



HM Treasury

# HM Treasury review of the Office for Budget Responsibility

Led by Sir Dave Ramsden, Chief  
Economic Adviser to HM Treasury

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September 2015





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# Foreword

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Well performing, credible institutions can lead to better economic and policy outcomes. This was recognised by contributors to George Kopits' book 'Restoring Public Debt Sustainability, The Role of Independent Fiscal Institutions'. I have been involved in economic and fiscal forecasting throughout my Civil Service career and so I am acutely conscious of the role that the forecast, and how it is produced, can play. This is why I think the creation of the Office for Budget Responsibility (OBR) in 2010, led in its initial phase by Sir Alan Budd, was such an important development designed, as it was, to build credibility and foster trust in the integrity and sustainability of the public finances.

In June this year, the Chancellor asked me to lead, on behalf of the Treasury, a review of the OBR. I have been hugely helped in that task by the excellent work of Kevin Page, the former Parliamentary Budget Officer for Canada, who led an external review of the OBR in 2014. In pulling together our analysis and recommendations, we have benefited from the Page review as well as talking to members of the Page review team, the International Monetary Fund, the Organisation for Economic Cooperation and Development, representatives from independent fiscal institutions and a wide variety of other stakeholders.

The Page review concluded that the OBR had made a very successful start but faced challenges. The core purpose of this review and its recommendations, is to support and strengthen the OBR and put it on a more sustainable footing for the next 5 years. To enhance its role, the OBR can't just be seen as an institution of the Chancellor or government that established it. It needs security in legislation and budget. It must maintain its capability at all levels. It also needs to broaden its relevance to both Parliament and the public. I hope the recommendations here will help the OBR to do so. My review does not recommend expanding the OBR's remit. Doing so would risk diluting the organisation's core function but could also undermine its independence.

This review could not have been produced without the dedication and commitment of officials here in the Treasury. My particular thanks go to Miriam Sachak, Amna Silim, Matt Parry, Libby Hunt, Mario Pisani, Nayeem Khan, Nicole Gregory, Shay Bishnoi, Vincent Tang and Chris Drane, under the direction of Dr James Richardson, for their work.

I am grateful to Robert Chote, Sir Steve Nickell and Graham Parker as well as their excellent team at the OBR led by Andy King for their assistance at every stage of this review.



Sir Dave Ramsden

September 2015



# Executive summary

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In May 2010, the Chancellor of the Exchequer announced the creation of the independent Office for Budget Responsibility (OBR). It was established “to address past weaknesses in the credibility of economic and fiscal forecasting and, consequently, fiscal policy”.<sup>1</sup> To date, the government has used the OBR’s economic and fiscal forecasts as the UK’s official forecasts. As the Chancellor said in Summer Budget 2015, “we now have Budgets that fit the economic forecasts, instead of economic forecasts that were fixed to fit the Budget”.<sup>2</sup>

This review of the OBR was launched by the Chancellor on 11 June 2015. The overall assessment is that the OBR has made substantive progress in improving the credibility of the UK’s fiscal framework. In particular, it has ended the perception of bias associated with the forecasts that were previously produced by the Treasury. The default assumption should remain that the government uses the OBR’s economic and fiscal forecasts as the UK’s official forecasts.

The OBR has developed a strong reputation among stakeholders through the quality of its reports, the expertise of its staff, and the credibility of the Budget Responsibility Committee (BRC). A marked increase in transparency has led to greater trust in the integrity of the forecasts.

However, a number of stakeholders felt the OBR could do more to hold the UK government to account if it had greater resources. The OBR also faces new challenges over this Parliament, with changes to the membership of the BRC, turnover of long-standing staff and fiscal devolution. Meeting these challenges will require the OBR to have greater resilience and capacity.

The OBR should be adequately resourced to carry out its remit over the Parliament, in particular to enable it to:

- build resilience in producing the forecast in light of the eventual movement of long-standing staff, evolving demands and turnover in the membership of the BRC
- produce a new report on fiscal risks, extending existing analysis and meeting the recommendations of the International Monetary Fund’s (IMF) Fiscal Transparency Code; it should cover a range of risks including macroeconomic shocks and contingent liabilities
- produce additional analysis on long-term fiscal sustainability; the requirement to include long-term projections in the ‘Fiscal sustainability report’ should be made biennial to free up resource for more in-depth analysis
- support methodological development and research, including taking on an explicit convening role within the UK’s (small) fiscal forecasting community
- improve the accessibility of its website and produce more “user-friendly” versions of its material to support a wider audience
- undertake more systematic engagement with Parliament and the devolved administrations

The OBR’s duty is to produce forecasts for the whole of the UK. With greater fiscal devolution, legislation should ensure rights of access to information and assistance between the OBR,

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<sup>1</sup> ‘Charter for Budget Responsibility’, HM Treasury 2014, ch.2.2.

<sup>2</sup> ‘Summer Budget full speech’, Chancellor of the Exchequer, 2015

devolved administrations and any fiscal institution they might create. Similar arrangements should apply to 'city deals' with significant fiscal devolution.

The review also considered whether the OBR's remit should be expanded, to include the costing of opposition policies or other areas that have been proposed, such as child poverty analysis. Most stakeholders agreed that the OBR's clearly-defined and focused remit is a key strength: the OBR has a difficult job that it does very well. Extending that remit, particularly into politically controversial areas, risks the credibility of the institution and a loss of focus. The OBR certifies policy costings but the costings themselves are produced by the government. Costing opposition policies would raise significant constitutional issues and conflicts of interest for civil servants, who work for the government of the day.

A successful OBR should be allowed to build on that success, holding the government to account, rather than being diverted into other roles. The review therefore recommends that no changes should be made to the OBR's remit and underpinning legislation. Instead, the government and the OBR should ensure greater availability of tools and data to allow third parties to cost alternative policy options.

## **Box 0.A: Full list of recommendations**

### **Legislation**

The default assumption should remain that the government uses the OBR's economic and fiscal forecasts as the UK's official forecasts.

The OBR should receive a multi-year budget on a rolling basis, to ensure that its budget extends at least 3 years into the future at any given time.

The government should discuss with devolved administrations opportunities to amend relevant legislation:

- to ensure that the OBR has the appropriate information, explanation and assistance to enable it to carry out its functions
- to ensure that the OBR provides information on its forecast judgements to the appropriate devolved bodies
- and similar arrangements should be put in place for 'city deals' involving significant fiscal devolution

No changes should be made to the OBR's remit and the underpinning legislation, the Budget Responsibility and National Audit Act, at this stage.

### **Operating framework**

The government should update the Charter for Budget Responsibility to:

- replace the requirement for the OBR to include long-term projections in every edition of its annual sustainability report with a requirement to produce biennial projections
- incorporate the requirement for the OBR to produce a regular report on fiscal risks, in line with the recommendations of the IMF's Fiscal Transparency Code; the government should respond formally to the report
- incorporate the requirement for the OBR to produce an annual Welfare trends report

The OBR and the signatory departments should review the Memorandum of Understanding (MoU) by September 2016 and where necessary set out additional detail on governance and processes, including steps to strengthen and formalise the arrangements around the signatory departments' compliance with the MoU and delivery of the forecast and policy costings.

The OBR and the ONS should agree a set of principles on the anticipation of pending ONS classification decisions or changes to the forecast.

The OBR, devolved administrations and bodies and fiscally significant 'city deals' should consider agreeing Memoranda of Understanding to reflect developments in fiscal devolution in the UK.

That the OBR and HM Treasury Framework document remains appropriate. It should be reviewed periodically.

## **Forecast performance and capability**

The Treasury, working in partnership with the OBR, should put in place a succession plan to help manage the transition of the BRC membership. To deliver this:

- the Treasury should seek candidates both within the UK and internationally
- there should be increased flexibility in job description (full-time or part-time opportunity) to increase the pool of potential candidates

The Treasury should ensure that the OBR is adequately resourced to build resilience in producing the forecast in light of the eventual movement of experienced staff, and to meet the other recommendations of this review.

The Treasury should ensure that the OBR is adequately resourced to support methodological development and research and take an explicit convening role in the UK's (small) fiscal forecasting community.

The OBR should work more systematically with forecasting departments on model development, building on existing practice to ensure key models are fit for purpose. Forecasting departments should ensure model development is adequately resourced. To deliver this:

- the OBR should publish an assessment of the performance of individual forecasting models and their priorities for model improvement
- the existing MoU for the macroeconomic model and steering group should be extended to include the main fiscal forecasting models
- the forecast timetable and process should be reviewed to ensure sufficient time is allocated for quality assurance across all departments

## **Transparency and accessibility**

The OBR should conduct more in-depth analysis on specific fiscal sustainability issues.

The OBR should improve the accessibility of its website, taking into account user feedback, to increase the prominence of key material and improve the organisation of data and information.

The OBR should increase accessibility of its material to a wider range of stakeholders, engaging through more diverse communications approaches, and making better use of online and social media channels.

The government and the OBR should ensure greater availability of tools and data to allow third parties to cost alternative policy options.

The OBR should undertake more systematic engagement with Parliamentarians and devolved administrations to enhance understanding of the OBR's role and encourage greater use of the OBR's output.

## Fiscal credibility

The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. At Autumn Statement 2013, the government set out its intention to undertake a review of the OBR at the start of this Parliament.<sup>3</sup> This review has assessed how effectively the OBR has helped to enhance the UK's fiscal credibility in the last 5 years, and considered how it might do more over the current Parliament and beyond.

Fiscal credibility means that with regard to its fiscal policy, people believe that the government will do what it says.<sup>4</sup> There are a number of ways that fiscal credibility can be established and sustained.

In recent years, many governments internationally have used fiscal targets as a tool to demonstrate political commitment to fiscal policy goals. Increasingly they have established independent fiscal institutions (IFIs) to assess compliance with these targets, and to increase trust in the forecasts and analysis on which such assessments are usually based. There is evidence from the experience to date that independent fiscal institutions (IFIs) are on average associated with better fiscal outcomes.<sup>5</sup>

In the case of the UK, the OBR was specifically set up to "ensure that policy is made on an unbiased view of future prospects, improving confidence in the fiscal forecasts".<sup>6</sup>

The OBR's remit set in 2010 was to produce 5-year forecasts for the economy and public finances at least twice a year; use their public finance forecasts to judge the government's performance against its fiscal targets; conduct an assessment of the accuracy of their forecasts and assess the long-term sustainability of the public finances.

The first external review of the organisation - required by legislation every 5 years - reported in September 2014. It was led by Kevin Page, former Parliamentary Budget Officer for Canada (Page review). It included a set of recommendations to support the OBR "beyond its successful first five-year term".<sup>7</sup> This review draws on the Page review to recommend further steps the government can take that will strengthen the OBR and enhance fiscal credibility in the UK.

The evidence base underpinning the conclusions set out in the next sections reflects feedback from a wide range of domestic and international stakeholders, quantitative analysis on the OBR's forecasting performance and comparison with other international fiscal institutions.<sup>8</sup>

The Organisation for Economic Cooperation and Development (OECD) Council published a set of recommended principles for independent fiscal institutions in 2014 which will be used as the criteria for assessing the effectiveness of the OBR. There are 22 principles in total. These "seek to reinforce the core values that IFIs both promote and operate under – independence, non-partisanship, transparency and accountability – while demonstrating technical competence and

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<sup>3</sup> 'Autumn Statement 2013', para 1.139 "As required by legislation, the OBR will be initiating an external review of their publications over the course of 2014. Following the outcome of this review, the government will hold its own review of the OBR at the start of the next Parliament." HM Treasury

<sup>4</sup> This is an extension of Alan Blinder's definition that "A central bank is credible if people believe it will do what it says", 'Central-Bank Credibility: Why Do We Care? How Do We Build It?' Blinder, 2000

<sup>5</sup> 'How Can Fiscal Councils Strengthen Fiscal Performance?' OECD Journal: Economic studies, 2011

<sup>6</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/210667/press\\_01\\_10.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210667/press_01_10.pdf)

<sup>7</sup> 'External review of the Office for Budget Responsibility', K. Page, 2014

<sup>8</sup> Annex B lists the stakeholders who contributed to the review.

producing relevant work of the highest quality that stands up to public scrutiny and informs the public debate”.<sup>9</sup>

The report is structured as follows. Chapter 1 defines fiscal credibility and considers the role that IFIs play in contributing to it. It then sets out the criteria for assessing the effectiveness of the OBR and what further steps can be taken to enhance its contribution to the UK’s fiscal credibility. Chapter 2 compares the OBR against other IFIs in terms of size, resources and remit. Chapters 3 and 4 assess the OBR’s formal legislative framework and governance regime against the full set of OECD principles. Chapters 5 and 6 then examine the OBR’s main activities; forecast production and communication and, in the context of the relevant OECD principles, whether additional steps should be taken.

## **The OBR and IFIs in other countries**

Chapter 2 compares the OBR with other IFIs around the world. There is no standard model, with the shape, size and remit being determined by local constitutional and institutional factors. This heterogeneity was also highlighted in the Page review and the IMF’s 2013 survey of independent fiscal institutions. Although there is great diversity, “Fiscal councils can promote stronger fiscal discipline as long as they are well-designed”.<sup>10</sup> OECD principles can provide a good framework for establishing best practice.

The following key observations stand out:

- the number of independent fiscal institutions within the OECD has tripled since the financial crisis; a large number of new IFIs have been established to monitor compliance with fiscal rules, in line with recent EU regulations
- non-partisanship and independence are pre-requisites for a successful IFI; most councils have a legal guarantee of independence (e.g. UK, US, Australia, Ireland, Slovak Republic, Korea)
- the role of the IFI is to inform policy making, and it should have no decision making authority; most IFIs assessed for this review do not make normative policy recommendations
- the operational independence of the fiscal institution relies on resources remaining commensurate with its remit; multiannual funding commitments are another means to strengthen IFIs’ independence
- the statutory authority of an IFI reflects the mandate and context of the council; the majority of IFIs are under the statutory authority of the executive; irrespective of statutory authority, most IFIs have links with the legislature; the OBR is currently unique in its dual accountability to Parliament and the government
- IFIs’ roles and responsibilities are typically a combination of the following tasks; monitoring fiscal policy and rules; producing or assessing forecasts; providing analysis of long-run sustainability of public finances; and costing policy proposals

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<sup>9</sup> ‘Recommendation of the Council on Principles for Independent Fiscal Institutions, Public Governance and Territorial Development Directorate’ OECD, 2014

<sup>10</sup> ‘The Functions and Impact of Fiscal Councils’, IMF, 2013

- most IFIs are involved in forecasting in some capacity; however only 2 councils produce the official forecasts; the CPB in the Netherlands and the UK's OBR;<sup>11</sup> the Australian Parliamentary Budget Office (PBO) is prohibited from producing economic forecasts or budget estimates, and must use the forecasts prepared by the government<sup>12</sup>
- only 2 IFIs currently cost election platforms, the CPB in the Netherlands, and the PBO in Australia; the CPB's scope was not broadened significantly in its early years only costing election platforms 40 years after its establishment,<sup>13</sup> while the PBO in Australia was explicitly set up to cost election commitments, taking over this role from the government

## Legislation

When the OBR was first created the Treasury Select Committee (TSC) identified its “institutional structure, accountability and discretion” as key factors that would determine its effectiveness.<sup>14</sup> The primary legislation underpinning the OBR is the Budget Responsibility and National Audit Act 2011 (BRNA).<sup>15</sup> It sets out the main duty of the OBR, how it should be performed and restrictions on the Treasury's guidance to operationalise these responsibilities. It also includes the OBR's requirements on access to information and the arrangements on staff recruitment and appointments to the BRC. The overall assessment is that the legislative framework meets all the OECD principles.

The legislation provides clarity on the main duty of the OBR, which is to “examine and report on the sustainability of the public finances”, and on the requirement for it do so “objectively, transparently and impartially”. It fulfils this duty primarily through the keynote publications it produces: the ‘Economic and fiscal outlook’ (EFO) provides the government's official forecast and assesses progress against the government's targets; the ‘Forecast evaluation report’ (FER) assesses the accuracy of past forecasts and draws lessons from forecast errors; and the ‘Fiscal sustainability report’ (FSR) assesses the long-term sustainability of the public finances.

### Recommendations on the government's official forecast

The default assumption should remain that the government uses the OBR's economic and fiscal forecasts as the UK's official forecasts.

Dual accountability to the government and to Parliament underpins the OBR's legitimacy and independence. The OBR has a responsibility to the government to deliver forecasts and scrutiny of policy costings of a quality and on a timetable that permits effective and efficient policymaking at fiscal events. It also has a responsibility to Parliament to explain its judgements and its actions, thereby helping Parliament hold the government to account for its fiscal policy decisions.

In order to further reinforce the OBR's independence, and in line with international best practice, following the 2013 Spending Round that set departmental allocations for 2015 to

<sup>11</sup> 'The Functions and Impact of Fiscal Councils' IMF, 2013

<sup>12</sup> OECD, 2015

<sup>13</sup> see Chapter 3 for more detail

<sup>14</sup> <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/385/38504.htm>

<sup>15</sup> [http://www.legislation.gov.uk/ukpga/2011/4/pdfs/ukpga\\_20110004\\_en.pdf](http://www.legislation.gov.uk/ukpga/2011/4/pdfs/ukpga_20110004_en.pdf)

2016, the Treasury provided the OBR with a multi-year budget that also included indicative allocations for 2016 to 2017 and 2017 to 2018.<sup>16</sup>

### **Recommendation on the financing allocation for the next term of Parliament**

The OBR should receive a multi-year budget on a rolling basis, to ensure that its budget extends at least 3 years into the future at any given time.

Access to information is essential for OBR forecasts to be complete and credible. The existing legislation gives the OBR right of access to information, explanation and assistance from “any Minister of the Crown or Government department”. But further fiscal devolution means that in future more decisions with a material impact on the UK public finances will be taken by the devolved administrations, to which the legislation makes no direct reference. Given the OBR’s duty to produce economic and fiscal forecasts for the whole of the UK, for the benefit of all citizens of the UK, the government should take legislative opportunities as they appear to ensure that the devolved administrations are also required to provide relevant information, explanation and assistance to the OBR. Reciprocally, the OBR should be required to provide information and explanation to the devolved administrations, legislative bodies and any independent fiscal institutions that they may create regarding the forecast judgements that it makes.

### **Recommendations on access to information**

The government should discuss with devolved administrations opportunities to amend relevant legislation:

- to ensure that the OBR has the appropriate information, explanation and assistance to enable it to carry out its functions
- to ensure that the OBR provides information on its forecast judgements to the appropriate devolved bodies
- and similar arrangements should be put in place for ‘city deals’ involving significant fiscal devolution

The OBR’s success to date has reflected a well-defined and focused role that precludes normative statements about government or alternative policies. The same is true of most other IFIs. Some IFIs, for example those of Sweden, Hungary and Austria, are allowed to make normative statements. Only 2 IFIs – in the Netherlands and Australia – cost the manifestos of opposition parties.

Proposals have been made to extend the remit of the OBR, including costing opposition policies, taking on distributional analysis and assessing performance against the government’s child poverty target. In assessing these proposals, the review has considered whether they would enhance the UK’s fiscal credibility. In particular, would extensions to the remit make the OBR more or less effective in carrying out its core role “to examine and report on the sustainability of the public finances” and thus hold the government to account for its fiscal policies?

Over this Parliament, the OBR will need to meet new challenges to fulfil its existing remit, including increased fiscal devolution, changes to the membership of the BRC and turnover of

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<sup>16</sup> Letter from HM Treasury Permanent Secretary to the Chair of the OBR regarding the OBR funding allocation, <http://budgetresponsibility.org.uk/transparency/letters/>

long-standing staff. Stakeholders also felt that more analysis, particularly of fiscal risks and fiscal sustainability, would enhance the OBR's core role.

It is much less clear how costing manifesto proposals would contribute to the credibility of the UK's fiscal framework: "pre-election policy costings are not a guarantee of better policies".<sup>17</sup> It would take the OBR into a new, and politically contentious, role. This might enhance the democratic debate and some stakeholders took this view. For example, Bos and Teulings note that "it can help political parties to credibly inform voters about the implications of their platforms, to design more efficient policies and to reach consensus on them"<sup>18</sup>. But this is not certain. Bos and Teulings note that "few voters will read the evaluation report, but fall back upon media analysis of the report" and "press reports magnify certain results, sometimes completely forget others ... and could even be seriously flawed".<sup>19</sup>

Instead, a number of stakeholders argued that manifesto costing is largely a service to political parties. In the Netherlands, the IFI's role in manifesto costing is closely linked to coalition negotiations: coalition agreements contain detailed budget plans for the government's term and require a set of agreed costings. In Australia, manifesto costings are provided to political parties ahead of the election but not published until after the election.

The Page review recommended that "caution be exercised in considering the expansion of the OBR's mandate (e.g. costing certification of opposition manifestos)." Stakeholders who contributed to this review were also concerned that taking on manifesto costings would increase the likelihood of the OBR being drawn into party political debate and risk damaging the perceived independence of a still young institution. Cross-party support for IFIs can erode very rapidly, as international experience has shown.

A further consideration is that the OBR does not cost government policies itself, but rather scrutinises and certifies costings initially prepared by the Treasury and other departments. So costing opposition policies would require significant additional staff for the OBR (especially at election time) and significant support from the rest of the civil service, which would have both resource and constitutional implications. Manifesto costing would also be a very substantial task, which risks distracting the OBR from its core role in holding the government to account.

Other proposed extensions to the OBR's remit, including distributional analysis and child poverty, present fewer risks to the institution's core purpose and function. But there are also few links between these roles and the OBR's existing remit. The OBR has no special expertise in these areas. Moreover, the public is already well served with analysis on these questions, from independent institutions as well as the government. It is not clear what the OBR would add to the work of bodies such as the Institute for Fiscal Studies.

The OBR should be given more resources to enhance its core remit and hold the government to account for its fiscal policies. But extending the remit risks drawing the OBR into political controversy and diverting it from an already difficult task. The OBR should instead be allowed to build on its success within its existing role.

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<sup>17</sup> 'Show me the money: Costing party policies in advance of the election'. R. Munro, Institute for Government blog, 2015

<sup>18</sup> 'Evaluation election platforms: a task for fiscal councils? Scope and rules of the game in view of 25 years of Dutch practice', F. Bos and C. Teulings, 2011

<sup>19</sup> *ibid*

### **Recommendation on the Budget Responsibility and National Audit Act**

No changes should be made to the OBR's remit and the underpinning legislation, the Budget Responsibility and National Audit Act, at this stage.

## **Operating framework**

The BRNA also sets out the terms and conditions on which government may provide guidance to the OBR to operationalise its responsibilities. This guidance is delivered via secondary legislation in the form of the Charter for Budget Responsibility (the "Charter").

Content of the annual analysis of the sustainability of the public finances is specified in the Charter, however the review recommends that the OBR move away from producing a full set of long-term projections every year. IMF Staff and other stakeholders who contributed to this review also have recommended that the UK produce a single document bringing together analysis of fiscal risks. In terms of the operating framework, any decision to require the OBR to produce a regular report should be codified in the Charter. The review therefore recommends the arrangements for the 'Welfare trends report' currently set out in an exchange of letters are also incorporated. Further details of the changes to the FSR and the analysis of risks are discussed later on.

### **Recommendations on updates to the Charter**

The government should update the Charter for Budget Responsibility to:

- replace the requirement for the OBR to include long-term projections in every edition of its annual sustainability report with a requirement to produce biennial projections
- incorporate the requirement for the OBR to produce a regular report on fiscal risks, in line with the recommendations of the IMF's Fiscal Transparency Code; the government should respond formally to the report
- incorporate the requirement for the OBR to produce an annual Welfare trends report

Below the primary and secondary legislation, there are additional governance arrangements in place. The Memorandum of Understanding (MoU) is the document that sets out the agreed working relationship between the OBR and the key forecasting departments: HM Revenue and Customs, the Department for Work and Pensions, and HM Treasury. It is important given the forecasting process requires close working between the OBR and government departments that provide it with information and assistance. Feedback from the stakeholders who contributed to this review is that this functions well.

Reflecting on what has been learnt from the experience of one Parliament, there is value in the OBR and forecasting departments collectively reviewing the MoU 5 years on and assessing whether any processes need to be updated or refreshed. This would also help to safeguard the robustness of the process for the future.

As the OBR has to provide forecast information, there can be occasions when the OBR needs to anticipate how the ONS will treat new policies and statistical guidelines in the fiscal aggregates.

The review recommends that the OBR work with the ONS to develop a protocol for dealing with these situations.

#### **Recommendations on non-legislative governance material**

The OBR and the signatory departments should review the Memorandum of Understanding (MoU) by September 2016 and where necessary set out additional detail on governance and processes, including steps to strengthen and formalise the arrangements around the signatory departments' compliance with the MoU and delivery of the forecast and policy costings.

The OBR and the ONS should agree a set of principles on the anticipation of pending ONS classification decisions or changes to the forecast.

The OBR's working relationships with devolved administrations and arm's length bodies/agencies should also be set out in Memoranda of Understanding to reflect recent developments in fiscal devolution within the UK. In addition to strengthening the current effective working relationships, this would operationalise the proposed change to legislation described above on the rights of access to information, explanation and assistance for both the OBR and the devolved administrations.

#### **Recommendation on relationship between the OBR and devolved administrations**

The OBR, devolved administrations and bodies and fiscally significant 'city deals' should agree Memoranda of Understanding to reflect developments in fiscal devolution in the UK.

## **Forecasting performance and capability**

The Page review concluded that the OBR has "succeeded in reducing perception of bias in fiscal and economic forecasting" and that the methodology it uses compares well with its international counterparts. These achievements are closely linked to the improvements in transparency that were detailed in the Page review and which are discussed in the next section.

The forecast for the public finances at each fiscal event is determined by: changes to the economy forecast, latest outturn and other relevant information, and, most importantly, judgements taken by the BRC. The Page review highlighted that "the OBR's successes would not be sustainable without the continuity of this expertise". For example, the OBR is currently helped enormously in dealing with the breadth and detail of the fiscal forecasts by having a BRC member with many years of experience with the same forecasts prior to the creation of the OBR. The BRC will undergo its first change in membership, since the OBR was put onto a statutory basis, in this Parliament. The Chancellor is responsible for BRC appointments, subject to the consent of the TSC.

### **Recommendations on succession planning**

The Treasury, working in partnership with the OBR, should put in place a succession plan to help manage the transition of BRC membership. To deliver this:

- the Treasury should seek candidates both within the UK and internationally
- there should be increased flexibility in job description (full-time or part-time opportunity) to increase the pool of potential candidates

Both the Page review and the stakeholders who contributed to this review questioned whether the OBR size's relative to its remit was sustainable for the future. The resilience of the team will be tested both by staff turnover and retention of expertise, and by demands from changes in the constitutional framework. Greater UK fiscal devolution, complex policy costings and more in depth analysis on fiscal sustainability and presentation of risks are a number of areas identified by the review where the OBR will need to be adequately resourced. The review also recommends that the OBR have more of a convening role to aid the development of the fiscal community and this would be facilitated by an increase in the OBR's research budget.

### **Recommendations on resilience and capability building**

The Treasury should ensure that the OBR is adequately resourced to build resilience in producing the forecast in light of the eventual movement of experienced staff, and to meet the other recommendations of this review.

The Treasury should ensure that the OBR is adequately resourced to support methodological development and research and take an explicit convening role in the UK's (small) fiscal forecasting community.

While the BRC "take full responsibility for the judgements that underpin [the forecast]", the OBR clearly depends on the expertise and modelling capacities in forecasting departments and agencies (and increasingly in devolved administrations and bodies).<sup>20</sup> This is unique to the UK but overall the process works well and "it would not be practical to duplicate the forecasting activities within the OBR".<sup>21</sup> More systematic cooperation on improvements to the forecast technology would be mutually beneficial.

