the most part, the staff involved accepted this new opportunity with enthusiasm. Working at the OBR was seen as attractive as it was an opportunity to take on greater responsibilities, work is high profile and published, and the organisation is less hierarchical. Staff at junior levels can be more directly exposed to external scrutiny of their work than might be the case in a larger government department.

Under the Framework Document, the OBR has “responsibility for the recruitment, retention and motivation of its staff”. After the first wave, staff have been recruited directly through an open competitive process with posts advertised in the civil service and externally. The OBR has recruited largely from the civil service (for example, from HM Revenue and Customs and the Office for National Statistics) but have also recruited economists from the Bank of England and the New Zealand Treasury. Recruitment mainly from the civil service may be explained by the fact that pay scales are lower than that of the private sector and the Bank of England. OBR staff are part of the civil service with terms and conditions along the lines of staff in the Treasury, although given the office’s small size there is some additional flexibility in terms of grades. They are subject to a code of conduct, the Civil Service Code. The OBR may choose to use outside consultants for its work in the future, particularly for work on longer-term economic projections.

9. Access to information

The office’s right to access all government information necessary to perform its duties is covered by legislation in article 9 of the Budget Responsibility and National Audit Act and Articles 4.13-4.14 of the Charter for Budget Responsibility. This right is further underpinned by the section on “Regular information exchange” (Paragraphs 19-28) in the “Memorandum of Understanding between the OBR, HM Treasury, Department for Work and Pensions and HM Revenue and Customs” which includes guidance on the timing of sharing of information necessary for key OBR reports.

The OBR has been given full access to the government forecasting and analytical models, and jointly maintains and develops the main macroeconomic model with the Treasury. It also has the freedom to develop its own models and has developed a small model of the UK economy, a long-term public finances model and a separate house price forecasting model. The OBR is restricted from accessing confidential taxpayer information and benefit claimant information (as is the Treasury) and information shared between the signatories of the Memorandum of Understanding is to be treated “in accordance with the requirements of the Freedom of Information Act 2000” (Paragraph 28). To date, the OBR has not experienced problems accessing relevant government information. This was underlined in its first external evaluation.

10. Transparency

The OBR seeks to operate in as transparent a manner as possible. The OBR website is its main form of communication with the media and the public. All of its work is published
on the website along with the underlying assumptions and methodologies (the OBR’s forecasting model is also public\textsuperscript{22}). For example, the OBR has published a briefing paper to describe the fiscal forecasting process and provide detail on the specific processes underlying key receipts, lines of expenditure and financial transactions.

As the government uses OBR forecasts to set policies, the government receives the forecasts before they are given to the public\textsuperscript{23} and typically the OBR waits for the government to make a first statement and then immediately publishes and holds a news conference. To further enhance transparency the OBR publishes: responses to parliamentary questions, oral and written evidence to the parliament, information on its own governance arrangements,\textsuperscript{24} correspondence to and from the OBR, details of expenses incurred and hospitality received by BRC members on a quarterly basis and any expenditure in excess of GBP 500 twice a year.

The first external evaluation of the OBR found that it has served to foster transparency by encouraging other government departments and public bodies to behave in a more transparent fashion. For example, the OBR has been able to:

“...[F]orce a consistent timetable on the publication of forecasts requiring departments to adhere to a specific schedule. The structure and discipline imposed by the schedule and process has reduced the scope for discretionary budget measures, particularly those introduced late in the process and with, potentially, less scrutiny and transparency.”

It further found that the “OBR’s products demonstrate high levels of transparency regarding disclosure, risks and sensitivities” and that “they lend themselves to additional analysis by third parties.” At the same time however, the external review noted that some documents could be seen as inaccessible to non-technical readers.

The OBR and its work have received substantial media coverage. One of the OBR analysts serves as a liaison between the media and OBR staff and organises news releases and news conferences. In practice, the Chair speaks on behalf of the OBR during news conferences (typically two or three times a year) and in interviews. The OBR monitors media coverage only informally.

\section{Governance, advisory support, monitoring and evaluation}

The OBR Oversight Board consists of the three members of the BRC, plus two non-executive members “with responsibility for ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control”. Both the Oversight Board and its Audit Subcommittee are chaired by a non-executive member. The OBR publishes a full and transparent Annual Report each summer with a summary of OBR work over the previous year, plans for the next year, details of the budget and an assessment of the office’s performance by the non-executive members (see the OBR website for the complete Terms of Reference for the Oversight Board and Audit Subcommittee).

