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Office for Budget Responsibility

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Summary

The Office for Budget Responsibility

The Office for Budget Responsibility (OBR) was established within days of the Coalition Government coming to power in May 2010 with the aim of improving the credibility of fiscal policy.

Richard Hughes, a former holder of senior roles at the Treasury and International Monetary Fund (IMF), has been the chair of the OBR since October 2020. He replaced Robert Chote who served the two terms allowed under the Act that established the OBR. The Treasury Committee has the power of veto over this appointment.

The Budget Responsibility and National Audit Act 2011 provides for the establishment of the OBR and sets out its functions and broad governance structure.

The OBR’s role

The Charter for Budget Responsibility (the Charter) sets out the OBR’s role, how it performs its duties and the required content of its key publications.

Part of the OBR’s role is to produce forecasts for the economy and the public finances. These are produced independently of the Government. In the past, the Treasury’s forecasts were based on the Chancellor’s judgement. This led to the suspicion that forecasts may be over-optimistic. It is hoped that any perception that the forecasts could be politically motivated is removed by an independent body producing them.

The OBR also comments on whether the Government’s policies have a better than 50:50 chance of meeting the Chancellor’s targets for the public finances – or ‘fiscal rules’ – which are set out in the Charter. The OBR also examines the long-term sustainability of the public finances, risks surrounding the public finances, spending on welfare and devolved taxes.
1 What does the OBR do?

The OBR’s role and how it performs its duties are laid out in the Charter for Budget Responsibility (see Box 1).  

1.1 OBR’s role

Producing five-year forecasts for the economy and public finances

The OBR produces forecasts for the economy and the public finances at least twice every financial year. Previously, these forecasts had been produced by the Treasury. The forecasts are set out in the OBR’s economic and fiscal outlook (EFO) documents that often accompany the Budget and Spring Statement.

Each autumn the OBR assesses their forecasts against actual outturns in their forecast evaluation report.

The legislation does not require the Chancellor to use the OBR’s forecasts, but they have been used since the OBR’s inception. When formulating policy, the Government has the right to disagree with the OBR’s forecasts but must explain the reasons for doing so.

Similar institutions in other countries have, in some cases, been given a quite different role. The Treasury Committee noted that “most fiscal councils do not themselves produce the forecast which the government uses in making its fiscal judgements”. Often the role of the council is to assess the official forecast, or provide an alternative, after it has been published. Annex 2 discusses other fiscal watchdogs further.

Judging the Government’s performance against its fiscal targets

The OBR uses its forecasts to report on whether, in its judgement, the Government’s policies have a better than 50:50 chance of meeting the Government’s fiscal targets, which are set out in the Charter for Budget Responsibility (see Box 1). The Library briefing The UK’s fiscal targets has further information.

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1 For further information see the OBR’s website: http://budgetresponsibility.org.uk/about-the-obr/what-we-do/
2 The latest forecasts are available on the OBR’s website: http://budgetresponsibility.org.uk/
4 Treasury Committee, Office for Budget Responsibility, HC 385, 21 September 2010 para 20
The OBR monitors spending against the welfare cap in its forecasts but only makes a formal assessment in its first forecast of each new Parliament. The Library briefing *The welfare cap* provides further detail.

**Scrutinising the Treasury’s costing of tax and welfare spending measure**

Ahead of the Budget the Treasury produces draft costings of tax and spending measures. The OBR scrutinises the costings and, in the EFO and the Treasury’s policy costing documents, states whether they endorse the costings that the Government publishes as reasonable central estimates.

**Assessing the long-term sustainability of the public finances**

The OBR produces long-term projections for different categories of spending, revenue and financial transactions and assess what they imply for public sector debt. Projections are set out in the OBR’s biennial *fiscal sustainability report*, which also analyses the public sector’s balance sheet.

Since autumn 2015 the OBR has been required to make these detailed projections every other year, rather than every year. In the interim years the fiscal sustainability report includes in-depth analysis of specific sustainability issues.

**Producing a welfare trends report**

The OBR produces an annual *welfare trends report* that discusses trends and drivers of welfare spending.

**Producing a fiscal risk report**

In autumn 2015 the OBR took on a new role: producing a biennial fiscal risk statement. This additional role was recommended in HM Treasury’s review of the OBR (see *section 5.2*). The Treasury will be required to respond to the fiscal risks statement within a year of publication.


The OBR’s 2019 *fiscal risks report* was published in July 2019. The Treasury’s response was provided in the form of a *Written Ministerial Statement to Parliament*. The 2021 fiscal report was published in July 2021.

**Producing forecasts of devolved taxes**

Forecasts of taxes devolved under the Scotland Act 2012 and Wales Act 2014, are published alongside the OBR’s EFOs.

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6 [HCWS364](#)
In support of all the above activities, the OBR undertakes other research and provide briefings on public sector finance releases.

1 The Charter for Budget Responsibility

The Charter for Budget Responsibility (the Charter) sets out the OBR’s role, how it performs its duties and the required content of its key publications. The Charter also sets out the Government’s basic policy for managing the public finances (its fiscal framework) including what should be in Budget reports, the policy for debt management and how debt management should operate.