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<sup>20</sup> Foreword in the 'Economic and fiscal outlook', OBR

<sup>21</sup> Sir Alan Budd, letter to Chancellor of the Exchequer on Establishing the Office for Budget Responsibility, 12 July 2010

### Recommendations on fiscal model development

The OBR should work more systematically with forecasting departments on model development, building on existing practice to ensure key models are fit for purpose. Forecasting departments should ensure model development is adequately resourced. To deliver this:

- the OBR should publish an assessment of the performance of individual forecasting models and their priorities for model improvement
- the existing MoU for the macroeconomic model and steering group should be extended to include the main fiscal forecasting models
- the forecast timetable and process should be reviewed to ensure sufficient time is allocated for quality assurance across all departments

## Transparency and accessibility

Transparency is very important for fiscal credibility. It increases “the general degree of understanding of the government’s underlying fiscal position and the risks around it”.<sup>22</sup> The OBR has made substantive progress in the last 5 years in increasing transparency. Stakeholders who contributed to this review said that it had set an example for other IFIs around the world to follow.

Building on this success and reflecting stakeholder feedback, there are a number of areas where the OBR could take further steps to increase the impact and reach of its work.

Legislation requires the OBR to produce “an analysis of the risks” to both the economic and public finances forecasts. These analyses are currently presented through various channels, including the OBR’s EFO and FSR, which analyse disclosures made in the government’s ‘Whole of Government Accounts’. IMF staff have recommended that the UK should bring this information together, expand upon it and produce a regular comprehensive assessment of fiscal risks.<sup>23</sup> Asking the OBR to produce this regular assessment - and committing the government to respond formally to it - would reassure stakeholders of the integrity and independence of the analysis and underline the government’s commitment to address such risks substantively. The requirement for the OBR to produce this report would be included in the Charter.

The IMF has emphasised that publication of fiscal sustainability analysis, projecting the evolution of the public finances over the long term, is good practice in fiscal transparency.<sup>24</sup> However, there may be more effective ways for the OBR to highlight issues around fiscal sustainability than to produce detailed long-term projections every year. The Office for National Statistics demographic projections that underpin this analysis are only updated every 2 years.

Finally, the OBR could take further steps to increase the accessibility of its information and to target a wider audience.

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<sup>22</sup> ‘Fiscal Transparency, Accountability, and Risk’, IMF, 2012

<sup>23</sup> ‘Budget Institutions in G20 Countries’, IMF, 2014

<sup>24</sup> ‘Fiscal Transparency Code’, IMF, 2014

### **Recommendations on OBR outputs and accessibility of information**

The OBR should conduct more in-depth analysis on specific fiscal sustainability issues.

The OBR should improve the accessibility of its website, taking into account user feedback, to increase the prominence of key material and improve the organisation of data and information.

The OBR should increase accessibility of its material to a wider range of stakeholders, engaging through more diverse communications approaches, and making better use of online and social media channels.

The government and the OBR should ensure greater availability of tools and data to allow third parties to cost alternative policy options.

The OBR should undertake more systematic engagement with Parliamentarians and devolved administrations to enhance understanding of the OBR's role and encourage greater use of the OBR's output.

## **Conclusion**

Five years on from its creation, the OBR is a respected and successful organisation. There is universal agreement among stakeholders that the OBR adds to the credibility of the UK's fiscal framework. The OBR was created to remove the perception of bias in the UK's official forecasts and to hold the government to account for its fiscal policies. Over the last 5 years, it has succeeded in this task, despite the inherent difficulties in economic and fiscal forecasting.

However, the OBR could do more to fulfil its core remit, if it had more resources. In addition, it faces key challenges over this Parliament with changes in the membership of the BRC, turnover of long-standing staff and fiscal devolution. It is critical to the OBR's continued success that it has the resilience and capacity to meet these challenges.

The OBR should therefore be adequately resourced. This will allow it to meet these challenges; enhance its analysis of fiscal risks and sustainability; and make its publications more accessible to a wider audience. Fiscal credibility will be best served by sustaining and strengthening the OBR's ability to deliver to its existing remit, rather than expanding the remit at this stage.

To follow up the review,

- the OBR and the Treasury should provide the Chancellor and the Chair of the TSC an update in the Autumn of 2016 on progress against the recommendations
- after the next external review, which – in accordance with the BRNA – the OBR's non-executives will need to commission by the end of this Parliament, the government will need to consider the appropriate response in taking forward the recommendations

# 1 Fiscal credibility

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## 1.1 This chapter:

- begins by defining fiscal credibility and outlines the benefits associated with credible fiscal policy
- explores the ways in which credibility can be established, including political commitment to fiscal targets and independent fiscal institutions (IFIs), like the OBR
- considers the evidence on whether public finances are stronger in countries which have an IFI
- concludes by setting out the principles underpinning effective IFIs, and which will be used to assess the OBR in this review

## What is fiscal credibility and why is it important?

**1.2** Put simply, fiscal credibility means that with regard to its fiscal policy, people believe the government will do what it says.<sup>1</sup>

**1.3** Fiscal credibility makes the economic environment more predictable, allowing firms and individuals to plan and to take decisions with confidence. It helps monetary policymakers to take decisions that will ensure that inflation and output remain stable. It also increases the confidence of those who are lending to the government, which, all else equal, results in lower interest rates and an improved fiscal position.

**1.4** Once fiscal credibility has been established, it allows a government to show discretion and tailor fiscal policy to the economic circumstances, for example by allowing the automatic stabilisers to operate in an economic downturn, without damaging confidence in the long-run fiscal position.<sup>2</sup> This is analogous to the operation of monetary policy, where the Bank of England has been able to support the economy while keeping inflation expectations low through a framework based on “constrained discretion”

## Establishing fiscal credibility

**1.5** There are a number of ways in which a government can establish fiscal credibility. Among them:

- fiscal policy is more credible if it is sustainable in the medium-term and consistent with the government's other policy goals, for example policy that is consistent with long-run fiscal sustainability is more credible than policy which would see debt rise indefinitely as a share of national income
- a government may establish credibility through its track-record; a government that consistently sticks to its plans is more likely to be believed than one which regularly deviates from them

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<sup>1</sup>Fiscal credibility can be thought of as synonymous with central bank credibility as defined in ‘Central-Bank Credibility: Why Do We Care? How Do We Build it?’, Blinder, 2000, “A central bank is credible if people believe it will do what it says”.

<sup>2</sup>The government set out new fiscal rules at Summer Budget 2015 that combine an overall surplus target in normal times with significant flexibility if the economy is hit by a negative shock. Further details are available in the draft Charter published alongside the Summer Budget 2015 document.

**1.6** However, political incentives act to undermine credibility. Governments may be tempted to raise spending or cut taxes in order to boost their electoral chances. Or they may announce policy now for future implementation, only to take a different approach when the time comes to implement it. The public finances are complex and it is hard for government to be held to account when it takes such decisions. This can lead to “deficit-bias”, where countries run looser fiscal positions on average than would be optimal. In order to counteract deficit bias and to boost credibility, countries around the world have increasingly looked to develop rules and institutions that balance political incentives and constrain government behaviour.

**1.7** A government can demonstrate political commitment through fiscal targets set out in a medium term framework. These can be supported by procedural and transparency requirements defined by a fiscal responsibility law. In some cases, a government may be legally bound to meet a fiscal target. If the target is not met, it is required to explain how fiscal prudence is to be restored, and set a path back to the rule.

**1.8** Fiscal targets have gained in popularity over recent years. In 1990, only 7 countries worldwide had a fiscal target. By early 2009, national or supranational rules were in place in 21 advanced economies.<sup>3</sup> Provided there is sufficient transparency and scrutiny, fiscal targets can improve fiscal performance.<sup>4</sup> However, it is difficult to ensure credibility completely through rules alone. The inflexibility of rules, particularly when political bias is strong, may create incentives for creative accounting and off-budget operations.<sup>5</sup> Fiscal rules can also be complex and make it difficult for the government to be held to account.

**1.9** Increasingly governments have also looked to establish IFIs to complement fiscal targets and, to an extent, depoliticise fiscal policy. There are several ways in which IFIs can enhance fiscal credibility and improve fiscal performance. They can help to hold the government to account through monitoring fiscal policy formulation and progress against targets, producing or assessing official forecasts, and improving transparency. They can also comment on the appropriate stance of fiscal policy and performance against fiscal targets, consequently playing a disciplining role and raising public pressure on governments to pursue responsible fiscal policy.

**1.10** As shown in Chart 1.A, the number of IFIs has increased rapidly since the financial crisis, from 13 in 2005 to 39 by the end of 2015. More recent IFIs include the Parliamentary Budget Offices in Canada and South Africa, the High Council of Public Finance in France, and the OBR in the UK. Although most established IFIs are in advanced economies, particularly in Europe, there is growing interest in emerging markets and developing economies. This increasing interest in IFIs is likely to continue, particularly in Europe, where new legal requirements mandate most EU member states to establish national independent bodies to monitor compliance with fiscal rules and produce, or at least assess or validate, macroeconomic and budgetary forecasts.

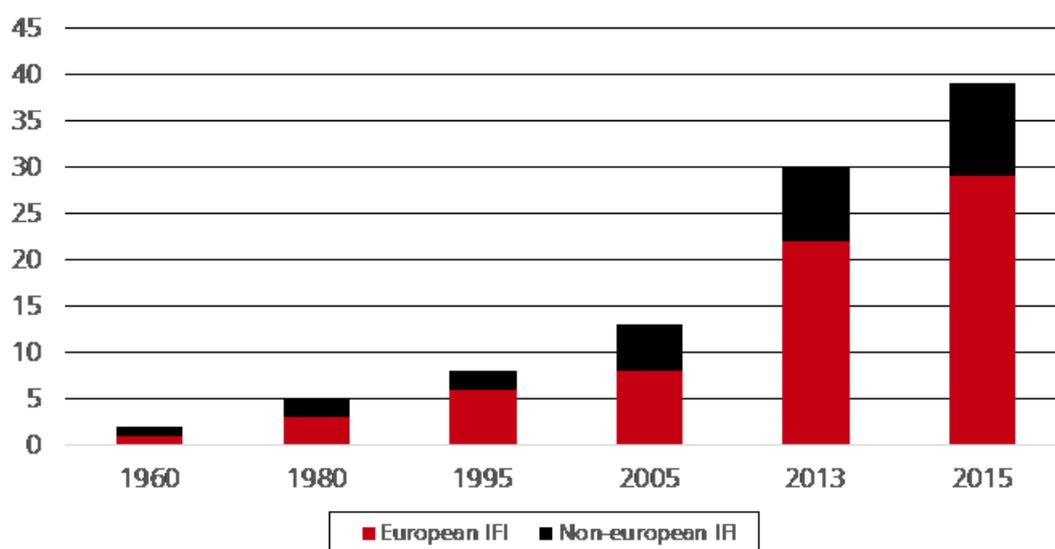
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<sup>3</sup> See Fiscal Rules – ‘Anchoring Expectations for Sustainable Public Finances’, Cottarelli et al, IMF Fiscal Affairs Department, 2009.

<sup>4</sup> As evident in ‘Independent Fiscal Institutions in the EU Member States’, European Commission, Public Finances in EMU, 2006.

<sup>5</sup> As evident in ‘Improving the SGP Through a Proper Accounting of Public Investment’, Blanchard and Giavazzi, CEPR Discussion Paper, 2004. And ‘What do Deficits Tell us about Debt? Empirical Evidence on Creative Accounting with Fiscal Rules’ Von Hagen and Wolff, Journal of Banking and Finance, 2006.

**Chart 1.A: Number of independent fiscal institutions**



Source: IMF Fiscal Council Dataset, 2015

**1.11** In the case of the UK, the OBR was established in 2010 with a clear role to produce independent economic and fiscal forecasts and to assess the likelihood of the government meeting its fiscal mandate based on its current policies. The objective was that the independence of the OBR's judgements would ensure that policy is made on an unbiased view of future prospects, improving confidence in the fiscal forecasts and in the government's fiscal plans. This was expected to contribute to overall UK fiscal credibility.

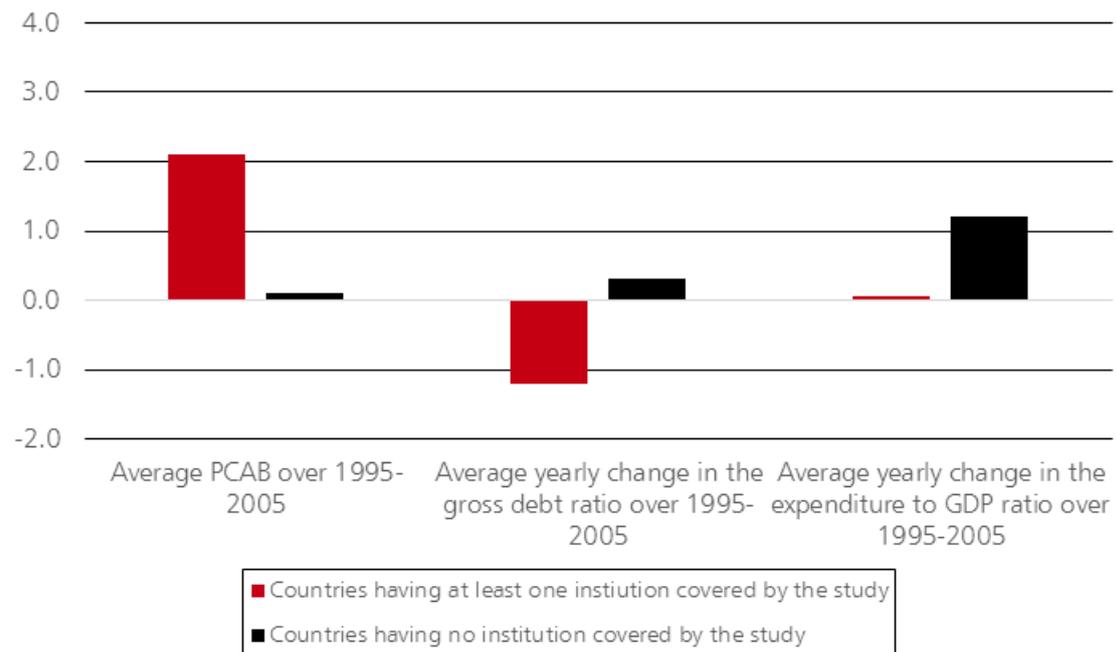
## Evidence of the effectiveness of IFIs

**1.12** Evidence suggests that a government's fiscal performance has been stronger on average in countries which have an IFI.<sup>6</sup> This could be because the existence of an IFI improves fiscal performance or that fiscally prudent governments are more likely to set up IFIs, or a combination of these factors.

**1.13** In 2006, the European Commission compared fiscal performance by using several fiscal indicators before and after the existence of an IFI for EU member states over the period 1995 to 2005. Chart 1.B shows that countries with IFIs had seen an increase in the cyclically adjusted primary balance, a decrease in debt and lower increases in expenditure compared to countries without.

<sup>6</sup> 'How Can Fiscal Councils Strengthen Fiscal Performance?' Hagemann, OECD Journal: Economic studies, 2011. And 'Independent Fiscal Institutions in the EU Member States', European Commission, Public Finances in EMU, 2006.

**Chart 1.B: Improved fiscal performance in countries with independent fiscal institutions (1995 to 2005)**

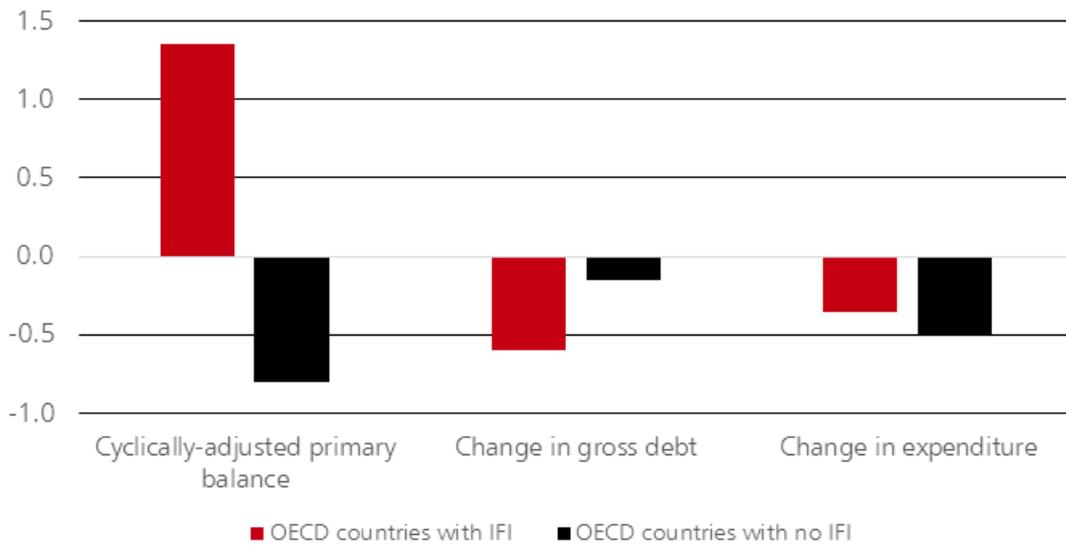


Source: *European Commission, 2006*

**1.14** The OECD replicated the same analysis in 2011 using the same indicators over the same time period but updated for data revisions and extended to include non-EU OECD countries. Chart 1.C shows similar results to the European Commission. Countries with IFIs had seen an increase in the cyclically-adjusted primary balance, a greater reduction in debt but lower decreases in expenditure.<sup>7</sup>

<sup>7</sup> 'How Can Fiscal Councils Strengthen Fiscal Performance?' Hagemann, OECD Journal: Economic studies, 2011.

**Chart 1.C: Improved fiscal performance in countries with independent fiscal institutions (1995 to 2005)**

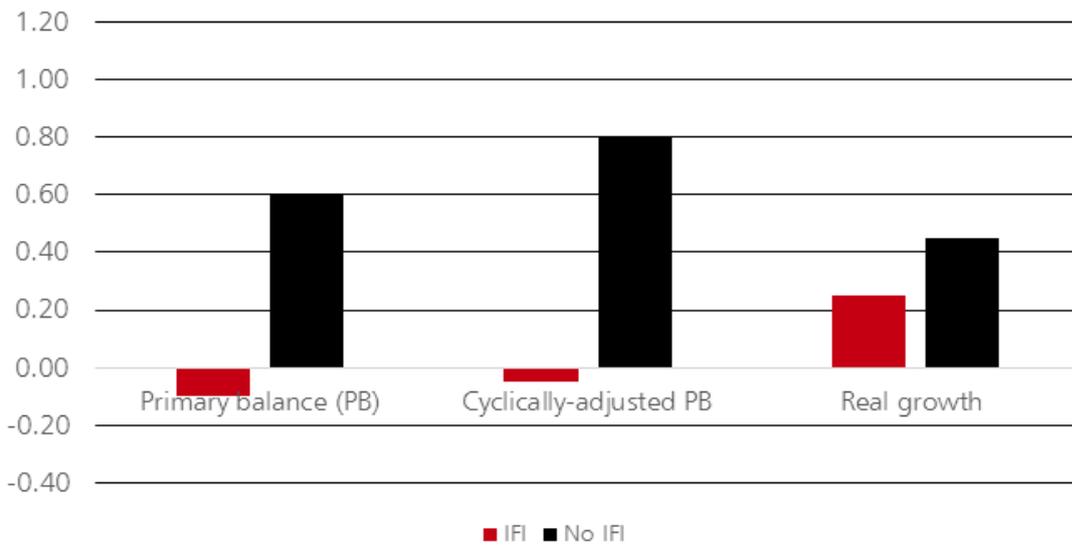


Source: OECD, 2011

**1.15** Analysis by the IMF also suggests that overly-optimistic macroeconomic or budgetary forecasts can be reduced or eliminated by delegating responsibility to an independent fiscal institution. Chart 1.D and Chart 1.E sets out the mean and absolute forecast errors for countries with IFIs versus those without. (Mean errors provide a measure of forecast bias; absolute errors provide a measure of forecast accuracy.) Mean and absolute errors are lower for countries with an IFI.<sup>8</sup>

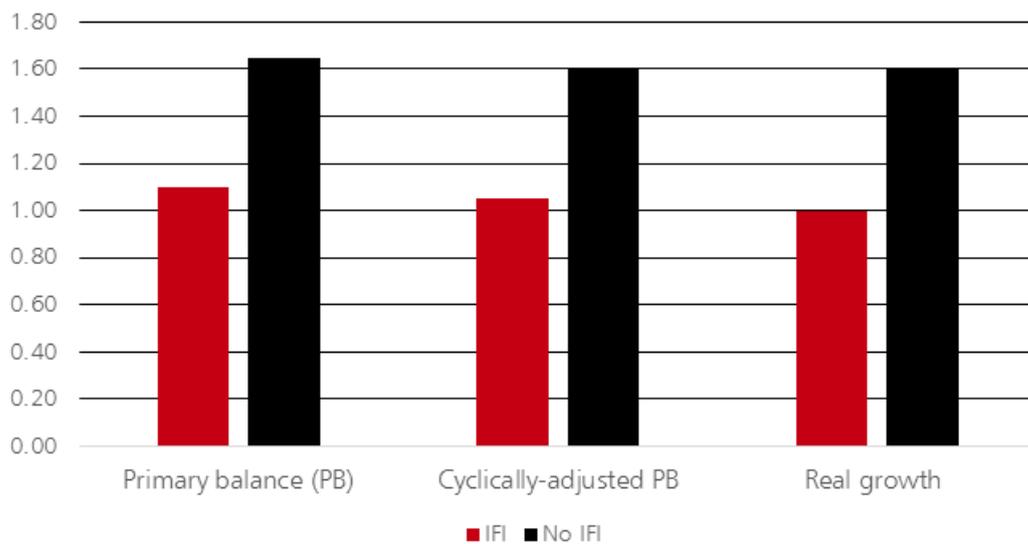
<sup>8</sup> 'The Functions and Impact of Fiscal Councils', Cottarelli et al, IMF Policy Paper, 2013 also in 'Strengthening Post-Crisis Fiscal Credibility: Fiscal Councils on the Rise' – A New Dataset, Debrun and Kinda, IMF Fiscal Affairs Department, 2014.

**Chart 1.D: Mean forecast error over period 1998 to 2010**



Source: IMF 2013, 2014

**Chart 1.E: Absolute forecast error over period 1998 to 2010**



Source: IMF 2013, 2014

## Principles for an effective IFI

**1.16** As discussed in the next chapter, the structure and role of IFIs varies across countries. This is due to several reasons, including the underlying causes behind a lack of fiscal discipline, the political landscape and party structure, as well as the existing institutional budgetary arrangements and procedures.

## OECD Council principles

**1.17** Despite this variation, there are some common institutional features. Following extensive consultations with IFIs across countries, the OECD Council published a set of recommended principles for IFIs in 2014.<sup>9</sup> There are 22 in total which are set out in Box 1.A.

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<sup>9</sup> See 'Recommendation of the Council on Principles for Independent Fiscal Institution', OECD, 2014 and 'Public Governance and Territorial Development Directorate', 2014.

## **Box 1.A: Recommendation of the OECD Council on principles for independent fiscal institutions**

### **1. Local ownership**

**1.1** To be effective and enduring, an IFI requires broad national ownership, commitment, and consensus across the political spectrum. While a country seeking to establish an IFI will benefit from the study of existing models and experiences in other countries, models from abroad should not be artificially copied or imposed. Regional or international authorities may provide valuable support and protection.

**1.2** Local needs and the local institutional environment should determine options for the role and structure of the IFI. Design choices may also have to take into account capacity constraints, particularly in smaller countries. The basic characteristics of an IFI, including specific protections, should be informed by the country's legal framework, political system, and culture. Its functions should be determined by the country's fiscal framework and specific issues that need to be addressed.

### **2. Independence and non-partisanship**

**2.1** Non-partisanship and independence are pre-requisites for a successful IFI. A truly non-partisan body does not present its analysis from a political perspective; it always strives to demonstrate objectivity and professional excellence, and serves all parties. This favours that IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship.

**2.2** The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit – including professional standing and relevant government or academic experience. Qualifications should include proven competence in economics and public finances and familiarity with the budget process.

**2.3** Term lengths and the number of terms that the leadership of the IFI may serve should be clearly specified in legislation as should be the criteria and process for dismissal for cause. The leadership's term should optimally be independent of the electoral cycle. Independence may be enhanced by defining the term span beyond the electoral cycle.

**2.4** The position of head of the IFI should be a remunerated and preferably full-time position. Strict conflict-of-interest standards, particularly for institutions with council members employed on a part-time basis, should be applied equally vis-à-vis other employment in the public or private sector.

**2.5** Staff should be selected through open competition based on merit and technical competence and without reference to political affiliation. Conditions of employment should be along the lines of that of the civil (or parliamentary) service.

### **3. Mandate**

**3.1** The mandate of IFIs should be clearly defined in higher-level legislation, including the general types of reports and analysis they are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release.

**3.2** IFIs should have the scope to produce reports and analysis at their own initiative, provided that these are consistent with their mandate. Similarly, they should have the autonomy to determine their own work programme within the bounds of their mandate.

**3.3** Clear links to the budget process should be established within the mandate. Typical tasks carried out by IFIs might include (but are not limited to): economic and fiscal projections (with a short- to medium-term horizon, or long-term scenarios); baseline projections (assuming unchanged policies); analysis of the executive's budget proposals; monitoring compliance with fiscal rules or official targets; costing of major legislative proposals; and analytical studies on selected issues.

### Resources

**4.1** The resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it in a credible manner. This includes the resources for remuneration of all staff and, where applicable, council members. The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies, such as audit offices, in order to ensure their independence. Multiannual funding commitments may further enhance IFIs independence and provide additional protection from political pressure.

### Relationships with legislature

**5.1** Legislatures perform critical accountability functions in country budget processes and the budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work. Regardless whether an independent fiscal institution is under the statutory authority of the legislative or the executive branch, mechanisms should be put in place to encourage appropriate accountability to the legislature. These may include (but are not limited to): (1) submission of IFI reports to parliament in time to contribute to relevant legislative debate; (2) appearance of IFI leadership or senior staff before the budget committee (or equivalent) to provide responses to parliamentary questions; (3) parliamentary scrutiny of the IFI budget; and (4) a role for parliament's budget committee (or equivalent) in IFI leadership appointments and dismissals.

**5.2** The role of the IFI vis-à-vis parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation. Preferably, the IFI should consider requests from committees and sub-committees rather than individual members or political parties. This is particularly relevant for those IFIs established under the jurisdiction of the legislature.

### Access to information

**6.1** There is often asymmetry of information between the government and the IFI – no matter how well an IFI is resourced. This creates a special duty to guarantee in legislation – and if necessary to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals. Information should be provided at no cost or, if appropriate, sufficient resources should be provided in the IFI budget to cover analysis obtained through government actuarial services.

**6.2** Any restrictions on access to government information should also be clearly defined in legislation. Appropriate safeguards may be put in place as regards protection of privacy (for

example, taxpayer confidentiality) and of sensitive information in the areas of national defence and security.

### Transparency

**7.1** Given that promoting transparency in public finances is a key goal of IFIs, they have a special duty to act as transparently as possible. Full transparency in their work and operations provides the greatest protection of IFI independence and allows them to build credibility with the public.

**7.2** IFI reports and analysis (including a full account of the underlying data and methodology) should be published and made freely available to all. As noted in 5.1, all IFI reports and analysis should be sent to parliament in time for legislative debate and the leadership of the IFI should be given the opportunity to testify before parliamentary committees.

**7.3** The release dates of major reports and analysis should be formally established, especially in order to co-ordinate them with the release of relevant government reports and analysis<sup>9</sup>.

**7.4** IFIs should release their reports and analysis, on matters relating to their core on-going mandate on economic and fiscal issues, in their own name.

### Communications

**8.1** IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders. Given that the influence of IFIs in fiscal policy making is persuasive (rather than coercive by means of legal sanctions or other punitive measures), media coverage of their work assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters.