The OBR is subject to internal audit in accordance with the Government Internal Audit Standards (GIAS). As the office’s sponsoring department, the Treasury and the Treasury’s internal audit service have certain rights of access to OBR information as laid out in section seven of the Framework Document, including: all documents prepared by the OBR internal auditor (or a contractor if this service has been contracted out); OBR records and personnel; and all records relevant to the Treasury’s sponsoring function and operational investigations (excluding records pertaining to the main duty of the OBR). The OBR annual accounts are also subject to external audit by the Comptroller and Auditor General (C&AG).
and the C&AG shares with the Treasury “information identified during the audit process and the audit report (together with any other outputs) at the end of the audit”.

The OBR has established a nine-person panel of leading economic and fiscal experts to help develop and scrutinise the OBR work programme and methods. Panel members tend to have strong academic credentials and bring a range of professional experience in the central bank, the private sector, think tanks and international organisations. Membership is on a pro bono basis for a three-year term extendable by mutual consent. Members are not involved in the production of official OBR economic and fiscal forecasts and do not have access to the official forecasts ahead of publication.25

An independent review of the OBR was planned to take place at the end of five years. According to the TSC report, the review “should include an assessment of the OBR’s performance, remit and institutional accountability arrangements”, as well as whether there is a “case for the OBR becoming a parliamentary body with its resources determined by a House of Commons body, such as the Public Accounts Commission.” It was expected that the review will look at, for example, the office’s costing role and the restriction on looking at alternative policies. The latter has proved somewhat problematic in terms of OBR longer-term analyses given that governments do not set policies 50 years in advance.

A first external review – as required by the enabling legislation – was carried out by a team from the University of Ottawa, which included the former Canadian Parliamentary Budget Officer, and published in September 2014. The terms of reference for this review required that they evaluate the quality of OBR publications, the effectiveness of its methodology and governance and the capability of its staff to fulfil its mandate, pursuant to its legislation. For this first evaluation, the OBR was “assessed using a framework generally recognised among governments, via a methodology being developed by the University of Ottawa’s Jean-Luc Pepin Research Chair, with the supporting sponsorship of the Organisation for Economic Co-operation and Development (OECD)”.26

The review was largely positive, finding that the OBR had: “laudably achieved the core duties of its mandate”, had “succeeded in reducing perceptions of bias in fiscal and economic forecasting and increased the transparency of its products” and enjoyed the confidence of stakeholder groups. The review’s recommendations are in Box 2.

Box 2. Recommendations from the External Review of the Office for Budget Responsibility

The external review recommended that:

1. the survey of parliamentarians be reissued before the end of this session of the parliament;
2. long-term succession planning be undertaken to mitigate risks related to the eventual transition of the OBR senior leadership;
3. a formal fiscal community-wide staff development and rotation programme be established to maximise the talent pool upon which the OBR can draw;
4. caution be exercised in considering the expansion of the OBR mandate (e.g. costing certification of opposition manifests);
5. additional backgrounder be included with the publication of major reports to aid the accessibility of the documents for non-technical readers.
In June 2015, the Chancellor to the Exchequer asked Sir Dave Ramsden, Chief Economic Adviser to HM Treasury, to complete a government review of the OBR. The intention was for this to build on the work of the external review, focusing on the existing regime and framework of the OBR and its role in enhancing UK fiscal credibility. The Ramsden Review was published in September 2015 and recommended certain changes to the OBR’s core duties and governance framework, including that the OBR produce a new report on fiscal risks and that the Treasury and the OBR should work together to put in place a succession plan for the turnover of BRC members and long-standing staff members.

12. Concluding remarks

The OBR has quickly established a reputation domestically and internationally as a vocal fiscal policy watchdog. Its work receives significant media coverage.

The OBR has been tasked with producing independent forecasts for the economy and public finances. The intention is that OBR forecasts be used as the government’s official forecast on which policy is set and the fiscal mandate assessed, and there is no expectation of a parallel Treasury forecast. In practice, this means the Treasury has essentially relinquished the task of producing published forecasts while retaining important monitoring and analytical functions. However, while such an action may be politically costly, the Treasury is not prohibited from producing a parallel forecast.