The fiscal framework includes the Government’s objective for the public finances and its targets for meeting it. The targets are often referred to as the fiscal rules. The OBR assesses and reports on progress against the Government’s fiscal rules in its forecasts (economic and fiscal outlooks).

To change the Charter, the Chancellor must lay a revised Charter before Parliament for the House of Commons to approve.

Box 2 Budget Responsibility and National Audit Act 2011

The OBR was established by the Budget Responsibility and National Audit Act 2011 (the Act).

The Act sets out its functions and broad governance structure.

Before the Act came into force, the OBR was governed by terms of reference published by the Chancellor. Further details of the OBR’s governance and management arrangements are set out in a Framework document.

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2 Who are the OBR?

2.1 Appointments to the permanent OBR

Chair

In October 2020, Richard Hughes became chair of the OBR and member of the Budget Responsibility Committee (BRC). Mr Hughes replaced Robert Chote as chair of the OBR. Mr Chote had served the two terms allowed under the Budget Responsibility and National Audit Act 2011. On 5 June 2020, the Chancellor announced Richard Hughes as his preferred Chair of the OBR. The Treasury Committee approved Mr Hughes’ appointment following an appointment session on 13 July 2020.

Mr Hughes was formerly Director of Fiscal Policy and Acting Chief Economist at HM Treasury, Division Chief in the International Monetary Fund, Research Associate at the Resolution Foundation, Advisor to the French Government, and Visiting Lecturer at Sciences Po in Paris and the Blavatnik School of Government in Oxford.

Members of the Budget Responsibility Committee

Sir Charles Bean and Andy King are the other members of the Budget Responsibility Committee (BRC).

Sir Charles Bean joined the OBR at the beginning of 2017 and replaced Sir Stephen Nickell who completed his final term. Sir Charles is a former Deputy Governor of the Bank of England and holds a part-time Professorship at the London School of Economics. He was nominated in August 2016, by the then Chancellor, Philip Hammond, to join the BRC. The Treasury Committee approved the appointment.

Philip Hammond also nominated Andy King – previously the OBR’s Chief of Staff – to join the BRC in June 2018. The Treasury Committee approved the
Mr King formally began his appointment in September 2018, replacing Graham Parker CBE who stepped down at the end of August 2018.

The OBR currently has two non-executive members who, along with members of the BRC, make up the five members of the OBR’s Oversight Board. The non-executive members are nominated by the OBR and appointed by the Chancellor.

Box 3.1: The Budget Responsibility Committee and the Oversight Board

The Budget Responsibility Committee (BRC) has executive responsibility for carrying out the OBR’s core functions, including judgements reached on its forecasts. The BRC currently consists of:

Richard Hughes (Chairman), Sir Charlie Bean, and Andy King.

The Oversight Board ensures that effective arrangements are in place to provide assurance on risk management, governance and internal control of the OBR. The Oversight Board consists of the members of the BRC and two non-executive members. Currently the non-executive members are Bronwyn Curtis and Sir Christopher Kelly.

Interim appointments

The OBR was initially established on an interim basis on 17 May 2010. Sir Alan Budd was appointed as chairman. Two other members were appointed to the BRC: the aforementioned Graham Parker and Geoffrey Dicks. The interim body also included a secretariat of eight Treasury employees on secondment. It had, therefore, to rely on the Treasury’s expertise.

The interim OBR published two sets of economic forecasts. The first was published before the June 2010 Budget and was based on the previous
Government’s economic policies.\textsuperscript{16} The second forecast was published alongside the June 2010 Budget.\textsuperscript{17}

The interim OBR did, however, become involved in political controversy over the release of employment forecasts. Some argued that this damaged its perceived independence. Sir Alan Budd expressed regret about this in evidence to the Treasury Committee:

Chair: You do understand, though, Sir Alan, do you not, that this has done quite a bit of damage to the early reputation of the OBR?

Sir Alan Budd: And, as I have said, I regret that enormously, Chairman.\textsuperscript{18}

\textsuperscript{16} OBR, \textit{Pre-Budget forecast}, June 2010
\textsuperscript{17} OBR, \textit{Budget forecast}, June 2010
\textsuperscript{18} Treasury Committee, \textit{June 2010 Budget}, HC 350, 20 July 2010, Q14
3  

Rationale for the OBR

Governments in several countries have sought to improve their fiscal policies by the introduction of fiscal rules or by strengthening fiscal institutions. These measures can improve the credibility of fiscal policy. Governments may be tempted to adopt short-term policies, such as cutting taxes or increasing public spending in an unsustainable way, which may be harmful to the economy in the long-term. By adopting fiscal rules or frameworks, which constrain their behaviour, governments can signal that they will not adopt these short-term policies and can thereby give their fiscal policy increased credibility.