### External evaluation

**9.1** IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.

## Assessing the effectiveness of the OBR

**1.18** In order to assess the effectiveness of the OBR and what steps the government can take to further enhance its contribution to the UK's fiscal credibility, the review is structured as follows.

**1.19** Chapter 2 describes **the OBR and IFIs in other countries**: comparing the OBR with other IFIs against the OECD Principles and briefly describing the roles and responsibilities of different IFIs.

**1.20** Chapters 3 and 4 assess the OBR's formal legislative framework and governance regime against the OECD principles.

- **Legislation:** Assessing whether the formal legislative framework that underpins the OBR meets all the relevant OECD principles, and considering whether the specific requirements for, and restrictions on, the OBR's activities set out in the legislation remain appropriate.

- **Operating framework:** Assessing whether the OBR's governance arrangements, and in particular the governance documents that sit beneath the legislation, are consistent with the relevant OECD principles, and whether, in light of experience over the last 5 years, there is scope to strengthen these documents and associated processes.

**1.21** Chapters 5 and 6 then examine the OBR's main activities; forecast production and communication and, in the context of the relevant OECD principles, whether additional steps should be taken.

- **Forecasting performance and capability:** evaluating the OBR's forecast performance to date and then assessing how the OBR could improve its forecast, with a particular focus on the OECD principles relating to resources and access to information.
- **Transparency and accessibility:** covering the transparency of the organisation in terms of its outputs, forecasts and conduct and the accessibility of the products, with a particular focus on the OECD principles relating to transparency and communication.



# 2 The OBR and IFIs in other countries

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**2.1** This chapter includes:

- an overview of the structure and remit of the OBR
- comparative analysis of international Independent Fiscal Institutions (IFIs) against OECD principles
- a description of roles and responsibilities in OECD countries
- specific consideration of how IFIs account for subnational governments in their assessments and for producing their forecasts

## Setup, remit and structure of the OBR

**2.2** The OBR was created by the coalition government in 2010 to “address past weaknesses in the credibility of economic and fiscal forecasting,” thereby improving the credibility of fiscal policy. Its role is enshrined in legislation through the Budget Responsibility and National Audit Act 2011 (BRNA) (the “Act”).

**2.3** The OBR carries out core executive roles, and is directly accountable to the Chancellor. This is in line with around half of IFIs across the OECD group.<sup>34</sup> However, the OBR is also accountable to Parliament insofar as it must lay its legislatively mandated reports before the Houses, respond to questions from all Parliamentarians about its reports, and provide testimony and evidence to Parliamentary committees related to budgetary and fiscal matters. Parliament also has a role, via the Treasury Select Committee, in the appointment process of the independent members of the Budget Responsibility Committee (BRC).

**2.4** The remit of the OBR is defined in primary legislation by the Act and is operationalised in secondary legislation in the Charter for Budget Responsibility (the “Charter”). The Charter is prepared by the Treasury and has to be approved by a vote in the House of Commons. The OBR’s fundamental duty is to “examine and report on the sustainability of public finances”.<sup>35</sup> In practice, this involves producing fiscal and economic forecasts at least twice a year – typically at the time of major fiscal events – as well its assessment of the extent to which fiscal policy has delivered, or is likely to deliver, the fiscal mandate. Further details of the legislation and operating framework that underpin the OBR are discussed in Chapters 3 and 4 of this review.

**2.5** The OBR’s organisational structure can be split up into 4 key components, which are illustrated in Chart 2.A. Key features include:

- 2 non-executive members (1 of whom chairs the Oversight Board), who are accountable for ensuring the operations of the OBR conform to its legislative mandate

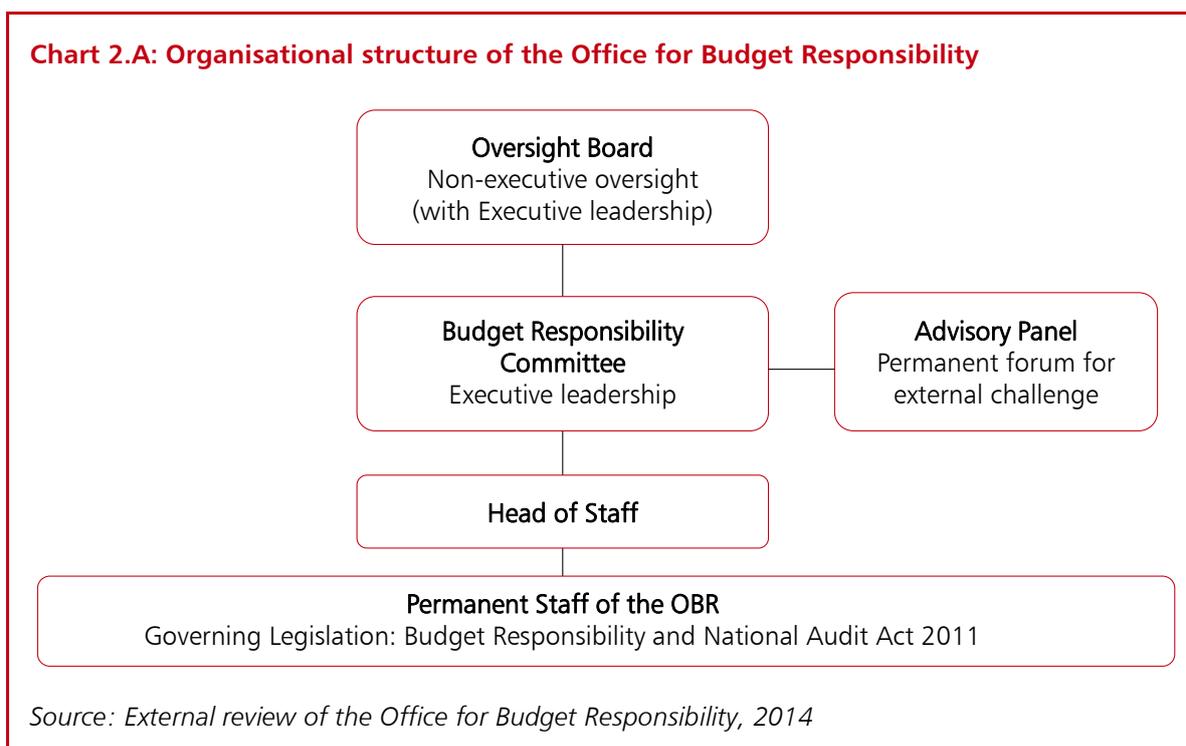
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<sup>34</sup> Note on how the OBR compares to other IFIs, OECD, 2015

<sup>35</sup> ‘Budget Responsibility and National Audit Act 2011’, (c.4)

- the executive leadership; the 3 person BRC, who are responsible for carrying out the core functions within the OBR's mandate
- the OBR Head of Staff
- the Office's 20 permanent staff and analysts

**2.6** It is also supported by the Advisory Panel of economic and fiscal experts, which meets annually to advise the OBR on its work programme and analytical methods. Panel members also provide OBR staff and the BRC with ad hoc advice on specific issues when requested.



## Historical context

**2.7** The OBR is one of a growing number of IFIs around the world. As Chapter 1 highlighted, since the global financial crisis of 2008, the number of independent fiscal institutions within the OECD has tripled.<sup>36</sup>

**2.8** The Canadian Parliamentary Budget Officer (2008), the UK's Office for Budget Responsibility (2010), the Irish Fiscal Advisory Council (2012) the Australian Parliamentary Budget Office (2012) and the Slovak Republic Council for Budget Responsibility (2012) are all recent examples of IFIs established post-crisis.<sup>37</sup> Most IFIs created during this period have been established with the primary aim of enhancing fiscal sustainability.

**2.9** There are a handful of long established bodies such as the Netherlands Bureau for Economic Policy Analysis (CPB), established in 1945, and the United States Congressional Budget Office (CBO), founded in 1974.<sup>38</sup> Both these organisations have a long history and well established

<sup>36</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>37</sup> *ibid*

<sup>38</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

reputation for independent analysis of the public finances and were created under different political and economic settings.

**2.10** In the Netherlands, the CPB was created as part of a strategy to rebuild the economy following the Second World War.<sup>39</sup> The CPB was to be a new planning agency. However this original aim never materialised, with the CPB instead focusing on macroeconomic forecasting and assessing government policies.

**2.11** In the United States, following tensions between the executive and legislative branches over budgetary process in the early 1970s, the CBO was created to support Congress.<sup>40</sup> The CBO's primary purpose was and still is to serve all of Congress with budget information, forecasts and analysis.

## OECD Council principles

**2.12** As set out in Chapter 1, the OECD have developed Principles for independent fiscal institutions "OECD principles", designed to "to assist countries to design an enabling environment conducive to the good performance of an IFI and to ensuring its long-run viability".<sup>41</sup>

**2.13** Despite most IFIs being created relatively recently, many have been successful in fulfilling their mandate, quickly establishing independence, enhancing transparency, and building credibility.

**2.14** IFIs have an important role holding the government to account. Given this role, a number of IFIs have run into challenges with respective governments in their early years. In the past, there have been examples where governments have arbitrarily reduced IFI budgets, ignored IFI advice, or withheld access to information making it difficult for some IFIs to fulfil their remit. The OECD principles, in part derived from lessons learnt from country experiences, can serve as a useful framework for other IFIs to overcome or avoid similar challenges.

**2.15** The next section compares the OBR and other IFIs against the OECD principles.

### Local ownership

**2.16** The first OECD principle states "models from abroad should not be artificially copied or imposed" and "local needs and the local institutional environment should determine options for the role and the structure of the IFI".

**2.17** Most fiscal institutions have been established with the common objective to help enhance fiscal performance, yet they vary considerably in design. This is because the legal underpinnings, remit, structure, and resources of each IFI will inevitably be determined by country specific factors such as the legislative framework and institutional context. This is consistent with the consensus among stakeholders who contributed to this review, as well as comparative analysis, that there is no "perfect" or "one size fits all" model.

**2.18** Table 2.A shows the diversity in design of IFIs, reflecting local context and local needs of various countries.

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<sup>39</sup> See <http://www.cpb.nl/en/history>

<sup>40</sup> See <https://www.cbo.gov/about/founding>

<sup>41</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

**Table 2.A: Key institutional characteristics of independent fiscal institutions in OECD countries**

	Institution name	Established	Budget	Staff	Role in forecasts of Macroeconomic assumptions	Analysis of long-term fiscal sustainability	Role in monitoring compliance with fiscal rules	Role in policy costing	Role in costing election platforms
Australia	Parliamentary Budget Office (PBO)	2011	AUD 7M annually	38 (end of July 2014)	○	✓	⊗	✓	✓
Austria	Fiscal Advisory Council	2013	Data not available	15 council members, 6 secretariat staff	●*	⊗	✓	⊗	⊗
Belgium	High Council of Finance (HCF)	1936	Data not available	27 Council members, 14 secretariat staff	●	✓	✓	⊗	⊗
Canada	Parliamentary Budget Officer (PBO)	2008	CAD 2.8M	17 (2014)	●	✓	⊗	✓	⊗
Denmark	Economic Council	1962	DKK 27.4M (2014)	25 Council members, 30 secretariat staff	●	✓	✓	⊗	⊗
Finland	Fiscal Policy Audit and Executive Office	2013	EUR 0.7M (2015)	4	●	✓	✓	⊗	⊗
France	High Council for Public Finances (HCFP)	2013	EUR 0.8M (2014)	10 Council members, 4-5 secretariat staff	●	⊗	✓	⊗	⊗
Ireland	Fiscal Advisory Council	2011	EUR 0.8M (FY 2013)	5 Council members, 5 secretariat staff	●	⊗	✓	⊗	⊗
Korea	National Assembly Budget Office (NABO)	2003	USD 13.6M (2013)	125	●	✓	⊗	✓	⊗
Mexico	Centro de Estudios de las Finanzas Públicas (CEFP)	1998	50.9M pesos (FY 2009)	59 (2011)	●	✓	⊗	✓	⊗
Netherlands	Bureau for Economic Policy Analysis	1945	EUR 13M (FY 2011)	117 FTE (2012)	●	✓	⊗	✓	✓
Portugal	Conselho das Finanças Públicas (CFP)	2011	EUR 2.53M (2014)	5 Council members, recruitment of 15-20 staff ongoing	●	✓	✓	⊗	⊗
Slovak Republic	Council for Budget Responsibility (CBR)	2012	EUR 1.3M (2015)	3 Council members, 11.5 analysts, 2 secretariat staff	○	✓	✓	✓	⊗
Spain	Autoridad Independiente de Responsabilidad Fiscal (AIReF)	2013	EUR 4.48M (2015)	35 (2015)	●	✓	✓	⊗	⊗
Sweden	Fiscal Policy Council (FPC)	2007	SEK 8.93M	6 Council members, 5 secretariat staff	●	✓	✓	⊗	⊗
United Kingdom	Office for Budget Responsibility (OBR)	2010	GBP 2.08M (FY 2014)	3-person Budget Responsibility Committee, 2 non-executive members, 21 secretariat staff (2015)	●	✓	✓	✓	⊗
United States	Congressional Budget Office (CBO)	1974	USD 46.8M (FY 2011)	246 (FY 2011)	●	✓	⊗	✓	⊗

Legend:

✓ = Yes    ⊗ = No    ○ = No role    ● = Prepare official forecasts    ● = Assess forecasts only    ● = Prepare alternative forecasts

Source: 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015; 'OBR secures new 4-year budget from Treasury Press Notice', OBR, 2014

## Independence and non-partisanship

**2.19** The OECD principles state that “non-partisanship and independence are pre-requisites for a successful IFI”.<sup>1</sup> Reflecting the importance of IFI independence, most governments have protected this principle in legislation (e.g. UK, US, Australia, Ireland, Slovak Republic, Korea).

**2.20** To secure independence, the OECD principles go further and state that “IFIs should be precluded from any normative policy-making responsibilities”.<sup>2</sup> The role of the IFI is to inform policy making, and it should have no decision making authority. Most IFIs assessed for this review do not make normative policy recommendations (e.g. Canadian PBO, Australian PBO, UK OBR, and the Netherlands CPB). However, some IFIs, typically advisory institutions have normative mandates (e.g. Denmark Economic Council). Kopits cautions that with advisory councils, “care should be taken in conducting any advisory role in a strictly non-partisan manner”.<sup>3</sup>

**2.21** The CBO in the United States does not make policy recommendations. As its first director, Alice Rivlin, notes, it is not the law “that precludes us from that but once we start making policy recommendations there would be no way to resist the political pressure or the perception that we succumbed to political pressure”.<sup>4</sup> While the CBO does not play a policy making role, it does produce analyses on alternative policy. This supports the CBO’s mandate to serve Congress in the budgetary process. CPB similarly is not legally prohibited from making policy recommendations but by convention it does not directly influence policy.<sup>5</sup>

**2.22** A number of institutions have in place multi-annual funding commitments (e.g. Australia, Netherlands, UK) which can help shield IFIs from political pressure. The UK by convention has a multi-annual funding commitment, however this is not protected in legislation.<sup>6</sup> In Ireland, legislation protects IFAC’s budget, with a “non-voted” type of expenditure provided on a multi-annual basis. Additionally, any reduction of IFAC’s budget would require new legislation.<sup>7</sup>

**2.23** Multiannual funding commitments are a means to strengthen IFIs’ independence. Abrupt reductions in funding constrains the functions of IFIs, and can compromise their independence. Hungary is an example of a council that has faced funding challenges. According to Kopits and Romhányi, “following the Council’s critical views” a member of parliament “proposed cutting funding for the Fiscal Council to an insignificant fraction of the original budget request.”<sup>8</sup> This culminated with the effective termination of Hungary’s fiscal council by the end of 2010.

**2.24** In Canada, the PBO’s second year budget was under threat in 2009-10.<sup>9</sup> The PBO argued this unexpected reduction in their budget put the office’s ability to fulfil its remit at risk. The PBO’s budget was eventually restored. Nevertheless the lack of safeguards to its budget illustrated the IFI’s fragility.

**2.25** The Slovak Republic has safeguarded the CBR’s budget, by having it funded by the National Bank of Slovakia, a design choice thought to better protect its independence.<sup>10</sup>

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<sup>1</sup> ‘Principles for Independent Fiscal Institutions and Country Notes’, OECD, 2015

<sup>2</sup> *ibid*

<sup>3</sup> ‘Independent Fiscal Institutions: Developing good practices’, G. Kopits, 2011

<sup>4</sup> ‘Restoring Public Debt Sustainability, The Role of Independent Fiscal Institutions’, G Kopits (ed.), 2013

<sup>5</sup> ‘Principles for Independent Fiscal Institutions and Country Notes’, OECD, 2015

<sup>6</sup> *ibid*

<sup>7</sup> *ibid*

<sup>8</sup> G. Kopits and B. Romhányi in ‘Restoring Public Debt Sustainability, The Role of Independent Fiscal Institutions’, George Kopits (ed.), 2013

<sup>9</sup> ‘Report on the operations of the parliamentary budget officer within the library of parliament’, *Parliament of Canada, 2009*

<sup>10</sup> ‘Strengthening Post-Crisis Fiscal Credibility: Fiscal Councils on the Rise – A New Dataset’, X. Debrun and T. Kinda, 2014

## Mandate

**2.26** The next OECD principle states that “the mandate of the fiscal council should be clearly defined in legislation”. Consistent with this principle, most IFIs have a clear mandate set out in legislation. Table 2.B below are examples of IFIs with mandates included in legislation.

**Table 2.B: Independent fiscal institutions mandates<sup>11</sup>**

Country	IFIs	Statutory Authority	Mandate
Canada	Parliamentary Budget Officer	Legislature	To provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy, and upon request from a committee or parliamentarian, it may also estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.
Australia	Parliamentary Budget Office	Legislature	To inform the Parliament by providing, independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals.
United States	Congressional Budget Office	Legislature	To produce independent analyses of budgetary and economic issues to support the Congressional budget process.
Korea	National Assembly Budget Office	Legislature	To research, analyse and appraise matters concerning the settlement of the budget, and the management of funds and finances of the state as well to support parliamentary activities.
Netherlands	CPB	Executive	To conduct independent analysis relevant for economic policy making. The CPB is also responsible for producing the official economic and fiscal forecasts of economic and fiscal developments.
United Kingdom	Office for Budget Responsibility	Executive (and Legislature)	To examine and report on the sustainability of the public finances. The OBR produce 5-year forecasts for the economy and public finances twice a year.
Ireland	Irish Fiscal Advisory Council	Executive	To provide an independent assessment of official budgetary forecasts and proposed fiscal policy objectives.
Slovak Republic	Centre for Budget Responsibility	Executive	To monitor and evaluate the fiscal performance of the Slovak Republic.
Belgium	High Council of Finance	Executive	The Council is responsible for advising the Minister of Finance and the Minister of Budget in the development of fiscal, financial and budgetary policy.
Sweden	Swedish Fiscal Policy Council	Executive	The council is to review and assess the extent to which fiscal and economic policy objectives are being achieved; and assess whether fiscal policy is consistent with long-term sustainable public finances and the budgetary targets.

*Source: OECD 2015, IFI websites<sup>12</sup>*

## Relationship with legislature

**2.27** A number of IFIs are under the statutory authority of the executive. However, irrespective of statutory authority, most IFIs have links with the legislature. As the OECD principle states “...regardless whether an independent fiscal institution is under the statutory authority of the

<sup>11</sup> These mandates are set out in detail in legislation

<sup>12</sup> <http://www.pbo-dpb.gc.ca/en/>; [http://korea.nabo.go.kr/eng/01\\_about/laws.page](http://korea.nabo.go.kr/eng/01_about/laws.page); [http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office); <https://www.cbo.gov/>; <http://www.cpb.nl/en>; <http://www.fiscalcouncil.ie/>; <http://www.rozpocitovara.sk/eng/home>

legislative or the executive branch, mechanisms should be put in place to encourage appropriate accountability to the legislature". This is because the legislature plays an important role in enhancing the accountability of the budget process.<sup>13</sup> Most IFIs are either accountable to the executive or legislature, however, there are a small number that are accountable to the audit institute (Finland and France).<sup>14</sup>

**2.28** The statutory authority of an IFI tends to reflect the mandate and context of the council (see Table 2.B). The CBO, within the legislative branch of the United States government, was established to enhance the role of the legislature with its mandate "to serve all of Congress with budget and economic information to facilitate the Congressional budget process". This is in contrast to the Office for Budget and Management, also tasked with budgetary responsibility, but directly serving the President within the executive branch.<sup>15</sup> Similarly, the Canadian and Korean IFIs were also established to directly support the legislature,<sup>16</sup> and as such they are linked to the legislature.

**2.29** The Netherlands CPB and the OBR both fulfil an executive role, producing official forecasts to inform the government policymaking process. These institutions are therefore directly accountable to the executive branch. However these councils also serve parliament. The OBR is considered to have dual accountability to Parliament and the government.<sup>17</sup>

**2.30** Advisory IFIs tend to be accountable to the executive branch (e.g. Austria, Belgium, and Slovenia).<sup>18</sup>

## Resources

**2.31** Although many IFIs have a variety of objectives and responsibilities, it is important that the "resources must be commensurate with their mandate in order for them to fulfil it in a credible manner" (OECD principle 4.1).

**2.32** The size and resources of a given IFI depend on its remit. Smaller councils tend to carry out assessments, or are advisory in scope, while institutions involved in costing policy proposals, and producing forecasts - resource intensive tasks – tend to have much bigger budgets and staff.<sup>19</sup>

**2.33** The US CBO, the Netherlands CPB, and the Korean NABO are examples of councils that carry out a large number of functions including forecast production, and policy costings. As a result, these councils have much larger resources (financial and human) commensurate with these tasks. The Netherlands CPB has an annual budget of roughly 13 million Euros (2011), and 117 full time equivalent (FTE) staff. The Korean NABO has an annual budget of \$13.6 million (2013) and 125 FTE staff. The CBO in the United States has an even bigger annual budget of \$46.8 million (2011) and 246 FTE staff. This is significantly more staff and resource than the UK, a reflection of the broader and more resource intensive mandates of these institutions.<sup>20</sup>

**2.34** The majority of new EU fiscal institutions tend to be advisory in scope, and relatively small in size. For example, the Irish Fiscal Advisory Council's (IFAC) purpose is to provide "an independent assessment of official budgetary forecasts and proposed fiscal policy objectives". To

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<sup>13</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>14</sup> *ibid*

<sup>15</sup> C. E. Steuerle and S. Rennane in 'Restoring Public Debt Sustainability, *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*.' G. Kopits (ed.), 2013, page 101

<sup>16</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015, and K. Page and T. Yalkin in 'Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions.' G. Kopits (ed.), 2013

<sup>17</sup> 'Framework document', Office for Budget Responsibility and HM Treasury, 2014

<sup>18</sup> 'External review of the Office for Budget Responsibility', K. Page, 2014

<sup>19</sup> 'Strengthening Post-Crisis Fiscal Credibility: Fiscal institutions', IMF, 2014

<sup>20</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

fulfil this remit, the IFAC has a budget of 0.8 million Euros, 5 council members and a 5 person, full time secretariat.<sup>21</sup>

## Access to information

**2.35** The OECD principle on access to information states “that the IFI has full access to all relevant information in a timely manner”. Access to information is crucial for IFIs to fulfil their core remit.

**2.36** Restricting the sources of information can undermine the effectiveness and independence of an IFI. It is therefore important that councils have a right of access to information, and for many this is guaranteed by law (e.g. Slovak Republic, US, UK, Korea). Approximately two thirds of IFIs in the OECD have access to information underpinned by legislation. Other councils have a Memorandum of Understanding (MoU) in place to provide access to information (e.g. Australia, Ireland), with one third of IFIs having both an MoU and legislation guaranteeing access to information.<sup>22</sup>

**2.37** However, although most councils have a legislated right to information, some IFIs argue they have not had timely access to necessary information (e.g. Canada, Hungary).<sup>23</sup> For example, the Canadian PBO is provided with a legislated right of access to data, yet in spite of this protected right the PBO has previously argued the government was not forthcoming with information. The perceived ambiguity of PBO’s mandate led to the institutions filing an application with the Federal Court of Canada seeking a judgement to clarify its mandate including its right to access to information.<sup>24</sup>

**2.38** Reflecting the importance of access to information, a recent review of the Irish fiscal council (IFAC) concluded that the successful institution, “should have stronger right, preferably statutory right, to obtain information covering relevant public sector authorities as recommended for independent fiscal institutions by the OECD”.<sup>25</sup>

## Transparency and communication

**2.39** The OECD principle on transparency and communication, argues that IFIs have a “special duty to act as transparently as possible” and IFIs should “develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders”.

**2.40** In line with OECD principles, IFIs should publish their reports and analysis without charge. Additionally to serve Parliament, these reports should be made available to Parliament in time for legislative debate. Most councils have published reports, methodology, data and the underlying models on their website, increasing public transparency.

**2.41** The Page review found 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”.<sup>26</sup> At the same time however, the Page review noted that some documents could be seen as “inaccessible to non-technical readers”.

**2.42** Media coverage of IFI work is important as it raises the public’s understanding of fiscal issues, and can support the IFIs role to indirectly influence fiscal policy. Better informed

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<sup>21</sup> *ibid*

<sup>22</sup> *Note on how the OBR compares to other IFIs*, OECD, 2015 ‘Principles for Independent Fiscal Institutions and Country Notes’, OECD, 2015

<sup>23</sup> *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*. George Kopits (ed.), 2013; ‘Principles for Independent Fiscal Institutions and Country Notes’, OECD, 2015

<sup>24</sup> *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*. George Kopits (ed.), 2013; ‘Principles for Independent Fiscal Institutions and Country Notes’, OECD, 2015

<sup>25</sup> [http://www.fiscalcouncil.ie/wp-content/uploads/2012/01/PeerReview\\_Formatted\\_23062015.pdf](http://www.fiscalcouncil.ie/wp-content/uploads/2012/01/PeerReview_Formatted_23062015.pdf)

<sup>26</sup> *External review of the Office for Budget Responsibility*, K. Page, 2014

constituencies enhance accountability – supporting fiscal credibility. A number of councils have direct contact with the media (e.g. UK, the Netherlands, and Sweden).

## External evaluation

**2.43** The last OECD principle argues for external evaluation of IFI analysis and output against its mandate. There are additional mechanisms that IFIs have in place for external scrutiny including peer reviews and advisory panels. The OBR and the Irish Fiscal Advisory Council have published external reviews of their organisations in 2014 and 2015 respectively, while the Australian PBO has a peer-review process in place. The Slovak Republic CBR has established an Advisory Panel of foreign experts which is tasked to provide advice on methodological issues.

**2.44** Similar to the OBR, the Netherlands CPB conducts a review of the organisation every 5 years. The CPB has 2 assessments in place led by international and independent experts, one assessment has a policy focus, while the other is a scientific review. According to CPB, these reviews not only help to improve the quality of CPB's work, but enhance the institution's independence.<sup>27</sup>

## Roles and responsibilities

**2.45** In line with OECD principles, IFI mandates should have clear links to the budget process. This section details the roles and responsibilities of IFIs.