The November 2011 OBR forecast was the first in which it gave the government the bad news that it no longer believed it was on course to hit its targets on unchanged policy. Early signs were positive – the government responded by adjusting policy to put itself back on course, rather than by criticising the forecast. However, the OBR role in publishing forecasts inevitably leaves it vulnerable to public criticism for errors against out-turn or even just for changing its forecasts for the future, as shown by early criticism of the OBR in the parliament for revising down a previous forecast of the economy’s likely size in 2015. This despite the TSC 2010 Report’s own caution that the “quality and authority of OBR forecasts can be measured over time, relative to other forecasts. Absolute accuracy is not a useful criterion.”

The first external review of the OBR noted two coming challenges, or “inflection points”: the first potential change in government (the OBR has so far only existed under the government that created it although it enjoys cross-party support) and change in leadership within the office. A change in government was seen as a potential risk by the reviewers as a change in funding levels since the OBR budget is linked of a government department. Another issue might be whether a different government would wish to take forward the proposals for expanding the OBR mandate. Concerns about a change in leadership demonstrate just how successful the first Chair and Budget Responsibility Committee members have been – indeed the external review concluded that the initial successes of the OBR are inextricably linked to its leadership. As noted earlier, the external review recommended that the OBR engage in long-term succession planning to mitigate any risks linked to a change in leadership.

The subsequent HM Treasury Review of the OBR considered whether the OBR’s remit should be expanded, to include the costing of opposition policies or other areas that have been proposed. It recommended that no changes to the OBR’s remit and underpinning legislation.
Notes

1. The OBR's Working Paper No. 7: Crisis and consolidation in the public finances analyses the evolution of the public finances through the financial crisis and the expected period of consolidation.

2. The idea for an independent body of this type had been proposed previously in academic circles (Wren-Lewis, 2011).

3. The May 2010 elections resulted in a hung parliament where no party was able to command a majority in the House of Commons. The Conservative and Liberal Democrat parties formed a coalition government. The Labour Party, which had been in power since 1997, became the main opposition party.

4. The OBR's offices at that time were also located within the Treasury.

5. Although Sir Alan Budd’s contract was initially for a three-month period.


7. Ibid. Oral and written evidence was received from the interim Budget Responsibility Committee, the Chancellor of the Exchequer, the Director of the Institute for Fiscal Studies and several academics. Several economists in the private sector and a range of United Kingdom and international organisations also submitted written evidence, such as: the Institute for Government, the Hansard Society, the UK Statistics Authority, the National Institute of Economic and Social Research, the Social Market Foundation, the Institute of Chartered Accountants in England and Wales, the Directorate General for Economic and Financial Affairs of the European Commission, the International Monetary Fund and the Hungarian Fiscal Council. Written evidence is available at: www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/parliament-2010/obr-inquiry/.

8. See the Report Summary and related sections of the full report for further details.

9. Ibid.


12. This description comes from the explanatory note for the Budget Responsibility and National Audit Act.

13. Before the OBR’s enabling legislation came into force, the OBR operated under terms of reference published on both the Treasury and OBR websites.

14. The OBR covers the public sector as a whole. In practice, it factors in total spending and borrowing by local government and state-owned enterprises in its analysis.

15. The televised recording of this session is available at: www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news/evidence-office-for-budget-responsibility/.

16. This includes: financial and non-financial performance information and monthly reporting on OBR cash management, its draw-down of grant-in-aid, forecast out-turn by resource heading, and other data required for the OSCAR (Online System for Central Accounting and Reporting) system.

17. Of the first two BRC members appointed, one held an academic position and the other was a former civil servant.

18. Initial appointments of BRC members were for three, four and five years so that BRC appointments will remain staggered.

19. However, the OBR can draw on staff resources in other government departments to complete its core work.

20. In addition, the civil service has been subject to a pay freeze.

21. “Government information” is defined as information held by any minister of the crown or government department.

23. Drafts are sent to the Treasury 4-6 weeks in advance. These drafts go through four rounds before being finalised around a week before publication day. The final rounds include data on government’s planned policy announcements.

24. For example, the Oversight Board Terms of Reference, minutes of meetings, the three-year corporate and business plan.

25. In part due to confidentiality issues regarding government information.

26. The full terms of reference are published in the review.

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