Several attempts have been made in the UK to gain credibility in this way. These include the fiscal rules adopted by the previous Labour government and the Fiscal Responsibility Act 2010 which placed a legal obligation on the Treasury to reduce borrowing and debt by specified amounts. The fiscal frameworks must find a balance between placing constraints on policy with the need for flexibility in response to unanticipated economic events. This point was made by Lord Burns in the second reading in the Lords debate on the Bill:

The challenge is to have a framework that both constrains fiscal behaviour in a responsible way and is capable of dealing with the range of surprises and unexpected events that inevitably occur. All attempts to frame budget responsibility in this way have at some stage met that particular problem—some have dealt with it better than others. 19

In the past, attempts were made to add caution to the Treasury’s fiscal forecasts. For example, the National Audit Office (NAO) examined the assumptions used in the projections of the public finances to ensure that they were reasonable and cautious. In addition, the Budget and Pre-Budget Reports used a cautious assumption for trend GDP growth in making projections for the public finances. For example, the March 2010 Budget assumed that trend GDP growth was 1/4% lower than the Treasury’s main economic forecast. The OBR does not use “cautious” assumptions in this way. It presents a central case and seeks to emphasise the inevitable uncertainties involved in economic forecasting.

The aim of the OBR is to make the Government’s forecasts for the economy and public finances independent. Until now, the Treasury’s forecasts were based on the Chancellor’s judgements. This could lead to the suspicion that the forecasts were over-optimistic, and potentially to a loss of credibility in

19 HL Deb 8 November 2010 c34
fiscal plans. By giving the forecasting role to the OBR, the danger that the forecasts could be politically motivated is removed and the credibility of the fiscal framework enhanced.

During the second reading debate of the Budget Responsibility and National Audit Bill, in the Lords, Lord Sassoon said:

Now, through the Bill, the Government are strengthening the framework of the UK’s fiscal institutions.

The greatest single step forward is the establishment of the independent Office for Budget Responsibility, which will make independent assessments of the public finances and the economy. Up until the new Government's first Budget, the responsibility for producing the official forecasts had rested with the Chancellor. The key judgments were made by Ministers, but the possible incentive to forecast optimistically, whether on lower borrowing or higher growth, led to scepticism over the credibility of the forecasts. Budget forecasts over the past decade consistently underestimated borrowing, compared to both its actual level and to what other independent forecasters expected at the time. The coalition Government intend to take a different approach.  

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20 HL Deb 8 November 2010 [Budget Responsibility and National Audit Bill [HL]].
4 OBR’s accountability to Parliament

The Treasury Committee has the right of veto over both the appointment and dismissal of all three members of the Budget Responsibility Committee (BRC). The Act contains statutory provisions to this effect.

The OBR lays its reports directly before Parliament and members of the BRC appear before the Treasury Committee to be questioned about their forecasts. 21

The OBR is a non-departmental public body (NDPB). Prior to its establishment there was some discussion over the institutional form the OBR should take. One possible model would have introduced the OBR as a Parliamentary body, like the National Audit Office (NAO). Some fiscal councils overseas, such as the Congressional Budget Office and the Parliamentary Budget Office in Canada, have close links with their legislatures. The Treasury Committee recommended that this arrangement should be considered as part of the five-year review suggested by the Committee. 22

However, the Treasury Committee also noted that such arrangements might be more suited to an OBR whose function was to validate official forecasts, rather than producing them itself. 23 As Lord Turnbull said in the second reading debate on the Bill in the Lords, the OBR has an “executive role” in supplying forecasts used by the Government:

The real choice is between an OBR that is on the executive side of the fence and one that is an emanation of Parliament, like the NAO. Both the Treasury Select Committee and the Government have opted for the former, which I believe is right. The OBR is not just a commentator or expert auditor. It has an executive function: it supplies the Treasury with the basis for its projections. 24

The Treasury Committee recommended that the OBR should be a Non Ministerial Department like the UK Statistics Authority. The Government disagreed with this recommendation and proposed establishment of the OBR as a grant-funded NDPB. This was because of concerns over whether the OBR’s establishment as a Non Ministerial Department would provide value for money. 25

22 Treasury Committee, Office for Budget Responsibility, HC 385, 21 September 2010 p4
23 Treasury Committee, Office for Budget Responsibility, HC 385, 21 September 2010 para 91
24 HL Deb 8 November 2010 c22
Reviews of the OBR

The first external review of the OBR was published in September 2014 – a HM Treasury review followed in September 2015. Both reported positively on the OBR, particularly on its credibility and reputation, and the greater trust it has brought to the fiscal forecasts. The latest review was carried out by the OECD in September 2020.

5.1 External Review

The first external review of the OBR was published in September 2014. The review led by Kevin Page, former Parliamentary Budget Officer for Canada, concluded that the OBR is seen to be credible and independent and has succeeded in reducing perceptions of bias in economic and fiscal forecasting.

The review made five recommendations to support the OBR’s future work:

- undertake long-term succession planning for the transition of the OBR leadership team
- introduce a fiscal community-wide staff development and rotation programme to maximise the talent pool from which the OBR can draw its analysts
- exercise caution in the expansion of the OBR’s mandate
- provide more material that increases the accessibility of reports for non-technical readers
- survey Parliamentarians to understand their perceptions and use of the OBR’s work

5.2 HM Treasury Review

HM Treasury published a review of the OBR in September 2015. The review was led by Sir Dave Ramsden, Chief Economic Adviser to HM Treasury.