**2.46** The common tasks of IFIs to support the budget process are as follows:

- monitoring fiscal policy and rules
- producing or assessing forecasts
- analysing long-run sustainability of public finances
- policy costings

**2.47** Two IFIs, the Netherlands' CPB and the Australian PBO, also produce costings of election manifestos.

### Monitor fiscal policy and rules

**2.48** To strengthen the effectiveness of fiscal rules, the EU has recently introduced governance reforms requiring most member states to have in place independent bodies for monitoring compliance with fiscal rules and produce or endorse macroeconomic forecasts.<sup>28</sup>

**2.49** As a result, most EU IFIs, with the exception of the Netherlands, monitor compliance with fiscal rules. Unlike other European countries, Dutch law made it the responsibility of the Council of State to monitor compliance with the fiscal rule.<sup>29</sup> In the UK, the OBR is legally required to assess the government's performance against its domestic fiscal targets.<sup>30</sup>

**2.50** IFIs in the US, Canada, Australia and Korea do not have this role in the budget process.<sup>31</sup> However, monitoring fiscal rules is currently being considered in Australia.<sup>32</sup>

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<sup>27</sup> See <http://www.cpb.nl/en/quality-assessment>

<sup>28</sup> See <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R0473> for detail on regulation

<sup>29</sup> *Principles for Independent Fiscal Institutions and Country Notes*, OECD, 2015

<sup>30</sup> See <http://www.legislation.gov.uk/ukpga/2011/4/contents/enacted>

<sup>31</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>32</sup> *ibid*

## Forecasting

**2.51** Most IFIs are involved in forecasting in some capacity. This can range from preparing official forecasts to endorsing government forecasts.

**2.52** At present only 2 organisations produce the official forecasts, the CPB in the Netherlands and the OBR.<sup>33</sup> The UK government has chosen to use the OBR's forecast, strengthening the credibility of the forecasts by reducing the risk of politically motivated bias. However, it is under no legal obligation to do so. As the Charter sets out the "government retains the right to disagree with the OBR's forecast..." but is required to "explain why to Parliament" if it chooses not to use the OBR's forecast.<sup>34</sup> This differs from the Netherlands CPB, the only other institution tasked with producing the official forecast, which has a legal obligation to produce the macro-economic forecasts. In the Netherlands, the government also provides a short term fiscal forecast.

**2.53** IFIs in the United States, Canada, and Korea all provide alternative forecasts, which serve as a comparator against the official forecast. In line with the Budget Act in the US, the CBO must produce baseline projections of the federal budget, which is compared against the official forecasts produced by the Office for Management Budget.<sup>35</sup> In Canada, the PBO produces 2 alternative forecasts a year even though it is under no legal obligation to do so.<sup>36</sup>

**2.54** The Australian PBO is prevented by law from producing economic forecasts or budget estimates, and must use the forecasts prepared by the government.<sup>37</sup>

**2.55** Others endorse or provide an opinion on the government's forecast (e.g. Ireland, Sweden, and France). These institutions tend to be smaller in size. The Irish Fiscal Advisory Council remit was recently expanded "to endorse, as it considers appropriate, the macroeconomic forecast prepared by the Department of Finance on which the Budget and Stability Programme Update are based".<sup>38</sup>

## Policy costings

**2.56** Roughly half of the fiscal institutions in the OECD have a role in costing policy proposals. These institutions also tend to be parliamentary budget offices. Roles range from certifying policy costings from the government as is the case in the UK, to fully costing proposals from the legislature. Costing policy proposals is a resource intensive task, and often takes up a significant amount of staff time.<sup>39</sup>

**2.57** In the UK, the OBR scrutinise the costings of budget measures produced by government departments, but it is not responsible for producing the costings of new policies. Legislation prevents the OBR from considering "alternative policies".

**2.58** Similarly, the Canadian PBO also scrutinises the Treasury's costings and evaluates them using "tests of reasonableness".<sup>40</sup> Unlike the OBR, the Canadian PBO can produce costings, but due to limited resources it does not cost all policies. In contrast, the Korean NABO and the US CBO produce comprehensive costings for most bills.

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<sup>33</sup> *ibid*

<sup>34</sup> See [http://budgetresponsibility.org.uk/wordpress/docs/charter\\_for\\_budget\\_responsibility\\_AS2014\\_web.pdf](http://budgetresponsibility.org.uk/wordpress/docs/charter_for_budget_responsibility_AS2014_web.pdf)

<sup>35</sup> 'Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions', G Kopits (ed.), 2013.

<sup>36</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>37</sup> *ibid*

<sup>38</sup> See <http://www.fiscalcouncil.ie/fiscal-responsibility-act/> for more detail

<sup>39</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>40</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

**2.59** The CBO provides a range of cost estimates, including providing formal written cost estimates for each bill agreed by the Congressional committee.<sup>41</sup> On average, the CBO produce 500 to 700 of these formal written estimates annually. Similarly, in Korea, the NABO's mandate states that it should "estimate the costs required by bills and other matters involving expenditure from the budget or funds".<sup>42</sup>

**2.60** Some IFIs also cost policy proposals on request. For example, in Australia the PBO can prepare policy costings "on request by Senators and Members of the House of Representative, with the requests and the PBO's responses to be kept confidential if so requested by the requestor".<sup>43</sup> Similarly, in Canada upon request from a committee or parliamentarian, the PBO can "estimate the financial cost of any proposal for matters over which Parliament has jurisdiction".<sup>44</sup> This is in line with the Canadian and Australian PBO's accountability to Parliament. The US also provides informal estimates of legislation under consideration by committees.<sup>45</sup>

**2.61** The CPB in the Netherlands also provides a 'costing service', which is far more comprehensive and broader in scope than most IFIs. Ministries can request the CPB to cost estimates of policy proposals, and by convention most significant policy proposals are costed before being sent to the Cabinet of Ministers. This costing service extends beyond the executive to Parliament, political parties, and civil society organisations who can also request cost estimates.<sup>46</sup>

### Costing election platforms

**2.62** Although a number of IFIs are tasked with costing or assessing policy proposals, only 2 at present cost election platforms, the CPB in the Netherlands, and the Parliamentary Budget Office in Australia.

**2.63** The Netherlands CPB's scope was not broadened significantly in its early years,<sup>47</sup> and it only began costing election platforms 40 years after it was initially created. Instead in the early years the CPB sought to focus on developing both its models and the strength of its reputation.

**2.64** All major parties present their election platforms to the CPB for costings. The scope of this analysis has expanded over time. The Netherlands CPB provides evaluation of the short-term effects on economic growth and budgetary implications. Additionally, as part of this service the CPB also provides analysis of long term implications, and distributional analysis of income and unemployment.<sup>48</sup>

**2.65** Additionally, the Netherlands CPB also provides analysis of new coalition agreements, costing the economic and public finance impacts of incoming governments' policy proposals and producing medium-term projections based on new coalition agreements.<sup>49</sup> The costing of election platforms can help to facilitate coalition agreements.

**2.66** The Australian PBO also costs election platforms. Since 1998, the Charter of Budget Honesty permits the Treasury and Finance departments to cost both government and main

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<sup>41</sup> 'An Introduction to the Congressional Budget Office', CBO, 2015

<sup>42</sup> 'Principles for Independent Fiscal Institutions and Country Note', OECD, 2015

<sup>43</sup> See [http://www.apf.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office](http://www.apf.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office)

<sup>44</sup> See <http://www.pbo-dpb.gc.ca/en/>

<sup>45</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>46</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>47</sup> see Chapter 3 for more detail

<sup>48</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>49</sup> 'Charting CPB's Course', CPB, 2009, [www.cpb.nl/en/article/charting-cpb%E2%80%99s-course-self-assessment-cpb](http://www.cpb.nl/en/article/charting-cpb%E2%80%99s-course-self-assessment-cpb).

opposition parties' policies prior to an election.<sup>50</sup> To enhance fiscal transparency and extend this service to all parties, the PBO in Australia was explicitly set up to cost election commitments, taking it over from the government.

**2.67** During the caretaker period for a general election, the Australian PBO prepare costings of publicly announced policies on request by authorised members of Parliamentary parties or independent members. The Australian PBO does not publish its findings until after the election.<sup>51</sup> The PBO place highest priority on costings, and has allocated most of its resources towards this task.<sup>52</sup>

### Long term analysis of public finances

**2.68** To avoid short termism inherent in politics, IFIs can provide an assessment of long term fiscal sustainability.

**2.69** A number of IFIs carry out some form of analysis of long term fiscal sustainability. The US CBO, the OBR and the Canadian PBO produce an annual publication on long term fiscal issues. However it is not unusual to produce this analysis with less frequency. The Netherlands CPB and Korea NABO publish longer term public finance analysis every couple of years.

**2.70** Reflecting the importance of long term sustainability of the public finances, a recent review of the Irish IFAC recommended "more analysis of longer term fiscal issues" particularly as the Irish economy recovers.

### Summary

**2.71** The Page review found "the OBR remit and conventions of operation compare well to the ratified OECD Principles. This adherence to defined global standards provides the Office with legitimacy among its global community of peers and should provide confidence to its stakeholders in the UK".<sup>53</sup>

### IFIs and sub-national arrangements

**2.72** While it is now fairly common for IFIs to operate at the national level, there are fewer examples of this happening at a sub-national level. The IFIs of Austria, Spain and Belgium are those which have gone furthest in this area (Box 2.A). These case studies for how IFIs currently work with sub-national governments suggest that:

- none of the IFIs reviewed produce forecasts for sub-national governments, although IFIs do conduct a separate assessment of the forecasts at a sub-national level
- the national forecast assessment is far richer and more granular than the sub-national assessment
- these IFIs do not conduct policy costings analysis at the sub-national level
- IFIs receive up to date and regular financing information on the sub-national authorities, and they seem to be seeking to build upon current levels of engagement (although this is currently less developed than the level of engagement with national authorities)

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<sup>50</sup> 'Pre-election Policy Costing Mechanisms in Australia', Robyn Munro and Akash Paun, 2014

<sup>51</sup> [http://www.apf.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office](http://www.apf.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office)

<sup>52</sup> 'Principles for Independent Fiscal Institutions and Country Notes', OECD, 2015

<sup>53</sup> 'External review of the Office for Budget Responsibility', K. Page, 2014

## **Box 2.A: IFIs and sub-national arrangements**

### **Austria**

The Austrian Fiscal Advisory Council (FISK) is an advisory IFI which monitors the EU-mandated fiscal rules at the general government level. The forecasts and analysis required to do this are also produced at the general government level.

Austria has a number of specific sub-national fiscal rules and the FISK is responsible for monitoring these as well. However, no specific sub-national forecasts are produced and rather the assessment is based on ex-post statistical data.

Policy costings are not produced by the FISK. Instead, it checks the plausibility of those produced at the national level by the Ministry of Finance. The council's main levers are the normative policy recommendations it provides to all levels of government, which are then published in Parliament, although the primary focus is at the federal level.

The FISK has a standing arrangement to receive, once a year, information about the main expenditure drivers of the budget at the state level. The IFIs engagement and information flow with sub-national governments is limited to meetings between the president of the FISK and the governors of state or local governments. However three representatives on the FISK's committee are nominated by subnational groupings.

### **Spain**

Spain is a highly decentralised country with 2 levels of sub-national governments, regional and municipal. The AIReF, the Spanish fiscal institution, does not produce forecasts. It does, however, separately assess the macro-fiscal forecasts of national and sub-national governments. The evaluation of the macro forecasts for the regions is centred on GDP and employment and is less detailed than the national government assessment. Similarly, the analysis of national government fiscal forecasts is more comprehensive than those undertaken for each autonomous region. All these forecast assessments are published by the AIReF.

The AIReF does not provide opinion on specific policy measures, but do so on forecast methodologies, assumptions, statistical practices and schedules at both national and sub-national levels.

Both ex-ante and in-year budgets of national and sub-national governments are examined by AIReF. There is a mandatory information flow about sub-national finances to the AIReF, which is published on an online government database available to the general public. Notwithstanding these formal data flows, the AIReF has also started to develop a closer dialogue with all the regions and major cities.

The AIReF does not produce any costing analysis or estimate the effects of legislation.

### **Belgium**

Belgium's IFI is twofold. The High Council of Finance (HCF) is responsible for monitoring of the budgetary outcome and also makes recommendations on the budgetary path, while the Federal Planning Bureau is responsible for macro forecasts Belgium has a Stability programme in order to ensure it remains within the EU's Stability & Growth pact. This programme requires national and sub-national governments to cooperate on borrowing targets.

The HCF provides normative recommendations on the budgetary path for Belgium as well as to sub-national governments on the breakdown of this budgetary path between the federal

government, regions and communities and local authorities. This is submitted to a committee which should reach an agreement on the budgetary path retained in the Stability Programme and the budget goals for each level of government, which can be seen as an internal stability pact. The HCF also monitors ex post whether or not the different levels of government have reached their budgetary goal as set out in the Stability Programme.

The HCF has the ability to recommend that the Federal minister of Finance limits the borrowing capacity of a government in case of a severe deterioration in the public finances or if the stability of the economic and monetary union is threatened. If the minister of Finance decides to follow the advice and limits the borrowing capacity of a government, their borrowing powers will be limited for 2 years. This has not yet occurred.

The HCF does not produce costing analysis or estimates of the effects of legislation.

The interaction between the HCF and the subnational authorities mainly passes through experts who are nominated in the Council. A proportion of these experts are nominated by the federal level while the remaining proportion are nominated based upon a proposal of the governments of the regions and communities. The Cooperation Agreement of 13 December 2013 provides the HCF with a legal basis to require all useful information from sub-national authorities if needed to fulfil its monitoring role.

# 3 Legislation

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**3.1** The previous chapter set the OBR in its international context. Reflecting the first of the OECD's principles for independent fiscal institutions, the OBR model is a distinctive one, tailored to the needs and context of the UK.

**3.2** The permanent OBR was created by the Budget Responsibility and National Audit Act (2011) (BRNA). This chapter:

- begins by outlining the main components of that legislation
- reviews the OBR's legislative framework to assess whether, 5 years on, it remains appropriate, including in particular whether it meets the relevant OECD principles
- assesses the case for expanding the OBR's remit, either by removing the ban on the OBR considering alternatives to government policy to enable it to cost manifesto policies, or by asking it to assess wider impacts of government policy

**3.3** The focus is on whether the current legislation is appropriate and consistent with the OECD principles as set out in Chapter 1. The case for any proposed changes to the OBR's remit are assessed against the objective of enhancing fiscal credibility.

## The main provisions of the Budget Responsibility and National Audit Act (2011)

**3.4** Clauses 3 – 9 of Part 1 of the BRNA, together with Schedule 1, contain the provisions relating to the OBR. This section outlines the main provisions that affect the activities of the OBR. In some cases, related provisions have been grouped together from within separate clauses. The following section reviews whether these provisions remain appropriate.

**3.5 Main duty of the Office:** the OBR's main duty of office is to "examine and report on the sustainability of the public finances".

**3.6 Required publications:** the OBR is required (under clause 4(3)) to produce "fiscal and economic forecasts" at least twice a year. These must include "an assessment of the extent to which the fiscal mandate [the government's fiscal target] has been, or is likely to be, achieved". The OBR fulfils this through the production of its 'Economic and fiscal outlook' (EFO). To date, these have been published alongside the government's Budgets and Autumn Statements. The government has adopted the OBR's forecasts as its official forecast, although the government has the legal right to disagree and use its own forecast.

**3.7** The OBR is also required (clause 4(4)) to produce "an assessment of the accuracy of fiscal and economic forecasts previously prepared by it" and "an analysis of the sustainability of the public finances" at least once a year. The OBR fulfils these requirements through its 'Forecast evaluation report' (FER) and 'Fiscal sustainability report' (FSR) respectively.

**3.8 Discretion, including over methodology:** the OBR "has complete discretion in the performance of its duty" (under clause 5(1), subject to certain provisos).<sup>1</sup> This discretion is

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<sup>1</sup> These are: the requirement to be objective, transparent and impartial ((5(2)), to have regard to relevant government policies and not to consider alternatives to government policy (5(3)), to act consistently with any guidance from the government set out in the Charter (6(1)), and to aim to carry out its functions efficiently and cost-effectively (7).

strengthened by preventing the government “[making] provision about the methods by which the Office is to make any [...] forecast, assessment or analysis” (under clause 6(2)).

**3.9 Objectivity, transparency and impartiality:** the OBR is required (under clause 5(2)) to perform its duty “objectively, transparently and impartially”. It is also required specifically (under clause 4(6)) to explain in its reports “the main assumptions” it has made and “the main risks” it considers relevant and (under clause 8(2)) to publish any report it makes.

**3.10 How the duty is performed:** the BRNA also sets out (clause 5(3)) that “where any government policies are relevant to the [OBR’s performance of its duty], the Office – (a) must have regard to those policies, but (b) may not consider what the effect of any alternative policies would be.”

**3.11 Appointment of BRC members and wider staffing matters:** As set out in Schedule 1 to the BRNA, the appointments of the chair of the BRC and the 2 other members have to be approved by both the Chancellor and the Treasury Committee of the House of Commons. Schedule 1 also covers the appointment of OBR staff.

**3.12 Dual accountability:** the OBR is accountable to both the Chancellor of the Exchequer and Parliament. The OBR must both send copies of its reports to the Treasury and lay them before Parliament (clause 8(2)). Similarly, in order to terminate the appointment of a member of the BRC, the Chancellor must get the consent of the Treasury Committee (Schedule 1).

**3.13 Access to information:** the BRNA also gives the OBR “a right of access (at any reasonable time) to all government information which it may reasonably require” and entitles it to “require from any person holding or accountable for any government information any assistance or explanation which the Office reasonably thinks necessary” (under clauses 9(1) and 9(2)).

**3.14 External evaluation:** Schedule 1 of the BRNA sets out that “the Non-executive Committee must, at least once in every relevant 5-year period, appoint a person or body to review and report on such of the Office’s reports as the Committee determines”. The first such external review was conducted by Kevin Page in 2014.

**3.15 Guidance as to how the main duty is to be performed:** The BRNA also specifies (clause 6(1)) that a “Charter for Budget Responsibility may include guidance to the Office about how it should perform its duty”. This is relevant to the above provisions. It is covered in Chapter 4 as part of the assessment of the operating framework that lies beneath the primary legislation.

## Are these provisions still appropriate?

**3.16** Independent fiscal institutions (IFIs) around the world perform a variety of functions in a variety of ways (see Chapter 2). In 2010, the Treasury Select Committee (TSC) noted that “there is no ‘correct’ model for an independent fiscal council; each arrangement will have its own advantages and drawbacks”.<sup>2</sup>

**3.17** This discussion takes as given the core role of the OBR in delivering its main duty: that it provides independent official economic and fiscal forecasts and long-term projections that take into account government policy. The provisions set out below are compared with the OECD principles set out in Chapter 1.

## Independence and non-partisanship

**3.18** The requirement on the OBR in the BRNA to “perform [its] duty objectively... and impartially” and the stipulation that it “may not consider what the effect of any alternative

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<sup>2</sup> ‘Office for Budget Responsibility’, Treasury Select Committee, 2010

policies would be” are consistent with OECD principle 2.1 that an IFI should strive to demonstrate objectivity and be precluded from any normative policy making responsibilities.

**3.19** The rest of the OECD principles on independence and non-partisanship relate to personnel: the selection of leadership on merit; term length and remuneration of the leadership; selection and remuneration of staff. These aspects of the design and operation of the OBR are mainly set out in Schedule 1 of the BRNA, supported by the Framework document which sets out the arrangements between the OBR and the Treasury (explained in detail in Chapter 4).

**3.20** Sir Alan Budd, the Chair of the interim OBR in 2010, advised the TSC that “the independence and quality of people appointed to the BRC would be crucial to establishing the OBR’s credibility”.<sup>3</sup> Consistent with OECD principle 2.2 this is currently delivered by:

- a “double-lock system” on the appointment and dismissal of the OBR Chair with both the Chancellor and the TSC
- the TSC also having the right to veto other BRC executive members proposed by the Chancellor
- the legislation stipulating that “a person may be nominated... only if the person has knowledge or experience likely to be relevant to the performance of the Office’s duty”
- the Framework document (see Chapter 4) stating that the “appointments of the Members will be made through an open and transparent recruitment process and positions will be publically advertised”

**3.21** With respect to the remaining OECD principles, Schedule 1 of the BRNA:

- specifies term lengths for the BRC and non-executives, and the criteria and process for termination of appointments (principle 2.3)
- sets out arrangements for remuneration of the BRC (principle 2.4), the Framework document provides further detail on the responsibilities of members
- provides for the OBR to employ a civil service staff (principles 2.5 and 2.6)

**3.22** The review concludes that these arrangements are sufficient and therefore recommends that no changes be made. Particularly, the double-lock system for the recruitment of the BRC is useful given that, as the Chancellor has stated, “Parliament will play a prominent role in preserving the independence and accountability of the OBR”. It also ensures there is “absolutely no doubt that the individual leading the OBR is independent and has the support and approval of the TSC”.<sup>4</sup>

## Mandate

**3.23 Main duty of the Office:** The current legislation provides clarity on the remit of the OBR (OECD principle 3.1). There has been no evidence of the OBR operating outside its legislative mandate during the last Parliament.

### Discretion, including over methodology

**3.24** As part of the main duty, the BRNA specifies certain publications the OBR is required to produce. However, in line with OECD principle 3.2, it also has the scope to produce reports and analysis at its own initiative and to determine its own work programme, within the bounds of its

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<sup>3</sup> ‘Office for Budget Responsibility’, Treasury Select Committee, 2010

<sup>4</sup> ‘Office for Budget Responsibility’, Treasury Select Committee, 2010

mandate. The OBR's discretion over its methodology and work programme has a number of benefits.

**3.25** First, it supports the technical quality of its work. While, as set out in the Charter for Budget Responsibility,<sup>5</sup> the Treasury maintains the necessary analytical and macroeconomic expertise to provide ongoing advice to the government, the OBR has established itself at the centre of analysis of the sustainability of the public finances in the UK. It is therefore best placed to develop and identify methodological improvements. Any attempt by government to specify the methodologies the OBR should use or the detail of the analysis it should produce would also risk "fossilising" the methods and pre-occupations of the time when the guidance was set.

**3.26** Methodological discretion also helps to protect the OBR from (perceived or actual) political interference and supports the credibility of its independent forecasts. The recent debate in the US over whether the CBO should be required to use dynamic scoring is an example of how methodological issues can become political.<sup>6</sup> Of course, there is a risk that, if methodological differences are political, the OBR's choices risk drawing them into political controversy anyway. But with discretion, they have scope, for example, to use a range of methodologies and discuss their advantages and disadvantages as well as their differences, as they did with regard to computable general equilibrium modelling in the 2014 FER.<sup>7</sup>

**3.27** The OBR's discretion over its methodologies and work programme (subject to minimum requirements) therefore remains appropriate.

### Required publications

**3.28 Economic and fiscal forecasts:** producing official economic and fiscal forecasts was the main reason for creating the OBR. In line with OECD principle 3.3, this creates a clear link between the OBR's mandate and the budget process.

**3.29** At the time the OBR was created, there was some debate over the appropriate minimum number of forecasts in a year. The government is required to hold at least 1 fiscal event a year (the Budget). Given this, the OBR would always need to produce at least 1 forecast. In its recommendations to the Chancellor, the interim OBR advised that, "there is merit in having more than one forecast produced each year"; even if there wasn't an autumn fiscal event, a forecast roughly halfway through the year would "allow the OBR to comment on the progress of the economy and the public finances against the previous (Budget) forecast and on the chances of meeting the mandate".<sup>8</sup>

**3.30** The TSC, in its 2010 report, reached a similar conclusion – that 2 forecasts a year was appropriate, but more would add little value, given: the uncertainty of short term forecasting; that policy should not (ordinarily) be changed more than twice a year so more frequent forecasts would not be needed for policy development; and that, while expert commentary on public finance developments is useful, other experts can provide it.<sup>9</sup>

**3.31** With the exception of the November 2010 forecast, (which followed after the Spending Review 2010 in October), to date, the Chancellor has asked the OBR to produce a forecast to accompany all fiscal events. The need for a forecast in the absence of a fiscal event has therefore not arisen. Conversely, though, nothing over the past 5 years has clearly altered the case in

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<sup>5</sup> The Charter for Budget Responsibility is the document that provides guidance to the OBR on how they should fulfil their statutory remit. Further details set out in Chapter 4

<sup>6</sup> "CBO vs. dynamic scoring: Our view", USA TODAY, 2014

<sup>7</sup> See Box 2.2 of the 'Forecast evaluation report', OBR, 2014

<sup>8</sup> 'Advice on the permanent Office for Budget Responsibility', letter from Sir Alan Budd, Geoffrey Dicks and Graham Parker to the Chancellor of the Exchequer, 2010

<sup>9</sup> 'Office for Budget Responsibility', Treasury Select Committee, 2010

principle for ensuring there are always at least 2 forecasts a year – with the flexibility for additional forecasts if required.

**3.32 Forecast evaluation report:** In addition to its economic and fiscal forecasts, the OBR is required under the BRNA to produce “an assessment of the accuracy of fiscal and economic forecasts previously prepared by it”. It fulfils this requirement by producing its FER.

**3.33** The OBR was created to address past weaknesses in the credibility of economic and fiscal forecasting. As noted by several commentators when the OBR was being created, and frequently re-emphasised by the BRC, most economic and fiscal forecasts are likely to prove inaccurate because they are subject to great uncertainty. Macroeconomic forecasts implicitly aim to capture the combined effect of millions of households’ and companies’ activity over a period of years.<sup>10</sup>

**3.34** Given this, there is a strong case for the OBR to evaluate publically the accuracy of its forecasts to ensure the sources of errors are clearly explained and any lessons from them can be learnt. The Institute for Fiscal Studies (IFS) predicted in 2011 that the requirement to evaluate past forecasts would “help to increase confidence that the forecasts were not intentionally misleading and that any lessons that can be learnt are being learnt”.<sup>11</sup> The Page review reflected this, noting that that FER was of high quality, surpassing similar work conducted by its peers, and that overall the OBR displayed “a willingness to continually improve its core products while being self-critical and continuously working to increase the transparency of its core product development and communications. As a result, stakeholders that rely on the OBR’s analysis should have confidence in its work”.<sup>12</sup>

**3.35 Fiscal sustainability report:** The OBR is required to produce under the BRNA an analysis of the sustainability of the public finances each year. It fulfils this requirement by producing the FSR. This includes an assessment of the public sector balance sheet and long-term fiscal projections, focused on the impact of demographic changes.

**3.36** Long-term fiscal sustainability in the face of population ageing is a major challenge across developed economies. The IMF have emphasised that publication of fiscal sustainability analysis, projecting the evolution of the public finances over the long term, is good practice in fiscal transparency.<sup>13</sup> The requirement for the OBR to produce sustainability analysis therefore remains clearly appropriate.

**3.37** However, there has been some debate over whether the FSR should be produced annually or less frequently. The BRNA specifies that the OBR should produce “an analysis of the sustainability of the public finances” at least once each financial year. The current Charter for Budget Responsibility specifies that “this will include long-term projections for the public finances and an assessment of the public sector balance sheet” (para 4.15).

**3.38** Long-term sustainability issues are very important, and there is a wide range of useful analysis that could be produced on sustainability issues. The legislative requirement for annual analysis should therefore be retained. However, there is scope to move to more flexible arrangements within the current legislation to allow more in-depth analysis and greater innovation. This is discussed in Chapters 4 and 6.

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<sup>10</sup> See, e.g., ‘The IFS Green Budget: February 2011’, M. Brewer, C. Emmerson and H. Miller (eds), February 2011, ‘Oral Evidence taken before the Treasury Committee’ on *Tuesday 11 December 2012*, Treasury Select Committee, 2012

<sup>11</sup> ‘The new fiscal framework: an assessment’, R. Crawford, C. Emmerson and G. Tetlow, in ‘The IFS Green Budget: February 2011’, M. Brewer, C. Emmerson and H. Miller (eds), 2011

<sup>12</sup> ‘External review of the Office for Budget Responsibility’, K. Page, 2014

<sup>13</sup> ‘The Fiscal Transparency Code’, IMF, 2014

## Should the OBR be required in legislation to produce any additional analysis?

**3.39** Overall, the publications required under the BRNA remain appropriate. As noted above, the OBR has wide ranging discretion to produce additional analysis going beyond these required publications. For example:

- it has published working papers on a range of relevant issues, such as cyclical adjustment, or the evolution of the public finances since the outbreak of the global financial crisis in 2007 to 2008<sup>14</sup>
- it now produces an additional annual report – the Welfare trends report; this was in response to a request from the Chancellor, as part of the creation of the welfare cap, that the OBR “prepare and publish information on the trends in and drivers of welfare spending within the cap...in order to facilitate open and constructive debate about welfare spending”<sup>15</sup>

**3.40** Given the existing flexibility, changes to legislation are not recommended. Scope for enhanced analysis of fiscal risks under the current remit is discussed further in Chapter 4.