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26 Kevin Page for the OBR. *External review of the Office for Budget Responsibility*, September 2014
27 OBR. *External review of the Office for Budget Responsibility*, 3 September 2014
The objective of the review was to build on the findings of Kevin Page’s external review, focusing on the existing regime and the OBR’s framework and its role in enhancing UK fiscal credibility. 28

On reputation and credibility, the review echoed the findings of Page’s external review: the OBR has a strong reputation and credibility that has led to greater trust in the integrity of the forecasts. However, the review made some recommendations to aid the OBR in holding the Government to account and improve its own resilience and capacity.

The review recommended some changes to the products produced by the OBR:

- a new annual report on fiscal risks should be produced covering a range of risks including economic shocks and potential future costs. This requirement should be added to the Charter
- the OBR should no longer be required to include long-term projections in every annual sustainability report – biennial projections should be sufficient. However, the OBR should carry out more in-depth analysis on specific fiscal sustainability issues
- the Welfare Trends Report, the arrangements for which are currently set out in an exchange of letters between the Chancellor and OBR Chair, should be added to the Charter.

The above recommendations were incorporated into the Charter in autumn 2015.

To ensure the OBR has access to the relevant information to fulfil its remit the review recommended:

- that the Government and devolved administrations amend legislation to ensure the OBR has access to appropriate information, explanation and assistance. Similar arrangements should be put in place for city deals with significant fiscal devolution
- that the Memorandum of Understanding (MoU) (see section 7.1) between the OBR and government departments should be reviewed by September 2016
- that the OBR should consider agreeing Memoranda of Understanding with the aforementioned devolved administrations and city deals

To ensure that the OBR has the right calibre and amount of staff, the review recommended that:

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the OBR works with the Treasury to produce a succession plan to manage the transition of BRC membership (all BRC members are currently serving their last term)

• to increase the pool of potential candidates for the BRC, candidates should be sought within the UK and internationally, and the job description should be more flexible

• the Treasury ensures the OBR is resourced to deal with turnover in long-standing staff members

As discussed further in section 7.2 the review rejected calls to expand the OBR’s remit to include costing of Opposition policies or other areas. However, it recommended that the Government and OBR should make more tools and data available so that third parties can cost alternative policy options.

Reviews of the OBR

An OECD review, external review and a Treasury review reported positively on the OBR. The OECD review said that the OBR has “quickly built a solid reputation for independent, credible, high-quality analysis. Moreover, outside of the UK, the OBR has earned the respect of peer institutions and is considered by many as a model independent fiscal institution”. The other reviews both praised the OBR’s credibility and reputation, and the integrity brought to the fiscal forecasts. Both reviews made recommendations for the future of the OBR, including the need to undertake succession planning for key and long-serving members of staff. The Treasury review recommended the changes currently being made to the OBR’s role.

5.3 OECD review

The OECD published a review of the OBR in September 2020.29

The review noted that OBR is a fixed part of the UK’s economic institutions and that its maturity is evident in how it has weathered recent political instability.

The review praised the OBR’s governance, strong leadership, highly capable and professional staff and the high quality of its publications. It reported that stakeholders widely praise the OBR for bringing greater transparency to the public finances.

The review made recommendations, to both the Government and the OBR, including:30

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29 OECD Independent Fiscal Institutions Review, OBR, September 2020
30 OBR News Release, OECD review hails OBR’s outputs and independence, September 2020
• clarifying current legislation on the timing of forecasts;
• holding fiscal events on fixed dates;
• ensuring that the OBR has adequate resources;
• avoiding ‘mission creep’;
• engaging more with other economists and fiscal analysts;
• increasing the profile of non-forecast outputs;
• avoiding overlong publications;
• engaging more with Parliament;
• and continuing to increase staff diversity.
6 Issues

6.1 Independence

The OBR’s independence from the Treasury is seen as an important issue. As noted above, the Treasury Committee has a veto over appointments to the BRC. However, the OBR’s remit means it must work closely with government departments.

Central to the issue of independence is the extent to which the OBR makes use of expertise within the civil service. Civil servants in the Treasury, HM Revenue and Customs and the Department for Work and Pensions have considerable expertise in fiscal forecasting and the implications for the forecast of changes in taxes and benefits. How far should the OBR make use of this knowledge? There are advantages if the OBR could use this knowledge, but too close contact could damage the perception of independence. The alternative would be to build up knowledge within the OBR, but this could lead to wasteful duplication of resources.

The Treasury Committee described this problem as follows:

In the run up to the Budget it [the OBR] is producing the official forecasts for government, in the light of policy options that have not yet been settled —let alone made public. The requirements for confidentiality and access to internal government information and knowledge are therefore much higher. The question is, how to ensure these requirements are met without compromising the OBR’s independence? 31

It went on to say:

We accept that there is a trade-off between delivering the most robust independence and perception of independence and making the most efficient and effective use of resources. 32

In its advice on setting up the permanent body, the interim OBR favoured using departmental resources but also called for those at the “core of the forecasting process” to be moved to the OBR:

31 Treasury Committee, Office for Budget Responsibility, Fourth Report of Session 2010-11, HC 385, 21 September 2010, para 68
32 Treasury Committee, Office for Budget Responsibility, Fourth Report of Session 2010-11, HC 385, 21 September 2010, para 72
The question of the use of departmental, especially Treasury, resources is more difficult. The scepticism this process produced is unfortunate since, in our view, this is the best way for us 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. It is not a full-time job for most of those involved. 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. The cost would be unacceptably high and there would be a severe peak-flow problem, given that forecasting is an intermittent activity. Further, 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.

For these reasons we rule out wholesale duplication. That means that either the OBR continues to rely on official resources as now, while accepting full responsibility for all judgements and scrutinising all policy costings, or its forecasting task is changed. For example, it might just produce aggregate fiscal forecasts without taking responsibility for the full details of revenue and expenditure as published with the Budget. This could lead to consistency issues with policy costings and other problems. We do not believe that this approach would be consistent with your expressed wish to use the OBR as the source of the Budget forecasts.

The way forward therefore would appear to be to build on the system used for the pre-Budget and Budget forecasts but to reinforce the OBR’s technical independence. Since the OBR is responsible for producing the forecasts it would be reasonable for those at the core of the forecasting process to be part of it. That can be achieved by moving a number of posts from the Treasury to the OBR such that core tasks can be fully controlled and coordinated within the OBR.

The OBR has around 35 staff, who are civil servants and are primarily employees of the OBR, rather than seconded from other departments. The Act gives the OBR the right of access to government information which it may reasonably require for the performance of its duty. The Government has published frameworks for co-operation between the OBR and its main government partners in formal memoranda of understanding.

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33 Establishing the Office for Budget Responsibility, Letter from interim OBR to Chancellor, 12 July 2010, paras 44-46
34 OBR, Annual report and accounts 2020/21, 4 June 2014, para 2.67-2.76
35 HM Treasury. Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions and HM Revenue & Customs, April 2011; OBR. Memorandum of Understanding between the Office for Budget Responsibility and HM Treasury – the macroeconomic model
The OBR is currently located in the Ministry of Justice on Petty France. In its advice on setting up the permanent body, the OBR recommended that it be located outside the Treasury while noting that it would be difficult to have a close working relationship with the Treasury if it was located too far away.

6.2 Costing Opposition polices

The issue of whether the OBR should cost Opposition parties’ fiscal proposals was discussed when the office was being established.

The issue re-emerged in 2013 when Labour’s then Shadow Chancellor, Ed Balls, proposed that the OBR should independently audit the costings of the spending and tax measures contained in Labour’s manifesto for the 2015 election.

HM Treasury’s 2015 review of the OBR ruled out expanding the OBR’s role to include costing of opposition policies as it ‘risks the credibility of the institution and a loss of focus’.

Role discussed and ruled out prior to the OBR’s introduction

The costing of Opposition parties’ fiscal proposals happens, for example, in the Netherlands, and was discussed when the OBR was being introduced. Professor Simon Wren-Lewis of Oxford University was in favour of this model:

David Rutley: There seems to me some consensus amongst you that there needs to be a wider commentary function for the OBR going forward. Just to test the outer limits though, you have mentioned the fiscal council in the Netherlands, which has gained a reputation for costing government policies and also opposition policies. Would the OBR or should the OBR go that far, just, again, trying to test what the outer limit should be, in the commentary function?

Professor Wren-Lewis: Can I start by a simple answer, and that is “yes”. I think that is a good thing to do anyway because I think it will raise the level of public debate around elections, it would stop opposition parties promising to do everything without costing it properly. I also think it would foster independence, the notion of independence, because you would start a dialogue not just between the OBR and the Government, which is a necessary dialogue and is

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36 Obr.uk Where are you located? [accessed on 15 September 2021]
37 Establishing the Office for Budget Responsibility, Letter from interim OBR to Chancellor, 12 July 2010, para 57
38 HM Treasury, HM Treasury review of the Office for Budget Responsibility, Led by Sir Dave Ramsden, Chief Economic Adviser to HM Treasury, September 2015, page 6
always going to be there, but you also start a dialogue with the Opposition. I think that would be useful for independence as well.  

In October 2010, the Chancellor said that the House should debate and decide whether the OBR should cost Opposition parties’ policies: 

this is genuinely a matter that should be debated in the House in a non-partisan way, because it does not affect just this Parliament. There is a question of whether we want the OBR to be able to cost Opposition policies at the time of a general election. I propose to have discussions with Opposition party leaders about whether that is the appropriate thing to do, and it would be a legitimate matter for the House to debate and decide. 

In its response to the Treasury Committee report, however, the Government rejected this idea, saying that the OBR “should not examine alternative fiscal or other policy scenarios, including those proposed by political parties.”  

This was because the Civil Service Code tightly controls the degree to which civil servants may examine Opposition parties’ policies and that the principle of political impartiality should also apply to the OBR. The Government reiterated its view in the light of Labour’s September 2013 proposal discussed below. 