## Relationship with the legislature and resources

**3.41** The OBR has dual accountability: to the government and to Parliament. As highlighted in the Page review of the OBR, this is one of the features of the OBR that make it unique among its international peers.<sup>16</sup> Typically, independent fiscal institutions (IFIs) report either to the legislative branch of government (for example the CBO in the US, or Parliamentary Budget Offices in Canada and Australia) or the executive branch (for example the CPB in the Netherlands) – but not both (see Chapter 2).

**3.42** The dual accountability reflects important features of the OBR’s model such as:

- the need to work closely with government departments to produce official forecasts
- the importance of these forecasts being, and perceived to be, independent

**3.43** This model means purely parliamentary accountability would not be appropriate for the OBR. The forecasting process involves close working and interaction with the Treasury and other government departments. The OBR’s forecast rounds are an important input to the policy making process, and the OBR needs to reflect government policy decisions in the forecast. As a result, the relationship between the OBR and the Treasury (and other government departments) is important.

**3.44** As the TSC noted in 2010: “An independent parliamentary body would be well suited to an OBR whose role was that of an external fiscal watchdog. However, it is difficult to reconcile this model with an OBR whose primary functions include developing forecasts for government in order to inform decisions taken by government. ... we accept that the model chosen for the OBR may well be a hybrid, designed to ensure the organisation’s independence, while allowing it to work closely with the government on the forecast.”<sup>17</sup>

**3.45** Parliamentary accountability is clearly also valuable. OECD principle 5.1 notes that “whether an independent fiscal institution is under the statutory authority of the legislative or the executive branch, mechanisms should be put in place to encourage appropriate

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<sup>14</sup> OBR working papers are available at [budgetresponsibility.org.uk](http://budgetresponsibility.org.uk)

<sup>15</sup> ‘Letter from the Chancellor to Robert Chote’, December 2013

<sup>16</sup> ‘External review of the Office for Budget Responsibility’, K. Page, 2014

<sup>17</sup> ‘Office for Budget Responsibility’, Treasury Select Committee, 2010

accountability to the legislature”.<sup>18</sup> More broadly, the OBR’s interactions with Parliament can promote understanding of its forecasts and other analysis, and build and maintain cross-party support for the institution.

**3.46** The dual accountability model therefore remains appropriate. However, there is one area where there may be scope to reinforce the OBR’s independence and accountability. The Page review of the OBR identified that the arrangements for the OBR’s funding – with its Budget being part of the Treasury’s – could pose risks to funding certainty. The OECD principle 4.1 recommends that “multiannual funding commitments may further enhance IFIs’ independence and provide additional protection from political pressure.”

**3.47** The OBR’s initial Budget was set for the full Spending Review period up until 2014 to 2015 in 2011. Following the 2013 Spending Round, which set departmental allocations for 2015 to 2016 only, the Treasury also provided the OBR with indicative allocations for 2016 to 2017 and 2017 to 2018, to provide additional certainty. This approach was consistent with international best practice, strengthening institutional independence through delegated budgetary autonomy. The practice of allocating the OBR multi-annual Budgets should therefore be maintained for the 2015 Spending Review. The OBR should receive a multi-year budget on a rolling basis, to ensure that its budget extends at least 3 years into the future at any given time.

## Access to information

**3.48** Full access to information (subject to legal restrictions) is important for the OBR’s forecasts to be complete and credible. This is especially important in the UK model in which the government has in effect “contracted out” the task of producing the official forecasts but the OBR draws heavily on resources and expertise in other government departments to produce its reports, especially the EFO.

**3.49** The BRNA reflects best practice as set out in the OECD principles (principles 6.1 and 6.2), that “there is ... a special duty to guarantee in legislation – and if necessary to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals” and that “any restrictions on access to government information should also be clearly defined in legislation”.

**3.50** In evidence to the Page review, the OBR Chair confirmed that the OBR had received all of the data and analysis from government departments and agencies that it has required to fulfil its mandate since October 2010.<sup>19</sup>

**3.51** The existing legislation gives the OBR right of access to information, explanation and assistance from “any Minister of the Crown or government department”. But further devolution means that in future more decisions with a material impact on the UK public finances will be taken by the devolved administrations, to which the legislation makes no direct reference.

**3.52** To date, the OBR has worked closely with the Scotland and Wales Office and the Scottish Fiscal Commission to ensure that all relevant information could be brought to bear in producing its forecasts for devolved taxes. The OBR has developed and improved these forecasts since they were first produced in 2012 in light of experience and the availability of information, and continues to consider its methodologies a work in progress.

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<sup>18</sup> Principle 5.2 is that the role for the IFI vis-à-vis requests for analysis from parliamentary committees or individual members of parliament should be clearly established. The BRNA is clear that the OBR cannot consider the effects of any alternatives to government policies. More generally, the OBR has discretion over its wider work programme.

<sup>19</sup> ‘External review of the Office for Budget Responsibility’, K. Page, 2014

**3.53** Given the OBR's duty to produce economic and fiscal forecasts for the whole of the UK, for the benefit of all citizens of the UK, the government should discuss with devolved administrations opportunities to strengthen legislation as they appear. This should ensure that the devolved administrations are also required in legislation to provide relevant information, explanation and assistance to the OBR. Reciprocally, the OBR should be required to provide information and explanation to the devolved administrations, legislative bodies and any independent fiscal institutions that they may create regarding the forecast judgements that it makes.

**3.54** For example, the Scotland Bill currently before Parliament could amend section 96 of the Scotland Act 1998 which currently only gives a right of access to information to the Treasury. The OBR's working relationships with devolved administrations should be set out or updated in Memoranda of Understanding to reflect recent developments in devolution within the UK. Further details are set out in Chapter 4.

## Transparency and communications

**3.55** The OECD principles identify transparency as essential for a successful, credible IFI, noting that "full transparency in their work and operations provides the greatest protection of IFI independence and allows them to build credibility with the public" (OECD principle 5.1).

**3.56** The BRNA requires the OBR to perform its duty transparently, as well as that it publishes any report it produces and lays it before Parliament (OECD principles 7.2 and 7.4). Finally, consistent with principle 7.3, legislation provides for guidance on setting and announcing release dates of major OBR reports and analysis (with details in the Charter for Budget Responsibility – see Chapter 4). OECD principle 8 relates to the development by IFIs of effective communication channels to the media, civil society and other stakeholders. This is not an area addressed directly through legislation. Chapter 6 considers the OBR's activities in this area and scope to strengthen them.

## External evaluation

**3.57** The final OECD principle 9.1 is that there should be external evaluation of IFIs' work in relation to its mandate. Consistent with this, the BRNA sets out that once in every 5 year period the OBR's non-executives must appoint a person or body with relevant knowledge and experience to review the OBR's reports. Chapters 5 and 6 discuss external scrutiny of the OBR's methodology and performance more broadly.

## Proposals to expand the Main Duty of the Office

**3.58** The OBR will need to meet new challenges to fulfil its existing remit. For example, reforms that devolve out additional tax and spending responsibilities away from the UK government will have direct implications for the OBR's responsibility to produce the government's official economic and fiscal forecast.

**3.59** Suggestions have also been made to expand the OBR's remit into other areas. The main proposals have been: to cost manifesto proposals by opposition parties (or individual parties within a coalition); to report on the distributional impacts of policy changes at fiscal events; to forecast child poverty and report on progress against targets in the Child Poverty Act; and to assess living standards. The Page review recommended in 2014 that "caution be exercised in considering the expansion of the OBR's mandate".<sup>20</sup>

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<sup>20</sup> 'External review of the Office for Budget Responsibility', K. Page, 2014

**3.60** As stated earlier in this report, the OBR was established by the government “to address past weaknesses in the credibility of economic and fiscal forecasting and, consequently, fiscal policy”.<sup>21</sup> In considering any changes to the OBR’s remit, it is therefore necessary to assess whether the value of the new activity outweighs the costs or risks to its existing activity.

## Opposition costings

**3.61** Under the BRNA, the OBR may not consider the effects of policies other than the government’s policies. This prevents the OBR from using hypothetical alternative policies to illustrate its analysis of government policies. It also ensures the OBR does not consider proposals by anyone other than the government.

**3.62** There is a full spectrum of options for how the OBR’s remit could be expanded ranging from modelling the impacts of alternative fiscal paths (reflecting different tax and spend compositions), through to the costings of specific opposition policies or full electoral platforms. There has been considerable public debate on the last of these issues. Therefore this review assesses the advantages and disadvantages of doing so, within the context of manifesto proposals – though these arguments would apply to the different variants of this option.

### The case for the OBR to cost manifestos

**3.63** The case for the OBR to take a role in costing manifesto policies is principally that it could improve the quality of policy development for parties. It is much less clear how costing manifesto proposals would contribute to the credibility of the UK fiscal framework or further enhance the OBR’s economy and fiscal forecasts.

**3.64** There are examples of independent fiscal institutions that cost the policies of political parties though only a few (see Table 2.A). From 1986 onwards, the CPB (the Dutch IFI) has offered interested political parties an analysis of the economic effects of the policy proposals in their election manifestos. The CPB was founded in the mid-1940s, so this innovation came when it was already 40 years old.

**3.65** Bos and Teulings (former members of the Dutch IFI, the CPB) note that “Dutch political parties seem to agree that the major and direct beneficiaries of the evaluation are the political parties themselves” in supporting policy discipline and coalition negotiations.<sup>22</sup> They cite Liedekerke: “the calculation disciplines parties and precludes that wishful thinking turns into party politics”.<sup>23</sup> The Australian Parliamentary Budget Office, which was created for the purpose of costing manifesto proposals, provide the service ahead of the elections but do not publish until after the election.

**3.66** There could in principle be some benefits if the costing process resulted in better policies, for example by preventing parties from committing to policies in their manifestos with damaging fiscal consequences.<sup>24</sup> In 2011, the IFS noted that, “in the run-up to a general election where it is widely believed that an opposition party is likely to form the next government, the fiscal plans of that opposition party are, arguably, more important than those of the current government for the sustainability of the public finances”.<sup>25</sup>

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<sup>21</sup> ‘Charter for Budget Responsibility’, HM Treasury, December 2014

<sup>22</sup> ‘Evaluating election platforms: a task for fiscal councils? Scope and rules of the game in view of 25 years of Dutch practice’, F. Bos and C. Teulings, 2011, and references therein

<sup>23</sup> ‘The views of the Political Parties’, L. van. Liedekerke, 2003

<sup>24</sup> Bos and Teulings (2011) suggest that this may have occurred to some degree in the Netherlands.

<sup>25</sup> ‘The new fiscal framework: an assessment’, R. Crawford, C. Emmerson and G. Tetlow, in ‘The IFS Green Budget: February 2011’, M. Brewer, C. Emmerson and H. Miller (eds), 2011

**3.67** However, there is no guarantee these benefits would be realised. As research for the Institute for Government notes: “Pre-election policy costings are not a guarantor of ‘better’ policies – they do not, for example, assess the implementability of a policy” and conversely they “may discourage innovation by incentivising parties to develop more cautious or safe policies with lower up-front costs”.<sup>26</sup>

**3.68** Bos and Teulings note that “Dutch politicians agree that evaluating election platforms makes a substantial difference”, however, “according to Dutch politicians, the direct benefits for the general public at large must not be exaggerated” as “few voters will read the evaluation report, but fall back upon media analysis of the report” and “press reports magnify certain results, sometimes completely forget others ... and could even be seriously flawed”.

**3.69** A second reason to be cautious about the benefits of policy costings is that they have a relatively narrow scope. They focus principally on the direct, static fiscal costs and benefits of measures. Where parties are offering different overarching economic programmes, perhaps with untested and wide-ranging policy reforms or different macroeconomic strategies, costings may not answer the central questions.

**3.70** To the extent the suggested benefits to public debate would materialise, they relate mainly to improving the quality of the democratic process. The potential benefits to fiscal credibility – the focus of this review – are more limited.

### Credibility risks to the OBR

**3.71** In order for the OBR to fulfil its current mandate, it is important that the OBR is regarded as independent and credible both with the public and across the political spectrum. Expanding the OBR’s remit to include costing opposition policies may pose risks to the OBR. International experience also illustrates the importance of building credibility and support over the early years of an IFI’s existence.<sup>27</sup>

**3.72** The Page review concluded that “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’s mandate (e.g. costing certification of opposition manifestos).” Some stakeholders who contributed to this review have taken a similar position. While they recognise the potential benefits to the public debate, those stakeholders also felt there are risks that the OBR could be drawn into the political debate. Especially as the OBR is a young organisation, any changes should be gradual and cautious to protect the credibility and value of its core outputs.

**3.73** Any process would of course be designed to try to limit the risk of politicisation (by formalising the nature and timing of interaction between the OBR and political parties, the details of policies to be costed etc). However, in practice the nature of election campaigns means significant risks would remain.<sup>28</sup> Government takes great care over the statements it attributes to the OBR, to avoid the risk of public disputes over what OBR analysis does and does not show. There is a risk in election campaigns that OBR findings are over-stated or mis-applied (for example to variants of the policy that had actually been costed or without being clear about assumptions) and the OBR is drawn into the debate.<sup>29</sup>

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<sup>26</sup> ‘Show me the money: Costing party policies in advance of the election’. R. Munro, January 2015, available at [www.instituteforgovernment.org.uk](http://www.instituteforgovernment.org.uk)

<sup>27</sup> ‘Case studies of fiscal councils – functions and impact’, IMF, July 2013

<sup>28</sup> See, e.g., ‘Oral Evidence taken before the Treasury Committee on Wednesday 9 October 2013’, part of *Re-appointment of Professor Stephen Nickell to the Budget Responsibility Committee*, Treasury Select Committee, October 2013

<sup>29</sup> This issue has been experienced in Ireland. See ‘The Irish Facility for Party Policy Costings’, R. Munro and A. Paun, Institute for Government, 2014

**3.74** Political parties may also attempt to “game” the system, for example designing policies that score well on the standard methodology. In the Netherlands this has resulted in pressure on the system to evolve and expand over time, for example by analysing additional dimensions of policy impacts.<sup>30</sup>

**3.75** More generally, broadening the OBR’s remit in this way carries the risks of “mission creep”, being drawn into areas where it may be less effective, or at greater risk of politicisation – or both. The risk of mission creep affecting the quality of the OBR’s core outputs is compounded by the resourcing challenges discussed below.

### Political framework

**3.76** In considering the case for the UK, the feasibility of all major political parties being able to undergo this process is key. For timings to work in the UK, the sequencing of the pre-election period would have to change and policies would need to be developed much further in advance.

**3.77** The OBR Chair, in a letter to the TSC, highlighted that “the OBR could only certify the costing of a policy set out with sufficient detail and certainty for us to be able to quantify its impact on the public finances in each year over an appropriate forecast horizon”. In addition, the process would likely be “time consuming and necessarily iterative, as the parties modify their policy proposals in light of what you have to say to them about their likely cost and impact.”<sup>31</sup>

**3.78** This point on deliverability was also highlighted by BRC member Sir Stephen Nickell in discussion with the TSC. A timetable would need to put in place and strictly enforced. A TSC member pointed out that many parties keep back “important announcements simply because they wanted to launch them just before the general election campaign starts”.<sup>32</sup>

**3.79** Reflecting on the example of the PBO established in Australia in 2012, the Institute for Government wrote that there was already a “well-established process in Australia through which major parties [could] have their election commitments costed prior to federal elections” before the IFI was created.<sup>33</sup> In addition, as referenced in Chapter 2, the Australian PBO does not produce economic forecasts or budget estimates, therefore its core mandate is to cost electoral platforms.

**3.80** Decisions would also need to be taken on which parties would be involved in any costing process. For example, in the Netherlands, all political parties that are likely to be represented in Parliament can participate. In practice, more parties have chosen to participate over time, increasing the resources required. The scope of a new process could be constrained by limiting those eligible. However, any definition of, for example, a “major party” or a “prospective party of government” could be difficult to reach agreement on. This has implications for the resources needed to run any process, and also the potential risks of controversy.

### Operational and resource considerations

**3.81** The OBR does not cost government policies itself, but rather scrutinises and certifies costings initially prepared by the Treasury and other departments (see Chapter 4 for more details). So costing opposition policies would require significant additional staff for the OBR

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<sup>30</sup> See, ‘Evaluating election platforms: a task for fiscal councils? Scope and rules of the game in view of 25 years of Dutch practice’ F. Bos and C. Teulings, June 2011. “Adapting the system to close off “gaming” opportunities may increase resource requirements too” (*Letter from Robert Chote to Andrew Tyrie MP*, 2014)

<sup>31</sup> *Letter from Robert Chote to Andrew Tyrie MP*, 2014

<sup>32</sup> ‘Oral Evidence taken before the Treasury Committee on Wednesday 9 October 2013’, part of ‘Re-appointment of Professor Stephen Nickell to the Budget Responsibility Committee’, Treasury Select Committee, 2013

<sup>33</sup> ‘Pre-election Policy Costing Mechanisms in Australia’, R. Munro and A. Paun, Institute for Government, 2014,

(especially at election time) and significant support from the rest of the civil service, which would have both resource and constitutional implications.

**3.82** Costing of manifesto policies at elections can impose heavy demands on official resources.<sup>34</sup> The CPB has around 120 staff. The OBR would almost certainly require additional resources (or have to cut back on other activities) to run the process. In addition, there would be significant additional demands on the other government departments that produce policy costings for OBR certification.<sup>35</sup>

**3.83** The resource implications will be affected by the timing of any costing process. Under the Fixed Term Parliaments Act, future elections can be expected to be held in May of the election year, with Parliament being dissolved around the turn of the financial year. As a result, any pre-election manifesto costing process is likely to overlap, at least to some degree, with the usual timing for the Budget in March. This is when both OBR staff and their colleagues who work on forecasting and costing in other government departments are already at their most stretched.

**3.84** To manage any manifesto costing process, therefore, there would need to be some combination of: additional OBR and departmental staff (recruited for long enough to build up expertise to produce and scrutinise costings); a reallocation of OBR staff away from work on the Budget to costings (with a corresponding reduction in the quality and rigour of the Budget forecasts); or a decision to either run the manifesto costing process well in advance of the election (requiring parties to decide their policies earlier) or in the window after the Budget (limiting time for iteration of policies and thereby running a greater risk of errors in the costings). None of these are impossible – but all have costs which should be weighed against the potential benefits.

**3.85** In addition, for the Budget process the policy costing process only covers a subset of policies: tax reforms and changes to Annually Managed Expenditure. The OBR does not cost individual public service policies that are funded out of departmental expenditure limits (DELs). It only makes a judgement, overall, about whether total departmental spending is likely to come in above or below plans.

**3.86** Consideration would also need to be given to the rules governing civil service contact with the Opposition. Civil servants serve the government of the day, and must act in a way which “deserves and retains the confidence” of ministers, and ensures they can establish the same relationship with any future government.<sup>36</sup>

**3.87** At present, by convention, opposition parties are entitled to enter into confidential discussions with senior civil servants in the run-up to a general election. Such discussions must be sanctioned by the Prime Minister of the day. They are intended primarily to allow opposition spokespersons to familiarise themselves with aspects of departmental organisation, and to inform civil servants of likely changes to the machinery of government in the event of a change of government.

**3.88** A process for costing manifesto policies based on the costing model used for the fiscal forecast would involve many more, more junior civil servants and – by its nature – involve consideration and iteration of detailed policy proposals rather than only organisational issues. Very careful consideration would need to be given to the rules of any process to ensure it was externally credible but did not affect the civil service’s ability to serve the (current and future)

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<sup>34</sup> ‘Show me the money: Costing party policies in advance of the election’. R. Munro, January 2015 available at [www.instituteforgovernment.org.uk](http://www.instituteforgovernment.org.uk)

<sup>35</sup> When the permanent OBR was designed, a decision was made to move a number of core forecasting posts into the OBR, but to retain most of the staff who work on forecasts and policy analysis for specific policy areas within their departments (principally DWP and HMRC). Research carried out for Kevin Page’s External Review of the OBR found that around 45 FTE staff from outside the OBR work on the Economic and fiscal outlook over the course of a year, and a further 66 on policy costings.

<sup>36</sup> ‘Civil Service Code’, available at [www.gov.uk](http://www.gov.uk)

government of the day, as well as to ensure that the civil service does not provide opposition parties with policy advice in the course of policy iteration. A system of “Chinese walls” would need to be established to constrain the use of information regarding the policy formation process of different political parties and mitigate the risks of leaks. However, this would still put civil servants, including relatively junior officials, in the difficult position of having privileged information that they could not share with their ministers, creating inevitable conflicts of interest.

### Alternative providers

**3.89** It is worth assessing if there are any other organisations who offer this service. For example, Bos and Teulings consider the UK as one of the countries where a manifesto costings service is already provided, noting the role of the Institute for Fiscal Studies.<sup>37</sup>

**3.90** In the 2015 general election:

- the IFS produced a report on ‘Taxes and Benefits: The Parties’ Plans’ and this included a description and analysis of the tax and benefit proposals put forward in the manifestos of the three largest parties in the last Parliament (i.e. the Conservatives, Labour and the Liberal Democrats) including the main winners and losers and the effects on incentives<sup>38</sup>
- the Centre for Economics and Business Research Ltd was commissioned by UKIP to assess the budgetary impacts of policies and this included the budgetary impact of the party’s tax and expenditure measures and the dynamic effects of certain policies<sup>39</sup>

**3.91** This review recommends that the OBR and the government could do more to help those outside of government who wish to understand and estimate the costs of alternative policies, through greater availability of tools and data.

### Conclusion

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

### Social impacts

**3.93** Suggestions have been made to expand the OBR’s remit in other directions. The main proposals, have been to report on the distributional impacts of government measures at fiscal events, report against child poverty targets and assess living standards. These 3 issues are significant aspects of the policy debate.

#### The case for expanding the OBR’s remit

**3.94** The scope for OBR analysis in these areas to enhance fiscal credibility is not clear. In part, this is simply because there is no very direct link between these measures and the overall state of the public finances and such steps do not further strengthen the overall framework for enhancing the UK’s fiscal credibility.

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<sup>37</sup> ‘Evaluating election platforms: a task for fiscal councils? Scope and rules of the game in view of 25 years of Dutch practice’, F. Bos and C. Teulings, 2011

<sup>38</sup> ‘Taxes and Benefits: The Parties’ Plans’, IFS Briefing Note BN172, S. Adams, J. Browne, C. Emmerson, A. Hood, P. Johnson, R. Joyce, H. Miller, D. Phillips, T. Pope and B. Roantree,, 2015

<sup>39</sup> ‘An economic review of policy proposals: A report for UKIP’, Cebr, 2015

**3.95** Analysis in any one of these areas would be a significant expansion of the OBR's remit; the modelling tools and expertise required for these types of analysis are distinct from the models used to produce the economic and fiscal forecast.

**3.96** With regard to child poverty in particular, the Welfare Reform and Work Bill proposes to remove statutory income related targets and replace them with new measures of workless households and educational attainment in England. These metrics, especially educational attainment, do not fall naturally within the scope of the OBR alongside its economic and fiscal forecasting responsibilities.

### Credibility risks to the OBR

**3.97** More generally, by expanding the OBR's remit to cover a major new area that is not closely related to its current work or expertise there is a risk that its core forecasting activities could be adversely affected.

**3.98** If the OBR were to produce distributional analysis, there is also a greater risk of it having to make controversial value judgements. In economic and fiscal forecasting, the variables of interest (GDP, inflation, public sector net borrowing etc) and the presentation of the forecast are widely agreed and rarely controversial (typically following internationally agreed National Accounts or other statistical guidance). In contrast, choices about how to define and present distributional analysis (e.g. choice of baseline, focus of the presentation, and treatment of measures with significant behavioural effects) require more, and more contestable, value judgements. If the OBR was to be drawn into any controversy, this could have wider impacts on its reputation.

### Operational and resource considerations

**3.99** Since conducting this kind of analysis would not simply be an evolution of the OBR's current analytical toolkit, it would require the development (or hiring) of the right expertise and building (or importing) of new models. The number of analytical staff would need to increase, together with relevant governance structures. Given the BRC also operates at full capacity, it would seem likely that the BRC would need to expand to provide the OBR Chair with further BRC-level support in the new area of responsibility. If the government of the day believed there were sufficient gains to be realised, it would be possible to provide the OBR with the resources to expand into these areas.

### Alternative providers

**3.100** The OBR is not the only organisation which could produce analysis in these areas. The OBR has a comparative advantage in fiscal forecasting and scrutiny of government policy costing relative to other external organisations: it has access to detailed internal government information and analysis. The same does not apply to analysis of distributional questions, where the main informational inputs (such as key survey data like the Family Resources Survey) are in the public domain.

**3.101** Distributional analysis of the impacts of government policy is already available from a range of sources. External institutions outside of the Treasury that regularly publish distributional analysis at fiscal events include the IFS, and less routinely the London School of Economics. It is therefore not clear that there would be significant gains from tasking the OBR with this analysis as well. DWP publish statistics ('Households Below Average Incomes') on living standards in UK households, as determined by disposable income. This data is published with a lag. However, the IFS regularly produces "nowcasting" reports which use the most recent survey data alongside macroeconomic indicators and modelling of the tax and welfare system to produce more timely assessments of living standards.

## Conclusion

**3.102** Overall, while it would be possible to expand the OBR's remit to cover analysis of distributional impacts, living standards or child poverty it is not clear doing so would enhance fiscal credibility – and there is a risk it could weaken it. It is therefore not recommended.

### **Recommendations on the legislation:**

The default assumption should remain that the government uses the OBR's economic and fiscal forecasts as the UK's official forecasts.

The OBR should receive a multi-year budget on a rolling basis, to ensure that its budget extends at least 3 years into the future at any given time.

The government should discuss with devolved administrations opportunities to amend relevant legislation:

- to ensure that the OBR has the appropriate information, explanation and assistance to enable it to carry out its functions
- to ensure that the OBR provides information on its forecast judgements to the appropriate devolved bodies
- and similar arrangements should be put in place for 'city deals' involving significant fiscal devolution

No changes should be made to the OBR's remit and the underpinning legislation, the Budget Responsibility and National Audit Act, at this stage.



# 4 Operating framework

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**4.1** Chapter 3 explained that, on balance, the review has concluded that the primary legislation remains appropriate. The primary legislation sets out the essential principles and requirements for the OBR's activities and its interactions with government. Underpinning detail is set out in a number of important governance documents that sit beneath the legislation.

**4.2** Clarity about governance arrangements and working practices is an important feature of effective independent fiscal institutions. Relationships with devolved administrations also need to be clearly set out.

**4.3** In addition to the main governance documents, there are important processes and working arrangements that have developed over the last 5 years. This chapter:

- outlines the key governance documents that sit beneath the BRNA
- in light of experience over the last 5 years, assesses these documents and associated processes

**4.4** This chapter seeks to identify areas where there is scope for improvement, including to make processes more robust to future turnover in personnel, and strengthen engagement by all parties involved in the forecast process. It does not provide detailed recommendations – these should be taken forward by all relevant parties – but suggests areas that should be reviewed.

## Key governance documents

**4.5** There are 3 main governance documents that sit beneath the legislation.

**4.6 The Charter for Budget Responsibility (“the Charter”).** The government is required to produce a Charter under the BRNA. It has to include the government's objectives for fiscal policy and management of the national debt, the fiscal mandate (and other fiscal targets) and the required contents of the government's Financial Statement and Budget Report. The government can also use it to give guidance to the OBR, subject to the provision in the BRNA that “the Charter must not make provision about the methods by which the Office is to make any such forecast, assessment or analysis”.