**Issue re-emerges prior to 2015 General Election**

In his speech to the 2013 Labour Party Annual Conference Mr Balls said that the Party would ask the OBR to cost its manifesto for the 2015 General Election. Labour’s Shadow Chancellor followed this up with a letter laying out the proposal to the OBR’s then Chairman, Robert Chote: 

The reform I am proposing would mean the Opposition would submit costings for proposed manifesto commitments on spending and tax – obtained for example, from the House of Commons Library, Parliamentary Questions or the Institute for Fiscal Studies – and the OBR would ‘provide independent scrutiny and certification’ of these costings.

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40  HC Deb 12 October 2010 c142
42  For instance see: HC Deb 29 April 2014:c693; HC Deb 11 March 2014:c165; HC Deb 10 December 2013:c118
43  Ed Balls MP’s speech to Labour Party Annual Conference 2013
44  Letter from Ed Balls MP to Robert Chote, Chairman of the OBR, 22nd September 2013.
In replying to Mr Balls, Mr Chote said that without a change in the law – specifically the Budget Responsibility and National Audit Act 2011 – the OBR would not be able to play such a role.45

The issue was raised shortly after, in December 2013, when Mr Chote gave evidence to the Treasury Committee.46 Mr Chote agreed to send the Committee a note setting out some of the issues that would arise if Parliament wanted the OBR to cost opposition policies. In his note, Mr Chote provided some support for the idea in principle but pointed out ‘significant practical issues’ including that the OBR’s remit – as set out in legislation – would have to change and that any reform implied significant changes for civil servants, particularly in relation to contact with opposition parties:

As I have discussed [in oral evidence to the Treasury Select Committee] I believe that independent scrutiny of pre-election policy proposals could contribute to better policy making, to a more informed public debate, and could help facilitate coalition formation when party programmes need to be reconciled. But we should not underestimate the significant practical issues that would need to be addressed - issues that would affect the political parties and the civil service at least as much as the OBR.

First and foremost, it would be essential to establish clear ‘rules of the game’ for all involved, well before the election, and to ensure that adequate resources were in place to do the job properly. To embark on this exercise in a rush, or with insufficient resources, could be very disruptive for the parties and very damaging to the OBR.

Putting it bluntly, if Parliament wished us to play this role in the 2015 election, we would need a clear steer in the very near future to have any hope of putting the necessary practical arrangements in place in time to deliver a smooth process. Indeed advocates of the reform may now feel that it would be better to consider these issues at the beginning of the next parliament- with a view to being fully prepared before the subsequent election- rather than rush into it for 2015 and risk undermining support for the idea in the longer term.

As you are aware, the OBR’s current remit only allows us to comment on the current policies of the current government - a restriction that had cross-party support when our legislation was passed in 2011. Changing the remit to allow us to look at other policies would require primary legislation. More fundamentally, any significant change in our remit - especially in a highly politically sensitive area such as this would again require clear cross-party support if it was not to risk calling the legitimacy and independence of the OBR into question.

45 Letter from Robert Chote in response to Rt Hon Ed Balls MP on Opposition policy costings, 23rd September
46 Treasury Committee, Oral evidence: Autumn Statement 2013, HC 826, December 2013, Q1 – Q3
The reform also implies potentially significant changes for the civil service and civil servants, particularly in relation to contact with opposition parties. The Treasury tells us that requiring civil servants to do work prior to an election being called that could not be shared with the Government of the day would represent a significant constitutional development and that this would be a matter for the Head of the Civil Service and the Permanent Secretary of the Treasury, and ultimately the Prime Minister. 47

Mr Chote’s note went on to address further questions raised by the possibility of costing Opposition parties’ policies, such as: Which parties should be allowed to participate? Which policies should be scrutinised? What resources might this involve?

**HM Treasury’s internal review recommends no expansion of OBR’s remit**

HM Treasury’s 2015 review of the OBR (see section 5.2) concluded that its role should not be expanded to include the costing of Opposition policies. The review concluded that such an extension of the OBR’s clearly defined and focused remit would risk its credibility and a loss of focus. 48

The review was concerned about the potential impact on the civil service. Policy costings are not produced by the OBR themselves; rather, costings are produced by the Government and certified by the OBR. The review’s opinion was that costing opposition policies would raise constitutional issues and conflicts of interest for civil servants, who work the Government. 49

To help third parties cost alternative policies the review recommended that the Government and the OBR should make more data and tools available.

### 6.3 A commentary role

Tim Besley, Professor of Economics at the LSE, and a former member of the Bank of England Monetary Policy Committee, has argued that the OBR should be able to look at all issues relating to fiscal sustainability:

I am strongly of the view that if the broad object of the organisation is to safeguard fiscal sustainability in the UK, it has to have a remit that allows it to range over the entire set of issues that are germane to that. Taking an example from the past, had the OBR existed since, say, 2000, I would hope it would have produced commentary on some of the risks around fiscal policy with respect to the taxation that was being raised from the financial sector and that it would

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47 Letter from Robert Chote to Andrew Tyrie, Chairman of the Treasury Committee, 15 January 2014.
49 Further discussion is available in paras 3.61 – 3.93 of HM Treasury review of the Office for Budget Responsibility.
have felt perfectly justified to raise such an issue independently because it felt it was an important part of the outlook. To constrain artificially in any way the ability of this body to comment on what is germane to that broad objective I think would compromise its independence and compromise its institutional integrity. I feel pretty strongly that some aspect of a commentary function has to be accepted within its remit under the broad heading of achieving fiscal sustainability.  

The Institute for Fiscal Studies (IFS) argued that while it is sensible for the fiscal target to be set by the Government, it would be appropriate for the OBR to make a public assessment of whether “any changes to the rules it is tasked with policing are consistent with the ultimate objective of long-term sustainability”. The IFS warned against the OBR advising on broader economic policy issues.  

The Government decided, however, to limit the OBR’s “commentary” role. The Charter for Budget Responsibility states that the OBR:

The OBR should not provide normative commentary on the particular merits of Government policies.

The Treasury Committee agreed with this arguing that it would be inappropriate for the OBR to play a role in setting the fiscal mandate and that comment should not be made on individual measures.

6.4 Establishing credibility

It is clearly important that the OBR has credibility. However, fiscal forecasting is notoriously difficult. For example, government borrowing is the difference between revenue and expenditure – both very large numbers. Small errors in forecasting these can make a large difference to the forecast for borrowing. There is a danger that if the OBR is judged solely by the accuracy of its short-term forecasting it will lose credibility. The issue was raised by Tim Besley in evidence to the Treasury Committee:

The problem with putting too much weight on the short- and medium-term forecasting is that this organisation is bound to fail if that is the way in which we judge it, because we know that the

50 Treasury Committee, Office for Budget Responsibility, Fourth Report of Session 2010-11, HC 385, 21 September 2010, Q82
51 Institute for Fiscal Studies, The IFS Green Budget: February 2010, pp257-58
53 Treasury Committee, Office for Budget Responsibility, Fourth Report of Session 2010-11, HC 385, 21 September 2010, para 64
54 For example, in its June 2010 Budget forecast the OBR forecast receipts of £548 billion and spending of £697 billion in 2010/11, giving a deficit of £149 billion (Table C7 p90). If receipts were 1% higher and spending 1% lower, the deficit would be £137 billion – a difference of £12 billion or over 8%.
success of short-term economic forecasting is extremely limited, and for good reasons; it is just not a science, if you want to call it a science, or an art, that is fully developed to a point where we can rely wholly. It does not mean forecasts are unintelligent or based on deliberately misleading data. It is just the nature of the exercise, and so if this organisation is judged on the basis of whether it happens to forecast well over a two-year horizon and we come back in two years and say, “Oh, you got it wrong and therefore this organisation is not serving an important social purpose,” I think that would be the wrong way to look at it. What matters is the quality of the commentary around fiscal risks and fiscal sustainability that will make this organisation useful in the public debate, and we have to firmly put that at the centre of what we are trying to achieve with OBR, in my view.  

Professor Wren-Lewis agreed with this point:

I could not agree with that more. I think the dangers to the credibility of the organisation of focusing on the short-term forecasting role are very large because forecasts are always wrong. Also, I think it would be unfortunate because it puts the focus on the short term, whereas issues to do with fiscal policy much more medium and long-run in nature. So I think it is essential for the OBR to not just provide that role but also to look at issues of long-run sustainability, doing medium to long-run forecasts as well, in a sense possibly putting that at least on an equal footing with its role in producing the pre- and post-budget forecast.

In its report on the OBR, the Treasury Committee argued that while there should be scrutiny of the OBR’s forecasts, “absolute accuracy is not a useful criterion.” Their quality could be assessed relative to other forecasts.

The OBR assess the performance of their forecasts annually in their forecast evaluation report.

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55 Treasury Committee, *Office for Budget Responsibility*, Fourth Report of Session 2010-11, HC 385, 21 September 2010, Q82
56 Ibid
57 Ibid
Annex 1: International examples of fiscal councils

The OBR maintains a list of fiscal councils overseas.

Simon Wren-Lewis, Professor of Economics at Oxford University, has produced the following list which is taken from his website:

**Austria**

The Government Debt Committee was established in 2002, comprises 14 members, and receives financial support from the Austrian Central bank. It provides recommendations on the direction of fiscal policy, and the overall fiscal stance.

**Australia**

Following the recommendations Joint Select Committee (see here), a Parliamentary Budget Office is to be established in 2012. The focus is on project costing, but the office may also decide to comment on macroeconomic budgetary issues. Mr Phil Bowen has been appointed as the inaugural Parliamentary Budget Officer.

**Belgium**

The Federal Planning Bureau, established in 1994, provides a range of services along similar lines to the CPB in the Netherlands. In addition, the High Council of Finance, which was reformed in 1989, oversees the coordination of regional and national fiscal policy. It sets medium term objectives for regional and national budget deficits, and proposes annual targets, which form the basis for government negotiations. The High Council is chaired by the Minister of Finance, but has representatives from inside and outside government. Although it has no formal decision making power, it does exert considerable influence. The influence of the High Council is analysed in Coene (2010).

**Canada**

The Parliamentary Budget Office provides 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 estimates of the financial cost of any specific proposals. It has a staff of 14.