**4.7** The Charter has to be approved by a vote in the House of Commons. It has been updated twice since 2011: to incorporate the welfare cap in March 2014; and to revise the time horizons on the current budget balance and debt targets at Autumn Statement 2014. At Summer Budget 2015 the government published a further draft update, which will be formally laid before Parliament in autumn 2015.

**4.8 The Memorandum of Understanding (MoU)** sets out the agreed working relationship between the OBR, HM Revenue and Customs (HMRC), the Department for Work and Pensions (DWP), and HM Treasury. It sets out the arrangements needed for effective working, covering each institution's key responsibilities, coordination of the forecast process, and the process for information sharing. The MoU has not been revised since 2011.

**4.9 The Framework document** sets out the OBR's governance and management arrangements in greater detail. It is drawn up by the Treasury and agreed with the OBR. This describes the purposes of the OBR, how it is accountable to Parliament and the Chancellor, its governance and structure, the responsibilities of the accounting officer (currently the Chair of the OBR), the content of the annual report, the audit arrangements, and its managements and budgeting processes. It was updated in 2014 at the same time as the OBR's new multi-year budget

settlement was agreed. The update reflected additions to the OBR's responsibilities with respect to the welfare cap policy and forecasting of devolved taxes for Scotland and Wales.

## Charter for Budget Responsibility

**4.10** The Charter contains a range of material. From the perspective of the OBR's operating framework, the relevant section is Chapter 4 of the Charter which expands on and clarifies the OBR's statutory remit as set out in the BRNA.

**4.11** This section briefly summarises the main elements of Chapter 4 of the Charter and assesses, with reference to relevant OECD principles, how these support the statutory framework, including the distinctive features of the OBR model, set out in previous chapters of this review.

**4.12 Elaboration of key statutory principles:** Chapter 4 of the Charter reiterates and expands on:

- the OBR's discretion in the performance of its duty, spelling out that this covers everything from forecast methodology and judgements to the OBR's work programme (in line with OECD principle 3.2)
- the OBR's right to information (OECD principles 6.1 and 6.2), for example clarifying the limitations on this right and requiring relevant processes to be set out in a Memorandum of Understanding (see below)
- the requirement on the OBR to take into account the effect of government policies (and not consider the effect of alternatives), providing further detail on how this process should work and emphasising that the OBR should not provide normative commentary (in line with OECD principle 2.1 on independence and 3.1 on clarity of mandate)

**4.13 Guidance on analysis to be prepared:** as provided for by clause 6(1) of the BRNA, the Charter also provides guidance on timing and content of analysis to be prepared by the OBR under their main duty. The main areas covered are the:

- minimum content of the economic and fiscal forecasts, to ensure consistency with forecasting conventions and reflecting the distinctive feature of the UK model that the OBR's forecasts are intended to be adopted by the government as its official forecasts
- content of the annual analysis of the sustainability of the public finances (required under the BRNA); the Charter currently specifies that this "includes long-term projections", as well as clarifying that where no long-term government policy exists, the OBR should make assumptions and explain these transparently; the legislative requirement for the OBR to produce an annual analysis of the sustainability of the public finances should be retained (there is a case for moving away from producing a full set of long-term projections every year and is discussed further in Chapter 6).
- timing of the OBR's forecasts and publications, including requirements for the Chancellor to give the OBR reasonable notice of publication dates for its economic and fiscal forecasts, and for the OBR to set out release dates for its own publications in advance (consistent with OECD principles 3.3 on links between the IFI's mandate and the budget process, and 7.3 on transparency)

**4.14 Guidance on government access to information from the OBR:** the third main area covered by Chapter 4 of the Charter is on the government's right to information from the OBR. In the UK framework, the OBR's forecasts are an essential input into government policy making, especially

in the run-up to fiscal events, so this exchange of information is important to making the OBR model work effectively (OECD principles on local ownership).

## Additions to the Charter

**4.15** Aside from amending the guidance on sustainability analysis, the existing contents of the Charter remain appropriate, supporting the OBR framework in line with the OECD principles. However, the review has identified 2 reports that the OBR should produce, and which should be specified in the Charter for clarity.

### Fiscal risks statement

**4.16** IMF staff and other stakeholders who contributed to this review have recommended that the UK produce a single document bringing together analysis of fiscal risks.<sup>1</sup> The case for producing a fiscal risks statement is discussed in more detail in Chapter 6. In terms of the OBR's operating framework, any decision to require the OBR to produce a regular report on fiscal risks should be codified in the Charter.

### Welfare trends report

**4.17** The Chancellor has asked the OBR to publish once a year "information on the trends in and drivers of welfare spending within the cap".<sup>2</sup> The OBR published its first 'Welfare trends report' (WTR) in October 2014, and a second report in June 2015.

**4.18** Given the link between the welfare cap and the WTR, an annual publication is appropriate. However, like the 'Fiscal sustainability report' (FSR), much of the core material in the WTR changes relatively slowly – as the focus is on trends and drivers rather than short-term forecasts (which are contained in the twice-yearly 'Economic and fiscal outlook' (EFO). In the second WTR, the OBR stated that they "do not believe there would be value in repeating such a comprehensive historical review [as was carried out in the first report] on an annual basis, so will focus our coverage more narrowly in this and subsequent reports".<sup>3</sup> The review supports this view that full-scale analysis may be better suited to a less frequent publication schedule and that the flexibility on the specification of the report can help to release resources for other analysis and should be retained.

**4.19** As the arrangements for the WTR are currently set out in an exchange of letters between the Chancellor and the OBR Chair, the review recommends codifying the OBR's role in producing the report in the Charter.

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<sup>1</sup> 'Budget institutions in G20 countries – country evaluations', R. Hughes et al, 2014, available at [www.imf.org](http://www.imf.org)

<sup>2</sup> 'Letter from the Chancellor to Robert Chote', 2013

<sup>3</sup> 'Welfare trends report', OBR, 2015

### Recommendations on updates to the Charter for Budget Responsibility

The government should update the Charter for Budget Responsibility to:

- replace the requirement for the OBR to include long-term projections in every edition of its annual sustainability report with a requirement to produce biennial projections
- incorporate the requirement for the OBR to produce a regular report on fiscal risks, in line with the recommendations of the IMF's Fiscal Transparency Code; the government should respond formally to the report
- incorporate the requirement for the OBR to produce an annual Welfare trends report

## Non-legislative governance

**4.20** As set out in Chapter 3, the OBR is required to produce an economic and fiscal forecast twice a year, taking into account the effects of government policies. The OBR, and in particular the Budget Responsibility Committee (BRC), own and are fully responsible for the final forecast, including all the judgements and assumptions used.

**4.21** The detailed process for producing the forecast is set out in Chapter 5. Since the forecast is produced through close working between government departments, principally HMT, DWP and HMRC, and the OBR, this section addresses a number of areas where governance documents – including the MoU – could usefully be updated.

### Forecasting process

**4.22** The key elements of the forecast process are as follows:

- the OBR produce an initial economic forecast, taking into account BRC judgements
- based on this initial economic forecast, forecasts for individual taxes, areas of spending and financial transactions are made by forecasting teams in HMRC, DWP, HMT and other departments
- these forecasts are then scrutinised and challenged by the OBR, who may also apply further judgements to produce a full fiscal forecast
- the process then iterates for several rounds, with each revised economic forecast reflecting the updated fiscal forecast and vice versa until they converge
- the OBR also incorporates the impact of new government policies into its forecast
- similar to the underlying forecasts, costings for new policies are produced by analysts in government departments, but scrutinised and certified by the OBR

**4.23** The case for the current model, made back in 2010, remains valid. Sir Alan Budd, Chair of the interim OBR, advised that the model of using departmental resources “is the best way for [the OBR] to perform our task. Detailed forecasts of receipts and expenditure are necessary for the Budget and few outsiders appreciate the complexity of fiscal forecasting. At its peak the process involves more than 100 people in the Treasury, HMRC and DWP... Between forecasts,

the officials are engaged in such tasks as policy analysis and advice and monitoring of fiscal flows. It would not be practical to duplicate the forecasting activities within the OBR.”<sup>4</sup>

**4.24** The delivery of the fiscal and economic forecasts is supported by the Forecast Liaison Group (FLG) which was established under the MoU. It meets in the run up to each fiscal event to co-ordinate the overall process for the successful delivery of the forecast. For example, one of the objectives of the FLG is to agree the forecast timetable. To further safeguard the robustness of the forecast development process for the future, the review recommends that the arrangements around the signatory departments’ compliance with the MoU and delivery of the forecast are reviewed.

**4.25** This includes ensuring teams continue to have sufficient capability to carry out the core functions required to provide inputs for the OBR, and compliance with the relevant commitments in the MoU such as the forecast and policy costings timetables. The scope for further strengthening and formalising arrangements should be considered. Finally, the OBR should review whether the current list of signatory departments is right or whether other departments should be included.

### **Policy costings process**

**4.26** The OBR is required to take into account the effect of government policies in its analysis. The Charter for Budget Responsibility sets out that “the government is responsible for all policy decisions and for policy costings... subject to receiving sufficient information from the Treasury to do so, the OBR will provide independent scrutiny and certification of the government’s policy costings”. In this respect it differs from other IFIs, such as the Netherlands CPB and the US CBO, which produce costings themselves.

**4.27** Sir Alan Budd also argued in reference to the OBR forecasting model that “those currently engaged in forecasting use the skills and knowledge they gain on their other activities: there are synergies in developing expertise that can be applied to both forecasting and other analysis”.<sup>5</sup> This interdependence means that the smooth operation of the process of producing and certifying costings is important to the quality of the final outputs.

**4.28** The costings process is overseen by a Policy Costings Steering Group, attended by the OBR and other relevant departments and chaired by the Treasury. This was also established under the MoU, which sets out that there should be a “Policy Costings Steering Group, which will meet periodically through the year and more regularly in the run up to fiscal events, to oversee the policy costings and certification process”. Further details, including agreeing a timetable for exchanging the information necessary for the scorecard costings are agreed between the OBR and the Treasury.<sup>6</sup>

**4.29** The Charter sets out that “the OBR will state whether it agrees or disagrees with the government’s costings, or whether it has been given insufficient time or information to reach a judgement”. The OBR also contribute an annex to the Treasury’s ‘Policy Costing Document’, where it identifies those costings where they believe there is particular uncertainty. Since December 2014, the OBR has applied explicit uncertainty ratings to individual policy measures in an annex to the EFO.

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<sup>4</sup> ‘Advice on the permanent Office for Budget Responsibility’, letter from Sir Alan Budd, Geoffrey Dicks and Graham Parker to the Chancellor of the Exchequer, 2010

<sup>5</sup> ‘Advice on the permanent Office for Budget Responsibility’, letter from Sir Alan Budd, Geoffrey Dicks and Graham Parker to the Chancellor of the Exchequer, 2010

<sup>6</sup> ‘Policy costings and our forecast’, Briefing paper no. 6, OBR, 2014

**4.30** Since 2010, the OBR has not rejected any government costing. In the vast majority of cases, the OBR has had the time and information to reach a judgement, and has certified the final costing. Over the last 12 fiscal events, there have been 2 instances of scorecard policies where details of the policies were provided to the OBR too late for them to subject them to the full process of challenge and scrutiny.<sup>7</sup> In both cases the OBR included the government costing in its fiscal forecast and explained the costing would be returned to at the next fiscal event.

**4.31** The OBR noted that the costings processes for both the March 2015 and July 2015 Budgets were “particularly difficult as we were not given details of costings for a large proportion of significant policy measures until just before our deadline.”<sup>8</sup> The difficulties associated with the July 2015 process were explained further in written evidence to the Treasury Select Committee.<sup>9</sup> Both events involved a large number of policies being put through the costing process, and included significant reforms to the tax and welfare system – all but one of which were certified by the OBR.<sup>10</sup> However, it is clear that the process in these events has placed additional strain on the OBR and increased reliance on the experience and expertise of a small number of key individuals working in the OBR.

**4.32** Delivering the policy costings process successfully requires a joint endeavour across departments and the commitment of ministers. Given the importance of policy costings to the economic and fiscal forecast, all the signatories to the MoU should take this opportunity to review the process and timetable for producing the costings, based on the experience of the last 5 years and considering potential vulnerabilities from future changes in personnel. This should include considering the interaction between the policy costings timetable and the timing of major forecast judgements.

### **Classification changes**

**4.33** The ONS has sole responsibility for National Accounts classification decisions, which can affect the boundary of the public sector and the scoring of transactions of public sector bodies. In general the ONS only finalise decisions once policies are enacted. There can also be lags between when ONS announce and implement classification decisions.

**4.34** As the OBR has to provide forecast information, including based on the policy costings process outlined above, there can be occasions when the OBR needs to anticipate how the ONS will treat new policies in the fiscal aggregates. Where the effect can be quantified, the OBR also reflects in its forecasts the impact of ONS classification decisions that have been announced but not yet implemented. At such times, there will be differences between ONS outturn data and OBR forecasts.

**4.35** The review recommends that the OBR work with the ONS to develop a protocol for dealing with these situations to ensure that the ONS’s role in classification is not compromised and that the OBR forecast uses the best possible information on the classification of policies and bodies where the decision has not yet been fully implemented.

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<sup>7</sup> ‘Economic and fiscal outlook’, OBR, March 2011 and ‘Economic and fiscal outlook’, OBR, 2015

<sup>8</sup> See, e.g., OBR ‘Economic and fiscal outlooks’ for March 2014, March 2015 and July 2015. See also written evidence submitted by the Office for Budget Responsibility to Treasury Committee Summer Budget 2015 inquiry (‘Written evidence submitted by the Office for Budget Responsibility: Summer Budget 2015 – policy costings and the forecast timetable’, OBR, 2015)

<sup>9</sup> ‘Written evidence submitted by the Office for Budget Responsibility: Summer Budget 2015’ – policy costings and the forecast timetable, OBR, 2015

<sup>10</sup> July 2015 Scorecard was not fully certified

### Recommendations on updates on non-legislative governance material

The OBR and the signatory departments should review the Memorandum of Understanding (MoU) by September 2016 and where necessary set out additional detail on governance and processes, including steps to strengthen and formalise the arrangements around the signatory departments' compliance with the MoU and delivery of the forecast and policy costings.

The OBR and the ONS should agree a set of principles on the anticipation of pending ONS classification decisions or changes to the forecast

## Devolution

**4.36** The OBR is responsible for the economic and fiscal forecast for the whole of the UK. As a result, reforms that devolve additional tax and spending responsibilities away from the UK government will affect the OBR's work.

**4.37** Since 2012, the OBR has forecast receipts from taxes devolved to the Scottish Parliament (a requirement set out in the Scotland Act 2012). Since 2014, it has also forecast receipts that will be devolved to the Welsh Assembly (as set out in the Wales Act 2014). These are published in a Devolved taxes forecast alongside the OBR's EFO which accompany the UK Budget and Autumn Statement, and extend downward over a 5-year forecast as for the OBR's forecast of UK tax receipts. The OBR has a published methodology for calculating most of the devolved taxes based on estimating and projecting the share of the relevant UK tax, and assumes that the shares will continue over the forecast period unless available evidence suggests they should adjust the assumptions.<sup>11</sup>

**4.38** In June 2014 the Scottish Parliament created the Scottish Fiscal Commission (SFC). The SFC currently has a mandate to scrutinise Scottish Government forecasts of fully devolved taxes (Land and Buildings Transactions Tax, and Scottish Landfill Tax) on which the Scottish government's budget is based. It published a report on 9 October 2014 to that effect.<sup>12</sup>

**4.39** Following the Smith Commission Agreement, it is expected that the remit of the SFC will be expanded to fully reflect its additional responsibilities as more powers are devolved. The Smith Commission Agreement set out that "the Scottish Parliament should seek to expand and strengthen the independent scrutiny of Scotland's public finances".<sup>13</sup> The Scottish Government has consulted on draft legislation to place the SFC on a statutory basis, and is expected to bring forward final legislative clauses in the autumn. It will be important for the OBR and the SFC to work well together, and for their distinct remits to be clear.

**4.40** As discussed in Chapter 3, given the OBR's duty to produce economic and fiscal forecasts for the whole of the UK, the government should discuss with devolved administrations opportunities to amend legislation. This would be mutually beneficial to enable both parties to carry out their respective functions.

**4.41** In addition to powers in legislation to ensure that the OBR has access to information, the OBR's working relationships with devolved administrations and arm's length bodies/agencies could also be set out in Memoranda of Understanding to reflect recent developments in fiscal devolution within the UK. In addition to strengthening the current effective working

<sup>11</sup> The exception to this is the OBR's forecast for the new land and buildings transaction tax.

<sup>12</sup> 'SFC Report on the draft Scottish Budget 2015-16', Scottish Fiscal Commission, 2014

<sup>13</sup> 'Report of the Smith Commission for further devolution of powers to the Scottish Parliament', The Smith Commission, 2014

relationships, this would operationalise the proposed change to legislation described above on the rights of access to information, explanation and assistance for both the OBR and the devolved administrations.

**4.42** This approach may also need to be extended to cover devolution deals with England’s major cities.<sup>14</sup> The Treasury will work with the OBR to identify where such MoUs may be necessary.

#### **Recommendations on devolved administrations**

The OBR, devolved administrations and bodies and fiscally significant ‘city deals’ should consider agreeing Memoranda of Understanding to reflect developments in fiscal devolution in the UK.

### **Framework document**

**4.43** The Framework document sets out the OBR’s current governance arrangements in detail, including its relationship with the Treasury as the sponsor department. The main areas covered are: accountability; governance; and staffing and financial matters, including accounts and audit.

**4.44** The OBR’s dual accountability – to the Chancellor and Parliament - was discussed in Chapter 3. The Framework document reiterates these arrangements, and emphasises that while the Chancellor and the OBR Chair may meet to discuss issues, “communications between the Chancellor and the OBR Chair will not seek to influence the OBR’s judgements or methodology for producing its forecasts, assessments and analysis which are determined independently and free from ministerial interference” (in line with OECD principle 2.1).

**4.45** The Framework document also sets out further details on the OBR’s internal governance. The BRNA specifies that there will be 3 members of the BRC and a further 2 non-executive members, with responsibility to keep the OBR’s performance under review. The Framework document sets out current practical arrangements, in particular, that the 3 members of the BRC and 2 non-executives together form an Oversight Board, chaired by a non-executive member. This Board is responsible for strategy and corporate governance. The Framework document also specifies the responsibilities of the Chair and members of the Oversight Board. Clearly set out governance arrangements and expectations help to protect the reputation and institutional credibility of the OBR. The current arrangements have worked effectively this Parliament, and no changes are recommended at this stage.

**4.46** As the Treasury is the OBR’s sponsor department, there is necessarily a close relationship between the 2 organisations, but it is important that the OBR’s work is, and is seen to be, independent of the Treasury.

**4.47** In large part, this is achieved through the formal legislative provisions set out in Chapter 3. However, the Framework sets out some further detail on provisions to protect the OBR’s independence in areas of:

- staffing, including that “within the arrangements approved by the Minister for the Civil Service, and in line with the Civil Service Management Code, the OBR will have responsibility for the recruitment, retention and motivation of its staff” (in line with OECD principles 2.5 and 2.6)

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<sup>14</sup> Further information on City Deals is available at [www.gov.uk](http://www.gov.uk)

- allocation of funding, where the document specifies that “The OBR will have a separate line in the Treasury’s Estimate which will show an estimate of budget expenditure. The OBR will be able to itself submit an additional Memorandum alongside that of the Treasury” in order to “protect the independence of the OBR and ensure transparency in the resources that are provided to the OBR” (OECD principle 4.1)
- the balancing of the Treasury’s audit responsibilities with the OBR’s discretion in undertaking its duties “As sponsor department, the Treasury and the Treasury’s internal audit service have ... rights of access to information within the OBR. These rights of access do not undermine the complete discretion of the OBR in preparing its forecasts and other analysis”

**4.48** The Framework document does not convey any legal powers or responsibilities in itself. Nevertheless, the arrangements it sets out strengthen the OBR, in particular with regard to the OECD principles of independence and non-partisanship, and resources, and they should be retained.

#### **Recommendations on governance**

That the OBR and HM Treasury Framework document remains appropriate. It should be reviewed periodically.



# 5 Forecasting performance and capability

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**5.1** The OBR was established to provide greater transparency and credibility to the economic and fiscal forecasts on which fiscal policy is based. This chapter:

- evaluates the OBR’s forecast performance over the past 5 years, and in particular its approach to deviations in outturn from the forecast
- sets out how the OBR forecast is produced, highlighting the interaction between the OBR and government departments
- considers to what extent the OBR could improve its forecast by assessing the key inputs underpinning the projections, the capability of the staff and model development

**5.2** The focus is on whether the forecasting performance and capability of the OBR is appropriate and consistent with the OECD Council’s principles for effective independent fiscal institutions (IFIs) as set out in Chapter 1 with a particular focus on resources and access to information.

## Forecasting performance

**5.3** As set out in legislation, the OBR produces independent economic and public finances forecasts at least twice a year, and long term projections once a year as set out in the Charter. Alongside the forecast, the OBR is required by legislation to provide “an assessment of the extent to which the fiscal mandate has been, or is likely to be, achieved”.

**5.4** The integrity of the forecast is therefore important as the government uses these projections to inform its policy making. Over the last 5 years, the government has, on a number of occasions, had to take difficult policy decisions in response to changes to the OBR’s forecast.

- November 2011 – the OBR revisited their judgement about the extent to which the financial crisis had damaged potential output. The level of potential output at the end of the forecast was revised down by around 3½% relative to the March 2011 forecast. The government chose to extend the period of fiscal consolidation in order to continue to meet the mandate
- December 2012 – the OBR judged that the output gap remained significantly negative throughout the 5-year forecast, so actual growth was weaker (rather than potential). This meant that the supplementary debt target was missed. In this instance, the government chose not to change policy, but to explain that it felt the right decision was to miss the target. The summer Budget 2015 forecast shows the government is once again on track to meet the original supplementary debt target, following policy decisions on asset sales
- December 2014 – the OBR judged that effective tax rates had fallen, reflecting outturn data, lowering the receipts forecast by £89 billion across the 5 year forecast

period.<sup>1</sup> The government chose to offset the fall in receipts with reductions to spending in order to continue to achieve a surplus in 2018-19.

## Credibility of the forecast

**5.5** In performing its duty objectively and impartially, the independence of the OBR is protected by a clear separation of the decisions that will be made by the OBR for the purposes of the forecast and the government's decisions on setting of policy.<sup>2</sup>

**5.6** The IMF also argues that countries with IFIs are more likely to have "accurate and less optimistic macroeconomic and budgetary forecasts than others". This tends to be the case particularly for IFIs that have a legal obligation to produce forecasts, and assess government performance against fiscal rules.<sup>3</sup>

**5.7** Until 2010, the Treasury produced the government's official forecasts, making them more susceptible to bias and the perception of bias. While evidence suggests that the Treasury's forecast was neither biased towards optimism or pessimism when viewed over very long periods, the "errors tended to be serially correlated so that periods of under-forecasting of the deficits were followed by periods of over-forecasting".<sup>4</sup> A key motivation in establishing the OBR and tasking it with producing the government's official forecasts was to significantly reduce or eliminate perceptions of bias in fiscal and economic forecasting.

**5.8** Legislation provides the OBR "complete discretion" over its methodology, forecast judgements and analytical work programme. As it is now the responsibility of the BRC to make judgements, this has helped secure credibility as these key judgements are now perceived to be free from political bias or motivation. And it is these judgements, now made in the context of independence, where the BRC provide additional value and insight.

**5.9** It is inevitable, given the difficulty of economic and fiscal forecasting, that outturn will differ from the OBR's forecasts. A recent briefing paper on the OBR by the House of Commons argued that "there is a danger that if the OBR is judged solely by the accuracy of its short-term forecasting, it will lose credibility". It included the Treasury Select Committee's (TSC) recommendation that while there should be scrutiny of the OBR's forecasts, "absolute accuracy is not a useful criterion" for establishing credibility.<sup>5</sup> Assessing performance relative to other forecasts is more appropriate.

**5.10** To this end, the Page review found that the OBR has "succeeded in reducing perception of bias in fiscal and economic forecasting and has increased the transparency of its products". It also concluded that the OBR methodology compares well with its international counterparts. This is an important finding, as credibility is in part determined by the quality of analysis.

**5.11** Stakeholders who contributed to this review also argued that the increase in transparency of the forecast and key judgements has also significantly raised the credibility of the OBR's projections of the public finances. This will be looked at in detail in Chapter 6.

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<sup>1</sup> Excludes changes due to implementation of ESA10 and the ONS PSF review, 'Economic and fiscal outlook December 2014', OBR, 2014, Table 4.44, figures to one decimal point.

<sup>2</sup> The Charter specifies that the government is responsible for all policy decisions and for policy costings.

<sup>3</sup> 'Strengthening Post-Crisis Fiscal Credibility – Fiscal Councils on the Rise. A New Dataset', IMF, 2014

<sup>4</sup> Sir A Budd, 2013 in 'Restoring Public Debt Sustainability, the Role of Independent Fiscal Institutions', G Kopits (ed.), 2013

<sup>5</sup> 'The Office for Budget Responsibility and Charter for Budget Responsibility', House of Commons, 2015

## Forecast performance

### International standards

**5.12** Chapter 2 includes a description of roles and responsibilities of IFIs in OECD countries. Most IFIs are involved in forecasting in some capacity and this ranges from preparing official forecasts to endorsing government forecasts. The Page review conducted a technical assessment of the OBR's core annual products and as referenced above, this included an assessment against other IFIs. The findings are summarised for the 'Economic and fiscal outlook' (EFO) and the 'Fiscal sustainability report' (FSR).

**5.13** On the EFO, "the OBR compare well to international standards". Evidence to support this highlighted in the Page review include the organisation's efforts to explain why back data is updated and what this implies for the forecast. The December 2014 EFO is an example of this. The UK National Accounts data had been significantly revised and the ONS had implemented the 2010 European System of Accounts. The OBR went to great lengths to explain the impact, particularly isolating the underlying structural changes to the forecast from those that were methodological. The modelling and econometric methods underpinning the OBR's analysis is also referenced as "generally accepted" in the Page review.

**5.14** The Page review concluded that the methods adopted in the FSR "compare well against international standards". The approach adopted by the OBR is consistent with that by a number of IFIs given it closely follows the recommendations outlined by Anderson and Sheppard's 2009 OECD paper on long-term fiscal projections.<sup>6</sup>

### Forecast evaluation report

**5.15** The OBR assesses its own forecasting performance in its annual 'Forecast evaluation report' (FER). This publication satisfies the legislative requirement that "the OBR prepare an assessment of the accuracy of its previous fiscal and economic forecasts" (Schedule 1 Paragraph 4(3)) The FER compares the performance of past forecasts against outturn data. In light of errors identified in the report, the FER explains any deviations from outturn, and any lessons that will be applied to future forecasts.

**5.16** Stakeholders who contributed to the review are clear that the FER is a thorough and comprehensive report demonstrating the OBR's commitment to analysing its own errors. This process of self-evaluation offers the OBR an opportunity to learn lessons from past forecasts, and in so doing, improve their forecasting performance over time. Progress has been made over the 5 years since the OBR has been established. For example, it was the FER analysis that led the OBR to revisit its approach to forecasting departmental spending, where departmental expenditure limits tend to be underspent each year, and judgements about local government spending, where local authorities continued to add to reserves despite reductions in budgets.

**5.17** The latest FER showed that the errors in real GDP and borrowing forecasts have, on the whole, "been smaller than the average errors in official forecasts over the past 20 years".<sup>7</sup> The next table shows that the largest errors relative to the average errors in the Public Sector Net Borrowing forecast relate to the in-year forecast but improve in the medium term. However this was largely due to revisions to nominal GDP in the latest Blue Book. After normalising the GDP estimates, the FER states that the "underlying receipts and spending forecast have generally been more accurate than was the case on average in the past".

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<sup>6</sup> 'Fiscal Futures, Institutional Budget Reforms, and their Effects: What Can Be Learned, both conceptually and methodologically', OECD, 2009.

<sup>7</sup> 'Forecast Evaluation Report – October 2014,' OBR, 2014.

**Table 5.A: Forecast errors for PSNB as a percent of GDP**

	Percent of GDP				
	In-year	One	Two	Three	Four
June 2010 <sup>1</sup>	-0.6	-1.3	-0.2	1.4	2.7
November 2010	-1.2	-0.3	1.3	2.7	
March 2011	-1.1	-0.6	0.7	2.1	
November 2011	-1.1	-0.7	0.2		
March 2012	-1.0	-0.7	0.3		
December 2012	-0.8	-0.7			
March 2013	-0.9	-1.3			
December 2013	-0.6				
Average absolute errors over the previous 20 years					
Spring/summer	0.4	1.1	2.0	3.0	3.1
Autumn	0.8	1.4	2.0	2.1	2.9
<sup>1</sup> For comparability with other forecasts, "in-year" is assumed to be 2009-10					
Key:					
Smaller than average absolute error					
Average sized error					
Bigger than average absolute error					

Source: OBR, 2014

**5.18** While it is inevitable that forecasts will deviate from outturns, the FER provides an opportunity for the OBR to reflect, and better understand the drivers behind the errors. The FER explains how outturn data, policy changes and judgements among other factors have been responsible for previous errors. The report to a lesser degree, describes errors related to the performance of individual forecasting models. Similar to the US CBO, the OBR separates out errors into legislative, economic, and fiscal forecasting errors for receipts, spending and borrowing.

**5.19** The OBR could enhance its analysis of forecast errors in the FER by:

- explaining the drivers of the fiscal forecasting errors in more detail; many of these errors will reflect judgements on the interpretation of outturn data since the preceding forecast, but the exercise might also help identify models that need updating or developing (this is discussed further in later sections of this chapter)
- giving greater attention to its forecasts for cash flows, particularly in light of the profile of the fiscal rules on debt falling

**5.20** The review recognises the important steps the OBR took in the July 2015 EFO forecast to strengthen its cash forecasting. This identified and resolved a number of issues that had led to significant differences between cash and accrued measures of borrowing, but a substantial alignment adjustment remains in the cash forecasts suggesting scope for further improvements. It is recommended that the OBR continues to develop its approach to cash forecasting. Cash measures are particular important to gilt market analysts.

### Accuracy of policy costings

**5.21** Another source of uncertainty in the forecast is the accuracy of policy costings. The TSC have previously recommended the OBR "should compare its uncertainty ratings on policy costings of individual measures against the outturns, and report its findings in its Forecast

Evaluation Report”.<sup>8</sup> The review recommends against a systematic re-costing of all policy measures. Some costings are more uncertain and complex than others and it is not possible to estimate ex-post to a meaningful degree of certainty, the counterfactual in the absence of the policy change.

**5.22** Instead, the review recommends the OBR re-examine costings of categories of policy measures for which there is good reason to believe the error may have been large or there is evidence of systematic bias. The OBR have already begun to carry out such analysis. In the December 2014 EFO, the OBR reviewed the yields from anti-avoidance measures against initial costings. This provided a more systematic review of such costings, following earlier analysis of the large shortfall in receipts from the UK-Swiss tax agreement. This can be useful analysis both to the OBR to improve its future forecasts, but also to the government’s ongoing policy development.

**5.23** As will be discussed in Chapter 6, the OBR should consider whether detailed analysis such as this should also be published separately to increase its prominence and accessibility.

## Production of the forecast

**5.24** The OBR requires sufficient analytical resources and support to produce credible, high-quality forecasts. In order to assess capability and risks in this area, it is first important to set out the current process on the production of the forecast. In line with OECD principle 6.1, the IFI should have “full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals”.

### Forecasting process

**5.25** As the owners of the forecast, the OBR is also responsible for coordinating the forecast production process with other departments. The public finance forecast is a highly disaggregated, bottom up forecast. The individual forecasts for different elements of revenue, spending and financial transactions are based on a consistent view of the outlook for the economy. The economic and the public finance forecasts both reflect the judgements of the BRC, with a variety of econometric and other forecasting models used to aid those judgements and ensure internal consistency.

**5.26** Although the OBR own the forecast, which “represents the collective view of the Budget Responsibility Committee”, the individual fiscal forecasting models are run and maintained by teams outside the OBR, with the BRC signing off on significant model developments. As a result, the OBR depends on information and expertise from government departments, particularly HM Treasury (HMT), HM Revenue and Customs (HMRC), and the Department for Work and Pensions (DWP).<sup>9</sup>

**5.27** The economy and fiscal forecasts are interdependent. Consequently, producing the fiscal forecast is an iterative process with several rounds incorporating changes from either the economy or fiscal forecast.<sup>10</sup> This iterative process ensures that changes to one part of the forecast are reflected throughout the forecast.

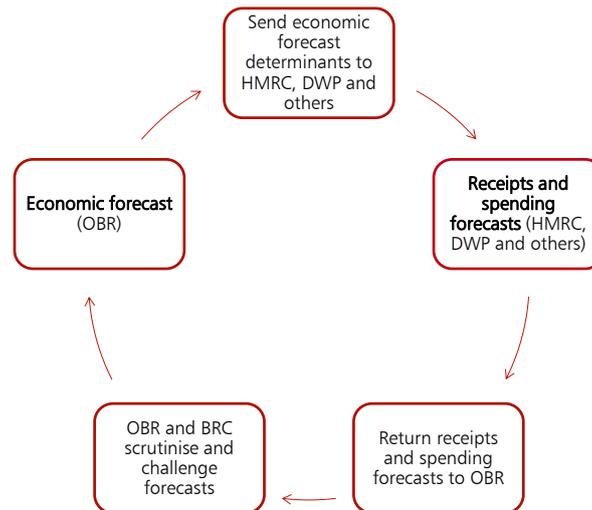
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<sup>8</sup> ‘Autumn Statement 2014, Ninth Report of Session 2014-15’, House of Commons Treasury Committee, 2015

<sup>9</sup> Other departments include the department for Business, Innovation and Skills, Department for Communities and Local Government and the Department of Energy and Climate Change

<sup>10</sup> ‘Briefing Paper No 1 Forecasting the Public Finances’, OBR, 2011

**Chart 5.A: The fiscal forecast production process**



Source: OBR, 2011

- the process begins with the OBR producing an initial economic forecast, incorporating economic data since the last published forecast
- economic determinants from this forecast are sent to teams in HMRC, DWP, HMT and other departments
- forecasting teams within departments use these economic determinants to produce forecasts of various tax, spending and financial transaction streams
- the resulting forecasts of receipts, expenditure and financial transactions are sent to the OBR
- the OBR scrutinise and challenge the forecasts; assumptions and judgements are applied before being included into the overall public finance forecast
- the OBR produce a subsequent economic forecast, reflecting the latest fiscal forecast, and the process begins again

**5.28** Currently, this process is repeated for 4 rounds. Over subsequent rounds the economic and fiscal forecasts converge, such that by the final round of the forecasting process the economic and fiscal forecasts should be fully consistent.

**5.29** The MoU states that the Chancellor will provide the OBR with at least 10 weeks' notice to produce the forecast. To deliver to this time constraint, at the start of forecasting process, the OBR produce a timetable for key deliverables that is agreed with the Treasury via the Forecast Liaison Group. Departments are expected to adhere to these deadlines. This timetable has introduced better structure than existed before the creation of the OBR, and has helped to clarify roles and responsibilities throughout the forecast production.

### **Interactions with departments**

**5.30** To fulfil its mandate, the OBR relies on a number of government departments, in particular HMT, HMRC, and DWP. These departments provide crucial analytical and forecasting inputs to support the OBR in fulfilling its minimum responsibilities (see Table 5.B below). It is this access to information and resources that significantly strengthens the quality of the OBR's forecasts and

analysis. The OBR is a small team, with 21 staff supporting the BRC, and without the resource from government departments it would not be able to produce the outputs required by law.

**Table 5.B: Government resource contribution to OBR report production**

Full-time equivalent staff numbers over a year <sup>11</sup>						
Agency	Economic and fiscal outlook <sup>12</sup>	Fiscal sustainability report	Forecast evaluation report	Policy costing certification	Welfare trends report	Agency total
HM Treasury	7	0.6	0.3	3 <sup>13</sup>	0.1	11
HMRC	17	1	2	43	1	64
DWP	18	4	1	20	1	44
ONS	3	2	1	0	0	6 <sup>14</sup>
Product total	45	7.6	4.3	66	2.1	125

*Source: Page review, 2014*

**5.31** Table 5.C set out the departments involved in the forecasting process, and the forecasts they produce.

**Table 5.C: Forecasting departments**

Department	Forecast
HMRC	Tax revenues and HMRC-administered tax credits and benefits
HMT	Debt interest forecast, Local Authorities’ Self-Financed Expenditure (LASFE) forecast, National Accounts Adjustments, EU, Scorecard, Macroeconomic model (but not the economic forecast)
DWP	Social Security
DECC, DCLG, BIS, HMT teams and other government departments	Other AME spending components and financial transactions

*Source: OBR*

**5.32** The OBR is in constant communication with government departments. In the July 2015 EFO, the OBR reported that “during the forecasting period, the BRC held around 60 scrutiny and challenge meetings with officials from other departments, in addition to numerous further meetings at staff level.”

**Scrutiny and challenge**

**5.33** An important part of the forecasting process is scrutiny and challenge. Throughout the production of the forecast, the BRC hold challenge meetings with the relevant forecast teams to challenge and scrutinise their returns. During these meetings the BRC often review assumptions underpinning the forecast and apply forecasting judgements. This is an iterative process, with the OBR staff ensuring that the forecasts are consistent with the BRC’s judgements on the likely path of the economy and other factors affecting individual taxes, areas of spending and financial transactions.

<sup>11</sup> Figures represent rounded estimates for resource that feeds into the production of each listed OBR report. It does not include resource that solely collects or produces data. Not all of the work produced by this resource is provided for the sole purpose of the OBR’s reports; some of the work has other customers such as government ministers and the general public.  
<sup>12</sup> Resource figures reflect the fact that the EFO is produced twice a year – in the spring and autumn.  
<sup>13</sup> Does not include 100 plus tax policy officials across HM Treasury who are responsible for the scrutiny of policy costings that fall within their portfolio.  
<sup>14</sup> Does not include the ONS staff that produce a wide range of statistics for public consumption, as well as for OBR’s reports.

**5.34** Prior to the creation of the OBR, there was limited formal challenge built into the forecasting process. Forecasts were reviewed on an individual and ad hoc basis during the forecasting process. Forecasting teams are now required to “show their workings” to an independent and expert body as part of the challenge process, highlighting the risks and critical assumptions underlying the forecasts. In addition, because the OBR is an independent authority scrutinising the forecasts, this incentivises departments to provide more material and detail on how they have reached their decisions than previously. Overall, this has introduced greater accountability and transparency to the process.

**5.35** This is an intensive process, which demands a significant portion of the BRC’s time. So far, this process has been manageable given the wealth of experience and knowledge of the BRC members and the supporting OBR staff team.

**5.36** The OBR also incorporates the impact of new government policies into their forecasts. The policy costings process has been formalised since the introduction of the OBR, which has significantly improved the process. Additionally, the Treasury has also made improvements in its transparency on policy costings since the creation of the OBR. In the Budget and Autumn Statement, the Treasury publishes a scorecard setting out the impact of measures on the public finances that now extends across the full forecast period. A supporting ‘Policy costings document’ is also now published alongside the main Budget and Autumn Statement document. More detail on the policy costings process is provided in Chapter 4.

**5.37** Although the OBR’s role is kept completely separate from policy making responsibilities, including the production of policy costings, the OBR are asked to publically certify the costings. By certifying the expected cost or yield of measures as “reasonable and central”, the OBR help to increase public confidence in these estimates. The Treasury is responsible for coordinating this policy costing process given the separation of policy and analysis.

**5.38** For certification, the OBR scrutinise and challenge each tax and AME spending measure that is being considered for announcement. The costing of policies is an iterative process with the OBR discussing the estimates with the relevant experts from departments. If they do not consider them to be reasonable and central, the OBR make suggestions to change the judgements or assumptions underpinning the numbers. Finally, if the OBR are satisfied, they incorporate the costings into the baseline public finance forecast to produce a “post-measures forecast”.

**5.39** In December 2014, drawing on the approach taken by the Australian Parliamentary Budget Office, the OBR introduced uncertainty ratings for each policy costing. These ratings - which range from ‘low’ to ‘very high’ uncertainty - help to illustrate the sources and scale of uncertainty associated with the estimates. This has helped to build public understanding that it is possible that the costs of a new policy measure could ultimately differ and why. This development has been welcomed by external stakeholders.

## Capability of OBR staff

**5.40** Technical competence is vital for maintaining a reputation for impartial and credible analysis. To illustrate further, given the dependence on government departments, “some observers wonder whether the OBR can avoid having the wool pulled over its eyes”.<sup>15</sup> This risk is also highlighted by OECD principle 6.1 that states “there is often asymmetry of information between the government and the IFI”.

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<sup>15</sup>R. Chote and S. Wren-Lewis in ‘Restoring Public Debt Sustainability, The Role of Independent Fiscal Institutions’, G. Kopits (ed.), 2013

**5.41** This review supports the view that “the OBR has the right mix of skills, and a combination of inside and outside experience” to mitigate against this risk.<sup>16</sup> As highlighted in Chapter 2, the OBR itself is a small organisation with a current permanent staff of 21, and thus relies heavily on a small number of key individuals.

### **Succession planning**

**5.42** There is a consensus among stakeholders that personnel have been the driving force behind the OBR’s successes. In particular, the BRC have played an important role in establishing and building credibility. Stakeholders who contributed to this review argue that it is the expertise and competence of the BRC that has helped to establish the OBR’s credibility in its first 5 years.

**5.43** Based on the institution’s reliance on the BRC, and its credibility being “inextricably” linked to the expertise of the current members, one of the recommendations from the Page review was for “long-term succession planning... to mitigate risks related to the eventual transition of the OBR’s senior leadership”.

**5.44** The reliance on key individuals extends beyond the BRC. The Page review highlighted that “stakeholder confidence in the OBR is tied more strongly to its people (i.e. leadership and staff), methodological approaches and transparency than to its legal underpinnings and operational structure’ and the members ‘of the OBR’s staff of analysts and economists are considered to be some of the fiscal community’s brightest talents”.

**5.45** Given the successes of the OBR’s first 5 years have by and large been driven by its staff, stakeholders who contributed to this review have identified finding suitable talent to replace BRC and OBR core staff as a key challenge for the organisation.

**5.46** It is therefore crucial that succession planning for core members of staff and the BRC is a priority for the OBR and the Treasury. Shortcomings in this area could have significant implications for the organisation’s sustainability and for the quality of the forecasts. To ensure that the reputation and quality of the current members is maintained, the review recommends that the Treasury, working in partnership with the OBR, put in place a succession plan to help manage the BRC’s transition.

**5.47** The process should begin by compiling a long list of candidates. The fiscal community in the UK is small, making the challenge of finding successors for BRC members particularly difficult. Therefore this review recommends taking steps to widen the pool of prospective BRC candidates.

#### **Recommendations on succession planning**

The Treasury, working in partnership with the OBR, should put in place a succession plan to help manage the transition of the BRC membership. To deliver this:

- the Treasury should seek candidates both within the UK and internationally
- there should be increased flexibility in job description (full-time or part-time opportunity) to increase the pool of potential candidates

### **Fiscal community**

**5.48** It is also important that talent is developed both within and outside government, to eventually fill critical positions in the OBR, including the BRC. As highlighted in the Page review,

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<sup>16</sup> R. Chote and S. Wren-Lewis in ‘Restoring Public Debt Sustainability, The Role of Independent Fiscal Institutions’, G. Kopits (ed.), 2013

“the size of the fiscal community, and the subsequently small pool of talent from which the OBR can draw its leadership and analysts, present challenges for the organisation”.

**5.49** To ensure the organisation maximise their chances of recruiting the best people, the OBR should take steps to help foster and promote a stronger fiscal community in the UK. This could be achieved by strengthening engagement with experts inside and outside government, including academics, international IFIs, research organisations, and think tanks. This could be achieved through hosting roundtable events, seminars and conferences with fiscal experts.

### **Resilience and capability building**

**5.50** The review also considered whether the OBR has sufficient resources and capability to fulfil its current remit, and to ensure organisational sustainability (in line with OECD principle 4.1).

### **Resource**

**5.51** Although the OBR is a small organisation, it has so far successfully delivered to its mandate. In the latest ‘Annual Report’, the OBR Chair said he was “assured that we currently have the resources we need to meet our objectives, and this is also the view of our non-executive members.” However, a small organisation like the OBR could easily come under significant pressure in the future, particularly given challenging forecast timetables. There would be significant potential delivery risks if the OBR lost just a few members of staff.

**5.52** This risk is particularly acute for certain teams at the OBR. For example at present, 4 members of the OBR staff produce the economic forecast, which is produced entirely in-house. The team is therefore exposed to potential absences. It also has very little spare resource for additional research or scope to cope with unexpected demands for additional economic analysis. Across the fiscal forecasting teams, the experience and expertise of key members of staff (a strength identified by stakeholders) also generates delivery risks from reliance on those individuals.

**5.53** The OBR would benefit from more staff resource to carry out in-depth labour market modelling, particularly in light of recently announced changes to benefits and tax credits and the upcoming introduction of the ‘Living Wage Premium’. At present, while the OBR has expertise on the BRC and among staff to make judgements about the impact of microeconomic labour market changes on revenue and welfare forecasts, staff capacity to carry out detailed analysis is constrained by other forecasting demands. With the Living Wage Premium expected to have an effect on the shape of the earnings distribution, with consequences for a number of elements of the fiscal forecast, this constraint could affect the quality of the OBR’s forecasts. As a result, this review recommends strengthening the OBR’s capability and resource on labour market modelling analysis.

**5.54** This review also highlights the evolving demands on the OBR based on future changes to the political and constitutional framework. The OBR will be required to carry out more scrutiny and assessment in a number of areas. For example, the path of public sector net debt, the profile for asset sales and the central government net cash requirement in light of the updated fiscal rules; policy costings given the increasing complexity of measures; and further UK fiscal devolution.

### **Research**

**5.55** Discussions with stakeholders for this review showed an appetite for, and great value in, the OBR producing reports outside their core products. To date, the OBR has produced a series of working papers, guides, and briefing papers, including ‘Crisis and consolidation in the public finances’ and ‘The long-run difference between RPI and CPI’. These have been well received by

external stakeholders. More recently, the OBR presented its initial analysis of the Living Wage Premium in a detailed annex to the July 2015 EFO.

**5.56** The OBR has unique access to government information and analytical capacity providing the institution with an informational advantage not available to outside experts. This puts the OBR in an ideal position to conduct leading-edge research and analysis on the public finances working closely with forecasting departments and outside experts. All of this could serve to improve both the current understanding of the public finances, whilst developing a broader network of people who might be able to work in or with the OBR in future.

**5.57** However, if the OBR were to develop a dedicated research agenda, it would need to devote more resources to achieve this goal. At present, given its resourcing constraint, it allocates most of its expertise and analytical capacity to fulfilling its core remit, chiefly producing the bi-annual forecast. Therefore this review recommends providing the OBR with additional resources to launch and maintain a research agenda.

### **Recommendations on resilience and capability building**

The Treasury should ensure that the OBR is adequately resourced to build resilience in producing the forecast in light of the eventual movement of experienced staff, and to meet the other recommendations of this review.

The Treasury should ensure that the OBR is adequately resourced to support methodological development and research and take an explicit leadership role in the UK's (small) fiscal forecasting community.

## **Model development**

**5.58** The quality of forecasts is in part determined by the quality of the models that are used when producing them. The 2013 Macpherson review set out best practice in the quality assurance of models, with a set of recommendations on steps departments and their arm's-length bodies should take to make sure models are robust and trustworthy.<sup>17</sup>

**5.59** The OBR works with partner departments to review fiscal forecasting models, but at present there is no formal requirement for the OBR to do so. The key models are maintained and run outside the OBR, which means decisions to allocate resource to model maintenance and development fall outside the OBR's direct control. Model development therefore needs to be considered a joint endeavour between the OBR and relevant government departments. As part of this task, there needs to be:

- clarification on ownership and responsibilities of model maintenance and development; the OBR owns the forecast, and has complete discretion over the methodology it employs to produce the forecast and as a result it is within the OBR's remit to request departments to change their models to the OBR's exact specifications
- sufficient resources at the OBR and within departments to ensure this activity does not strain routine forecasting responsibilities, or crowd out other analytical work

<sup>17</sup> 'Review of quality assurance of government models', HM Treasury, 2013 and 'Review of quality assurance of government analytical models: progress report', HM Treasury, 2015

**5.60** This would help to identify and resolve issues in receipts, spending and financial transactions models sooner and more effectively, improving confidence in the central forecast and reducing one source of forecast uncertainty.

**5.61** The OBR and the Treasury have put in place such a process for the macroeconomic model, which provides the infrastructure for the OBR's economic forecast and is part of the toolkit that Treasury officials use for scenario analysis and other advice. A Memorandum of Understanding (MoU) sets out the governance arrangements, which include the process for model development. The MoU states that both the Treasury and the OBR must allocate enough resources to maintain and develop the economic forecasting model. This mitigates the risk over time of relying on model equations that may no longer be fit for purpose, potentially becoming a source of error and undermining the credibility of forecasts. The MoU has also helped to clarify ownership and resources. Therefore, the review recommends that this MoU should be expanded for the major fiscal forecasting models.

**5.62** There is scope for the OBR to work more systematically with forecasting departments on assessing the fitness for purpose of forecasting models; ensuring consistency in judgements and assumptions underpinning the models; and agreeing work programmes within departments for maintenance and development. The review recommends increasing the OBR's research budget (see above), some of which could be allocated to developing the modelling technology.

**5.63** The OBR could also draw on the broader international community in improving methodologies. This could be delivered in part through the support of the OECD's network of IFIs, including its new web portal which will provide a space where members of its network will be able to share analytical tools, access peer support and develop their expertise. It is envisaged that this will also include the development of a practitioner-focussed journal to which IFIs will be able to submit articles for review. This should encourage greater collaboration and facilitate improvements in practices and outputs.

### **Quality assurance**

**5.64** Overall the cross-whitehall relationship works well. The OBR has to date been able to access all the necessary information from central government departments. Stakeholders who contributed to the review have found the working relationship to be open, cooperative and effective. Additionally, the forecasting process on the whole is perceived by stakeholders to be well managed. This effective relationship has been demonstrated by the ability of the OBR to consistently produce a forecast in the 10 weeks provided. This would not have been possible without effective coordination and support across government departments.

**5.65** Given the complexity involved in producing such a large forecast, the 10 weeks provided to produce the forecast can still on occasion be a stretching timetable. A number of stakeholders noted that this raises the risks of mistakes occurring, particularly late in the process when policy changes are incorporated which interact with forecast variables. The review recommends that the OBR and forecasting departments review the existing timetable to address this concern.

**5.66** Given the disaggregated nature of the forecast, it is important that government departments prioritise the quality of their inputs to the forecasts and ensure the necessary resource and capability is put in place. The OBR should work closely with senior colleagues across forecasting departments in taking this forward.

### Recommendations on model development

The OBR should work more systematically with forecasting departments on model development, building on existing practice to ensure key models are fit for purpose. Forecasting departments should ensure model development is adequately resourced. To deliver this:

- the OBR should publish an assessment of the performance of individual forecasting models and their priorities for model improvement
- the existing MoU for the macroeconomic model and steering group should be extended to include the main fiscal forecasting models
- the forecast timetable and process should be reviewed to ensure sufficient time is allocated for quality assurance across all departments

## External scrutiny

**5.67** The final area that was assessed as part of this review was whether there are sufficient procedures in place for external scrutiny of the OBR's methodology and performance. There are a number of ways this is successfully achieved including:

- legislation, the BRNA includes the requirement that OBR undergoes an external review in "every 5-year period" which assesses the required publications (consistent with OECD principle 9.1)
- the Expert Advisory Panel, the OBR has established an advisory panel of leading economic and fiscal experts to help develop and scrutinise its work and methods
- transparency, by publishing more detailed information, experts on individual elements of the forecast can challenge the judgements and approaches by the OBR

**5.68** As will be discussed in Chapter 6, recommendations on further steps the OBR could take to increase the accessibility of their outputs will also support greater constructive challenge of their forecasts and analysis by the broader fiscal community.



# 6 Transparency and accessibility

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**6.1** This chapter:

- assesses the transparency of the organisation in terms of its forecasts, outputs and conduct
- reviews the accessibility of the OBR's products, how well they are understood by its stakeholders, and its channels of communication

**6.2** The focus is on whether the transparency of the organisation in terms of its forecasts, outputs and conduct and the accessibility of the products is consistent with the principles set out in Chapter 1.

## Transparency

**6.3** To date, the OBR's 5 year economic and fiscal forecast has been used by the Chancellor as the UK's official forecast. Transparency of these forecasts is central for the credibility of the organisation and "provides the greatest protection of IFI independence" (principle 7.1).

### Transparency of the forecast

**6.4** Transparency of the OBR's judgements and its analysis is important for building credibility. The explanations of the projections and the changes since the previous forecast must be clearly understood and best achieved by effectively communicating sources of uncertainty both in the short and medium term.

**6.5** The Page review assessed the OBR outputs against both OECD transparency requirements and pre-OBR equivalents produced by the Treasury. For the former, it assessed that the outputs "meet the basic requirements for transparency", whilst for the latter it commented that "it is clear that significant transparency gains have been made available through the OBR."

**6.6** Compared with pre-OBR publications, the production of economic forecasts now follow a more defined and disciplined process, while a much broader range of economic indicators are now made available and at a higher frequency (e.g. quarterly profiles compared with half-yearly for GDP and its components).

**6.7** The fiscal forecasts have also benefited from having their economic determinants set out in much greater detail. Revenue and spending details behind the fiscal planning aggregates stretch out to the full medium term horizon, rather than just the short term (both receipts and spending details are forecast out to 5 year horizons, compared to up to 3 years previously). Policy costing projections are now analysed through a certification process, with risks to the public finances highlighted. Comparisons are drawn with other independent institutions, including the IMF and Institute for Fiscal Studies (IFS).