**Denmark**

The Economic Council, established in 1962, prepares economic reports and forecasts on a range of issues including fiscal policy. It has four members and a staff of around 35.
Germany
The German Council of Economic Experts comprises five members and a staff of around 30. The Council was established in 1963 to advise on a wide variety of economic policy issues, including macroeconomic fiscal policy. The federal government must publish its comments on the Council’s annual report.

Hungary
The Fiscal Council of the Republic of Hungary was set up in 2009 as ‘an independent state institution that endeavours to ensure the responsible management of public resources.’ It prepared macroeconomic forecasts which represented the baseline for budgetary decisions. It also provided comment and advice on fiscal planning more generally, within the context of existing fiscal rules, with a total staff of around 35. Some of its reports were critical of government proposals or forecasts. In early 2011 the Hungarian government replaced the Council with a three person body that was widely perceived as a less effective fiscal policy watchdog (see, for example, a letter to the Financial Times ($) from three directors of other fiscal councils).

Ireland
After plans outlined here, the members of the Irish Fiscal Advisory Council were announced in June 2011. The Council reports formally at least 3 times per year. It has five members, and a secretariat of three.

Netherlands
The Netherlands Bureau for Economic Policy Analysis (often referred to as the CPB, for Central Planning Bureau) was founded in 1945. It is an independent research institute and has its own independent external advisory body. It provides economic and fiscal forecasts as inputs into the budgetary planning process. It also evaluates (at the party’s request) the election programme of government and opposition parties. The Bureau also provides economic expertise over a wide range of specific issues, such as labour market reform, and has a staff of over 110.

Portugal
The Portuguese Public Finance Council (Conselho das Finanças Públicas, CFP) was created in 2011. The CFP was created by the 5th amendment to the Budget Framework Law in May 2011. The members of the board were appointed in December 2011, and took office in mid February 2012. Its mission is to undertake an independent assessment of the consistency, compliance and sustainability of fiscal policy and to enhance, through increased transparency, the quality of democracy and economic policy decision-making and to reinforce the financial credibility of the State. The Council will present reports on: the Stability Programme and other procedures within the European regulatory framework of the Stability and Growth Pact; the multi-annual framework of budgetary planning; the draft State budget; the sustainability of the public finances; as well as on other subjects it considers relevant.
Slovakia
On 27th June 2012 the Slovak Parliament elected the three members of the newly created Council for Budget Responsibility by constitutional majority: Ivan Sramko (chair), Michal Horvath and Ludovit Odor. An early discussion is contained in a paper by Horvath and Odor.

Slovenia
The Public Finance Act of 2009 requires the creation of an independent advisory body to provide assessments of the public finances.

South Korea
The National Assembly Budget office (NABO) was established to support the legislative activity of the National Assembly of Korea in 2003. Its aim is to be a ‘fiscal institution that assists in the examination of the national budget and accounts in the legislative body via impartial and non-partisan research and analysis’. It currently employs around 120 staff. It has a wide ranging remit, and provides analysis of particular micro and macro issues as well as macroeconomic trends.

Sweden
In 2007 the Swedish Fiscal Council was established. The Council consists of eight members and is assisted by a secretariat with four employees. The mission of the Council is to provide an independent evaluation of the Swedish Government’s fiscal policy. Its first director, Lars Calmfors, has a paper describing the initial experience of the council. The current director is Lars Jonung.

United Kingdom
In 2008 the Conservative Party outlined its proposal for an Office of Budget Responsibility. Some comments on the original UK proposal are here, and in Chapter 11 of the Institute of Fiscal Studies’ Green Budget. The case for a UK Fiscal Council is presented in written form in Kirsanova et al (2007), in Power Point or, to my embarrassment, video form here, and as a dialog between Tim Besley and Romesh Vaitilingam here (see also Besley and Scott (2010)). The new (May 2010) Conservative/Liberal government, as one of its first acts, set up an interim Office for Budget Responsibility (OBR), chaired on an interim basis by Sir Alan Budd. Within weeks it produced its first pre-budget report, and shortly afterwards it produced the forecasts that were part of an ‘emergency’ Budget. In July 2010 a debate began on the structure of the permanent OBR. The Treasury Select Committee have taken evidence on this issue (its report is here - note that their international evidence is taken from this webpage), and Lars Calmfors, director of the Swedish Fiscal Council, has also made an interesting contribution. Legislation establishing the permanent OBR has recently been approved by parliament. Sir Alan Budd was replaced by Robert Chote, and the OBR has already produced a number of reports. An account of its formation and structure is given in Wren-Lewis, 2011b. When the OBR revised down its estimate of potential output in
November 2011, the Chancellor revised his medium term fiscal plans as a result (see here).

**United States**
The Congressional Budget Office (CBO) has a mandate to provide the United States Congress with ‘objective, nonpartisan, and timely analyses to aid in economic and budgetary decisions on the wide array of programs covered by the federal budget and information and estimates required for the Congressional budget process.’ Established in 1974, it provides objective and impartial assessments (‘scoring’) of policy proposals that have a significant influence on decision making. It also provides an overall assessment of the likely path of deficits and debt into the medium term. It has a staff of around 250. It produces an annual assessment of the outlook for the government budget, including projections that go to 2080.

**Other institutions**
The European commission also has a database of fiscal institutions.
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