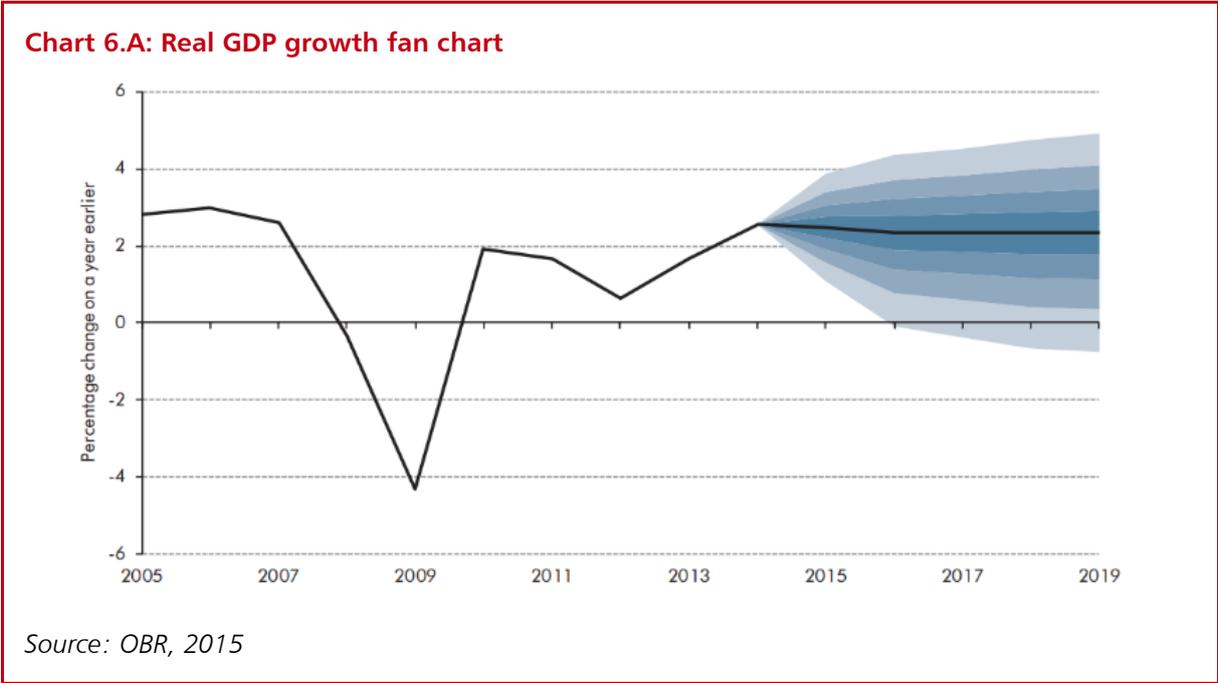
**6.8** In addition to this greater forecast transparency within the 'Economic and fiscal outlook' (EFO), the 'Forecast evaluation report' (FER) undertakes substantial analysis to assess past forecast performance. This transparent ex-post analysis decomposes the forecast error into deviations in the economic forecast, other fiscal forecasting judgements, classification changes and changes in government policy.

**6.9** The OBR has been widely praised for the transparency that it has brought to the production of the UK’s fiscal forecasts. This has been recognised by the IMF, who in 2014 stated that “a clear benefit of the introduction of the OBR has been greater forecast transparency...this transparency widens public understanding of the fiscal position and should bolster the credibility of the forecasts.”<sup>1</sup> The Page review survey of non-parliamentarians indicated that the OBR has been “successful in eliminating perceptions of bias in forecasting from the perspective of its stakeholders.”

**6.10** The FER was highly praised by stakeholders who contributed to this review for its contribution on the OBR’s transparency and its influence on the public debate. For example, the FER was cited by the OECD 2015 ‘Economic Survey of the United Kingdom’, to highlight the impact of fiscal policy on GDP growth. FER analysis has also been cited in the Financial Times to explain why the budget deficit had not fallen at the rate that had been expected.<sup>2</sup>

**6.11** Whilst the FER explains possible sources of forecast error ex-post, the EFO also presents the ex-ante uncertainty around its central forecasts. In the EFO, the OBR presents a central economic and fiscal forecast, where upside risks are considered as likely as downside risks. Within the document, they have several ways of ‘stress-testing’ their forecast and quantifying uncertainty. For example:

- the OBR uses the distribution of past forecast errors, projected into the future, in order to produce fan charts around the central forecast, as illustrated in Chart 6.A



- the OBR uses sensitivity analysis around key assumptions, varying parameters such as potential output in order to quantify the effect on the public finances, and producing tables which show a range of values of these parameters; this is a technique also used extensively in the Fiscal sustainability report’s (FSR) long-term projections
- the impacts of alternative economic scenarios are presented, for example under different paths for commodity prices or trend productivity growth;<sup>3</sup> these “stress-

<sup>1</sup> ‘Budget Institutions in G20 Countries’, IMF, 2014  
<sup>2</sup> ‘Treasury rules out election giveaways as tax revenues fall short’ Financial Times, 29 October 2014  
<sup>3</sup> ‘Economic and fiscal outlook’, OBR, December 2014 and March 2015

testing” methods can help to convey to readers a better appreciation of the risks and uncertainties associated with the EFO

**6.12** In addition to these main methods of quantifying uncertainty, the OBR also examine carefully the forecasts of other independent organisations, in order to put their forecast into a wider context. This is something the OBR has also done in their analysis in working papers – for example, an OBR working paper which looks at the uncertainty in estimating output gaps compares a wide range of external estimates.<sup>4</sup>

**6.13** The OBR therefore puts emphasis on the technical treatment of uncertainty in forecasts. The Treasury Select Committee (TSC) has suggested that more could be done to explain the uncertainty in forecasts ex-ante, as presented in the EFO. This includes better illustrating the degree of uncertainty present in forecasts, where the uncertainty comes from and what this means for meeting the fiscal mandate. The most recent EFO has taken additional steps to address this: the economic scenarios included a “history repeats” situation if the forecast errors were the same as in the last Parliament; a new fan chart reflecting uncertainty in the receipts forecast; and inclusion of more variables in the sensitivity analysis applied to the government’s proposed new fiscal mandate. In March 2015, the OBR published a range of fiscal ready reckoners in an annex to its EFO.

**6.14** The Page review also commends the transparency gains made by the FSR building on previous Treasury analysis. More detail on underlying assumptions of the projections, as well as a fuller assessment of the impact of past (as well as future) government activity have added to the transparency of the analysis.

### Transparency of data and other outputs

**6.15** The main reports published by the OBR (set out in Chapter 3) are “made freely available” (consistent with OECD principle 7.2) for download on the website. All data underlying publication tables, as well as in-depth supplementary data, are also uploaded to the website. Data sources are made available soon after each publication, and any alterations to numbers made after the publication of documents are published as errata.

**6.16** In addition to the main reports, the OBR frequently publish shorter pieces to supplement the understanding and methodological transparency of their main outputs, typically following requests from users. For example, the July 2015 EFO has been supplemented by an information note explaining the assumptions underpinning their student numbers forecast.<sup>5</sup> Briefing papers explain how the OBR carries out its work – these have covered economy and fiscal forecasting, and the policy costings process. Working papers provide technical detail on specific issues – for example, a July 2012 working paper explains how the OBR applies their cyclical adjustment to the public finances.<sup>6</sup>

**6.17** Stakeholders who contributed to this review were very positive about the steps the OBR has taken to make data and assumptions transparent. In particular, the availability of thorough datasets has aided stakeholders’ ability to undertake independent analysis and assess the public finances.

### Transparency in the organisation’s conduct

**6.18** It has been noted by some commentators that the OBR’s interaction with ministers could lead to undue influence on the fiscal forecasting process.<sup>7</sup> In exchanges leading up to the OBR’s

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<sup>4</sup> ‘Output gap measurement: judgement and uncertainty’, OBR, 2014

<sup>5</sup> ‘Supplementary forecast information release’, OBR, 2015

<sup>6</sup> ‘Cyclically adjusting the public finances’, OBR, 2012

<sup>7</sup> For example, see ‘How it’s done in Sweden, Lars Calmfors’, The Guardian, 28 July 2010

final forecast, the Chancellor must decide whether policy action is necessary – based on the draft forecast – in order to meet his fiscal targets. In contact with the Chancellor himself, the OBR’s independence could be particularly vulnerable during this process.

**6.19** “The defence of the OBR is to be as transparent as possible in these interactions” and the OBR is thorough in disclosing these interactions transparently - the dates of all substantive meetings between the OBR and the Chancellor and his special advisors are logged and published.<sup>8</sup> The EFO begins with a foreword that discloses substantive contacts throughout the forecast process, and comments on whether the OBR has come under any pressure from ministers, advisors or officials. This also further reinforces OECD principle 2.1, that the IFI should “strive to demonstrate objectivity and professional excellence, and serves all parties”.

**6.20** In addition to publishing substantive contact with government, the OBR also publishes expenses and significant expenditures, oversight board minutes and annual reports on its website. The BRC appears regularly before the TSC in order to answer questions from Parliamentarians regarding their forecast, including the assumptions and judgements made. The TSC Chair typically opens hearings by asking about the integrity of the forecast process and whether the BRC have come under pressure or been denied access to information (in line with OECD principle 7.2).

**6.21** At press conferences held for the launch of each publication, the senior leadership are made accessible to questions from the floor. All three members of the BRC attend, and the slides and prepared remarks from this event are later uploaded onto the OBR’s website.

**6.22** Stakeholders who contributed to this review praised the transparent way in which it has conducted itself in the public sphere in its interactions with government. Similarly, interviews undertaken with experts by the Page review found “multiple and consistent sources of praise for the Office, its leadership and staff throughout the interviews.”

**6.23** In summary, the evidence points to an organisation that is widely recognised as being highly transparent, as demonstrated in the access given to data, the transparency of the forecast itself, and the conduct of the organisation.

## Publications

**6.24** Chapter 4 sets out the case for moving away from producing a full set of long-term projections every year. This chapter provides more detail on the case for doing so and what additional analysis the OBR could undertake to further enhance its assessment of the sustainability of public finances.

### Fiscal sustainability report

**6.25** The overall messages from the long-term projections are relatively stable, so the annual updates provide limited new information. As a result, it is not clear that frequent publication of 50 year projections adds a great deal for increasing public understanding – and the analysis may have less impact for being more familiar.

**6.26** The TSC has argued that, given the uncertainty attached to 50 year projections, “the main value of the OBR’s FSR is ...in flagging up - in broad aggregates - the possible long-term fiscal consequences of big government decisions” and therefore that “two projections a Parliament should be ample”.<sup>9</sup> The OBR Chair has commented that, as ONS population projections – a major input into the long-term fiscal projections - are updated every 2 years, it would make

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<sup>8</sup> R. Chote and S. Wren-Lewis, in ‘Restoring Public Debt Sustainability, The Role of Independent Fiscal Institutions’, G. Kopits (ed.), 2013

<sup>9</sup> ‘OBR Fiscal sustainability report 2013: Eight Report of Session 2013-14’, House of Commons Treasury Committee, 2014

sense to refresh the projections every 2 years rather than annually. Stakeholders who contributed to the review also supported the idea of less frequent long-term projections.

**6.27** In addition, if the OBR no longer had to refresh the projections every year, there would be more scope for work on other aspects of fiscal sustainability. The TSC have also argued that producing the FSR less frequently would save resources. In practice, staff reductions are unlikely to be realistic. The OBR staff who produce the FSR work for much of the rest of the year on producing the twice-yearly EFO, and their knowledge and expertise would still be required in the years when projections needed to be produced. However, removing the requirement for annual long-term projections would free up some staff time to explore sustainability issues raised in the FSR in more detail.

**6.28** This additional time could be used to develop sustainability analysis in 2 ways. First, as required by the legislation, the OBR should still produce a publication on fiscal sustainability in years when it is not refreshing the projections. At present, alongside its long-term central projections, the OBR uses the FSR to analyse specific sustainability issues in more depth. These in-depth analyses have covered issues such as North Sea oil and gas revenues, transport taxes and older people's labour market participation. They add significant value in themselves. However there are more issues raised in the FSRs than can be explored in depth at present, so there would be ample scope to redeploy OBR staff time to these areas in non-projection years.

**6.29** Second, the current annual forecasting and projections schedule limits the time available for innovation in either methodology or presentation. The Page review noted that the methods used in the FSR compare well with both international standards and peer institutions (see also Chapter 5), and the OBR has introduced additional analysis in certain areas. Nevertheless, removing the requirement for annual projections should free up time to enable the OBR to consider, based on its first 5 years of experience, what more it could do to advance both analysis of and public engagement on issues of long term fiscal sustainability.

**6.30** A final point that has been made elsewhere is that long-term projections should be made to a pre-determined timetable<sup>10</sup> (OECD principle 7.3). Given that an important aim is to draw attention to the long-term consequences of current policies, discretion over when they are produced risks exposing the OBR to controversy.

**6.31** Overall, the review sees value in moving away from producing long-term projections every year to projections on a fixed, 2 year timetable, with other forms of sustainability analysis produced in alternate years. This would not necessarily enable the OBR to reduce its overall staffing, but would add value in other ways, including exploring a greater number of sustainability issues and in carrying out development work.

**6.32** This would not require changes to the BRNA. However, it would require changes to the guidance to the OBR in the Charter for Budget Responsibility to remove the requirement for the annual analysis to include "long-term projections for the public finances and an assessment of the public sector balance sheet", and replace it with a requirement for long-term projections every 2 years, following the publication of updated ONS population projections with alternative analysis such as in-depth examination of particular issues in alternate years.

### **Fiscal risks statement**

**6.33** Many of the risks to the government's fiscal position are already disclosed and analysed through various channels. In particular:

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<sup>10</sup> Anderson and Sheppard (2009), cited in 'External review of the Office for Budget Responsibility', K. Page, 2014

- contingent liabilities are disclosed in detail in individual departmental accounts, and an overview covering the public sector is given in 'Whole of Government Accounts' and also discussed in the OBR's FSR
- the OBR discuss specific risks to the economic and fiscal forecasts, and conduct sensitivity and scenario analysis, published in their EFO, to explain how different economic and fiscal judgements would affect their forecasts for the public finances (this reflects the requirement in the BRNA that the OBR's reports explain "the main risks which the office considered to be relevant")

**6.34** Discussing uncertainty and risks is an important function of the OBR. It has helped policymakers and the general public better understand the inherent uncertainty associated with any forecast. But not only is it important for public understanding, it is also crucial for the sustainability of the public finances that policymakers and government are aware of any rising risks to the economy and public finances.

**6.35** Knowledge of these risks is even more important given the evolving understanding of the business cycle. Before the financial crisis, both academics and practitioners tended to think of the business cycle as a smooth process with trend growth and normally distributed shocks. The financial crisis demonstrated that in reality this may not be the case. This makes monitoring and assessing rising risks and uncertainty a key input for government policymaking.

**6.36** IMF staff have recommended that the UK produce a single document bringing together information on, and analysis of, fiscal risks in one place, a view shared by other stakeholders who have contributed to this review.<sup>11</sup> As the OBR already undertakes analysis of risk, there is a case for the OBR taking responsibility for producing a report focused specifically on fiscal risks.

**6.37** A number of other countries already publish consolidated information on fiscal risks, including Australia, Brazil, Chile, Colombia, Indonesia, New Zealand and Pakistan. Some of the areas covered in the statements produced by these countries include: discussion of main economic risks; analysis of the sensitivity of revenues and expenditure to alternative economic assumptions; and information on contingent liabilities (such as legal risks and guarantees) and contingent assets.

**6.38** However, there is considerable variation in the extent and type of analysis and information provided. Further consideration would need to be given to the detailed contents of a UK fiscal risks statement, as well as the time horizon it would cover, the types of information the OBR would require government to provide, and the publication frequency.

**6.39** To strengthen the impact of a new fiscal risks statement on both the public debate and the policy making process, the government should also commit to respond formally to the OBR's report, setting out its policy in key areas. Chapter 4 sets out the review's recommendations on this.

**6.40** It is important that the OBR has the capacity to produce its analysis to a high quality. Consideration of resources will need to be addressed for any increase in the reporting associated with its core functions.

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<sup>11</sup> 'Budget Institutions in G20 Countries', IMF, 2014

## Recommendations on OBR outputs

The OBR should conduct more in-depth analysis on specific fiscal sustainability issues.

## Accessibility

**6.41** “IFIs should develop effective communication channels from the outset” to a wide range of stakeholders to build credibility and to put pressure on “the government to behave transparently and responsibly in fiscal matters” (OECD principle 8.1).

### Accessibility of information

**6.42** The Page review conducted a stakeholder survey including individuals in the private sector, civil service, the media, academics, think tanks and civil society. Asked how they access OBR reports, virtually all (99%) responded that they access reports through the organisation’s website. A significant number of stakeholders (51%) access them through direct interaction with OBR analysts. Print media (28%) was also commonly used, whilst social media, television and radio were used less frequently (each <10%).

**6.43** The website makes all the relevant data accessible, providing free access to all publications and data using a simple and user-friendly interface. In the stakeholder interviews for this review, no major concerns were raised regarding the range of information that is available.

**6.44** However, accessibility of information needs to be combined with ease of use, and stakeholders who contributed to this review made a range of suggestions relating to the prominence and organisation of information that would help their assessment of the fiscal forecast. In particular, the Page review stakeholder survey points to the importance of a well-designed and maintained website.

**6.45** Some stakeholders who contributed to this review suggested that the website could be better designed in order to feature items of interest more prominently. In particular, items such as the Chair’s slides and speaking notes for each publication, and the latest working papers could be more easily accessible. The Congressional Budget Office’s ‘2015 Long-Term Budget Outlook in 25 Slides’ is an example of this which is displayed prominently on their website. In the era of smartphones and tablets, the OBR could consider making outputs accessible using a wide variety of devices, and if possible, in different file formats.

**6.46** The public finances databank was described as being very useful, as well as the series of historical data published on the website.<sup>12</sup> The economic and fiscal supplementary tables were also mentioned by a wide variety of stakeholders. However these do not fully align with the categories in the ONS’ ‘Public Sector Finances’ release in areas such as accrued taxes and sectoral breakdowns. Both the ONS and the OBR should consider how best to address this.

**6.47** Lastly, stakeholders who contributed to this review felt that external commentators would benefit in their assessment of the public finances from having all relevant information across government brought into one place; for example, links to relevant ready reckoners such as the HM Revenue and Customs (HMRC) estimates of the impact of tax policy changes on tax receipts.<sup>13</sup> This would be a useful addition to the website, to aid stakeholders in accessing directly relevant material.

<sup>12</sup>The data will need to be updated to reflect the historic GDP revisions and the changes from ESA95 to ESA10

<sup>13</sup> ‘Direct effects of illustrative tax changes’, HMRC, July 2015

### Recommendation on accessibility of information

The OBR should improve the accessibility of its website, taking into account user feedback, to increase the prominence of key material and improve the organisation of data and information.

#### Accessibility of substance and communication with stakeholders

**6.48** The complexity of the material means that in practice it is largely a technical audience that is able to engage directly with the OBR's outputs. Given the complexity of the subject matter at hand, and importance for transparency, the OBR's publications are necessarily detailed and much is used for analysis by specialists.

**6.49** It is worth therefore highlighting the importance of technical intermediaries – particularly in the media and think tanks - in communicating the OBR's messages to the general public and in enhancing further the debate on fiscal issues. The review notes the impressive engagement and traction that the OBR has generated with these intermediaries over the last 5 years.

**6.50** However, over the next 5 years, the OBR should aim to increase traction with a wider range of intermediaries and with the general public. Broadening these channels of communication will foster a richer and more transparent public debate.

**6.51** The OBR has already made progress in some areas. For example, the 'Brief guide to the public finances', available on the OBR website, is a simple but instructive introduction to the topic. The review supports the OBR's intention to provide further guides in the future.

**6.52** As the next step, this review recommends that the OBR consider a wider range of communication tools to supplement existing reports. Short and accessible summaries of dense publications are one suggestion, and this could be supplemented by increasing the use of creative visual engagement available on their website, such as the use of infographics. This is something that other IFIs have been able to use to good effect, for example the infographic below from the US CBO which illustrates the policy significance of the US long-term projections.<sup>14</sup> Slovakia's Council for Budget Responsibility also features infographics prominently on their website.<sup>15</sup>

<sup>14</sup> 'The 2015 long-term budget outlook in 25 slides', CBO, 2015

<sup>15</sup> <http://www.rozpocetovarada.sk/eng/home>

Chart 6.B: Infographic used by the US CBO

## The Size of Policy Changes Needed Over 25 Years to Make Federal Debt Meet Two Possible Goals in 2040



Source: CBO, 2015

**6.53** Short videos could be produced to introduce each publication and set out the main findings and could also be used as a visual exposition of a particular topic. For example, NIESR deployed such shorts to explain concepts relevant to the Scotland independence referendum.<sup>16</sup>

**6.54** Interactive and illustrative tools are another powerful resource, if done well. The current OBR fiscal ready reckoners in the March 2015 EFO annex - illustrating the impact of a 1% increase in selected determinants on each tax or spending stream - are a good example. The review would recommend increasing their prominence, by ensuring they are kept up to date and published on the main website and offered in a more interactive form that enables users to calculate the impact of different scenarios more easily. The IFS regularly publish well-received basic interactive tools to increase public understanding, and the expertise should exist within the OBR to do the same.

<sup>16</sup> See for example the NIESR short video on currency options for an independent Scotland <http://www.niesr.ac.uk/press/scotland%E2%80%99s-currency-options-11595#.VcyusPIVhBd>

### **Recommendation on substance and communication**

The OBR should increase accessibility of its material to a wider range of stakeholders, engaging through more diverse communications approaches, and making better use of online and social media channels.

The government and the OBR should ensure greater availability of tools and data to allow third parties to cost alternative policy options.

**6.55** Parliamentarians are a key stakeholder group for the OBR. Much progress has been made in engaging with Parliament since the OBR's inception. According to Hansard, since June 2010, the OBR has been mentioned over 1400 times in the various legislative bodies in the UK, with its flagship report, the EFO, referred to over 350 times, and the FSR having the second highest number of mentions.

**6.56** Great lengths are taken to ensure that outputs are made widely available, including providing hard copies to Parliament. All documents are formally laid before Parliament, with several hard copies sent to the House, giving Parliamentarians a chance to examine each document, and to engage with the content.

**6.57** Despite this clear embedding of the OBR in the political debate within Parliament, more can still be done. In particular, as noted by the Page review, there may be scope for the OBR to engage more with Parliamentarians beyond the TSC.<sup>17</sup> For example, the IFS presents annually to Parliamentarians the findings of its 'Green Budget'. The OBR should consider doing the same, taking the opportunity to repeat the presentations delivered at its Press Conferences within Parliament, at least for the EFO and the FSR, as well as considering further ways to engage with Parliamentarians and devolved administrations.

### **Recommendation on engagement with stakeholders**

The OBR should undertake more systematic engagement with Parliamentarians and devolved administrations to enhance understanding of the OBR's role and encourage greater use of the OBR's output.

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<sup>17</sup> A survey of Parliamentarians including both Members of Parliament and Members of the House of Lords was organised and released however exceptionally low response rates made the survey unusable for the report.

# A Terms of reference

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**A.1** The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances and 5 years on since its creation, the organisation has taken great strides in delivering greater transparency and credibility to UK's fiscal policy. This government remains committed to supporting the OBR in performing its key responsibilities and the Chancellor to the Exchequer has therefore asked Sir David Ramsden, Chief Economic Adviser to HM Treasury, to complete a review of the organisation.

**A.2** The terms of reference of the review will be to:

- assess the effectiveness of the OBR in enhancing UK fiscal credibility
- in light of this assessment and the findings of the External Review of the OBR published in September 2014, consider what further steps should be taken to enhance fiscal credibility

**A.3** The outcomes of the review will be published in the summer.



## B Stakeholder engagement

**B.1** This review gained insights from a wide range of both UK and international stakeholders. It adopted a multifaceted approach which comprised of a series of Treasury-led roundtable events, discussion forums and bi-lateral meetings. A questionnaire was also issued to stakeholders who were unable to participate in the sessions, but expressed an interest in contributing to the process.

**B.2** This annex provides further detail on the format of the outreach work, and who contributed at each stage. Sir Dave Ramsden and the team would like to thank all those who have engaged with the review. Combined with the existing source material and the outputs from the Kevin Page's 2014 report, the views expressed by stakeholders have contributed to the evidence which has informed the recommendations of this review.

**B.3** The Treasury review team would also like to express its gratitude to the OBR and its staff for their cooperation throughout this process.

### Roundtable events

**B.4** The review team organised three separate roundtable events. These were targeted at specific audiences – respectively journalists, external analysts and cross-government stakeholders – in order to generate a constructive dialogue and identify common themes, risks and opportunities. The attendees at each of these was as follows.

**Table B.1: Journalists round table**

Individual	Organisation
Larry Elliott	The Guardian
Chris Giles	Financial Times
William Keegan	The Observer

**Table B.2: External analyst round table**

Individual	Organisation
Melanie Baker	Morgan Stanley
George Buckley	Deutsche Bank
Kevin Daly	Goldman Sachs
Jonathan Dupont	Policy Exchange
Carl Emmerson	Institute for Fiscal Studies
Rob Fontana-Reval	Confederation of British Industry
Simon Kirby	National Institute of Economic and Social Research
John Llewellyn	Llewellyn Consulting
Julian McCrae	Institute for Government
Allan Monks	JP Morgan
Rain Newton-Smith	Confederation of British Industry
Philip Rush	Nomura
Joachim Wehner	London School of Economics
Simon Wells	HSBC
James Zuccollo	Reform

## Cross-government

**B.5** This event was attended by officials from the Office for National Statistics; Her Majesty's Revenue and Customs; Department for Business, Innovation and Skills; Debt Management Office; and the Scottish government.

## International organisations and IFIs

**B.6** Sir Dave Ramsden and senior members of the review team visited the IMF in Washington, D.C., for a seminar focused on the review. This served as an opportunity to get an international perspective on the first 5 years of the OBR, and to compare and contrast its experience with those of other independent fiscal institutions (IFIs). The review team would like again to thank the IMF for organising and hosting the event. The attendees were as follows:

**Table B.3: IMF seminar**

Individual	Organisation
Xavier Debrun	Fiscal Affairs Department, IMF
Kevin Fletcher	European Department, IMF
Richard Hughes	Fiscal Affairs Department, IMF
Tom Josephs	Former Head of Staff, OBR and Fiscal Affairs Department, IMF
Andy King	Head of Staff, Office for Budget Responsibility
Sahir Khan	External Review of the OBR & Former Assistant, PBO
George Kopits	Woodrow Wilson Center & member of the Portuguese Public Finance Council
Alice Rivlin	Brookings Institution & Georgetown University, Former CBO Director

**B.7** The review team would like to thank the OECD for the meeting and providing additional support on the international context.

**Table B.4: OECD meeting**

Individual	Organisation
Jón R. Blöndal	Head of Division, Budgeting and Public Expenditures
Lisa von Trapp	Senior Policy Analyst, Budgeting and Public Expenditures
Scherie Nicol	Analyst, Budgeting and Public Expenditures

**B.8** Members of the review team are also particularly grateful to individuals from a number of IFIs for their generosity of time and in-depth knowledge.

**Table B.5: Independent fiscal institutions**

Individual	Organisation
Sebastian Barnes	Council member, Irish Fiscal Advisory Council
Ana Buisán	Spain, Independent Authority for Fiscal Responsibility
Barbara Coppens	Belgian Ministry of Finance
Doug Elmendorf	Former Director of the US Congressional Budget Office
Mariá Fernández	Spain, Independent Authority for Fiscal Responsibility
Laura van Geest	Director, Netherlands Centraal Planbureau
Bernhard Grossmann	Austrian Government Debt Committee
Eva Hauth	Austrian Government Debt Committee

Individual	Organisation
Johannes Hers	Netherlands Centraal Planbureau
Ľudovít Odor	Council member, Slovakian Council for Budget Responsibility
Hanneke Schuiling	Director General, Netherlands Ministry of Finance
Coen Teulings	Former Director of the Netherlands Centraal Planbureau

## Bilateral meetings

**B.9** Senior members of the review team spoke on a bilateral basis with a wide key stakeholders. Wherever possible, these meetings were conducted in person; however in some instances it was necessary to conduct them over the phone.

**Table B.6: Bilateral meetings**

Individual(s)	Organisation
Dame Kate Barker	Non-executive member, OBR
Sam Beckett	Former Director of Fiscal, HM Treasury
Sir Alan Budd	interim Chairman, OBR
Lord Terry Burns	Chair of the Oversight Board & Non-executive member, OBR
Robert Chote	Chairman, OBR
Rowena Crawford	Institute for Fiscal Studies
Paul Johnson	Director, Institute for Fiscal Studies
Sir Steve Nickell	BRC member, OBR
Kevin Page	Former Canadian PBO, External Review of the OBR
Graham Parker	BRC member, OBR
Gareth Ramsay	Bank of England
Simon Wren-Lewis	Professor of Economics, Oxford University

## Questionnaires

**B.10** Responses have been received from representatives from Thomson Reuters and the Wall Street Journal, who were unable to attend the journalists' roundtable event. The Wales Office also provided feedback through this mechanism.





### **HM Treasury contacts**

This document can be downloaded from  
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