

By Matthew Keep

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# Office for Budget Responsibility

## Summary

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## Summary

The Office for Budget Responsibility (OBR) is the UK's official independent forecaster of the economy and public finances. It produces the forecasts used by the Chancellor in the Budget, Autumn Statement, and other similar 'fiscal' events. It is the UK's independent public finances watchdog.

The OBR was established within days of the Coalition Government coming to power in May 2010, with the aim of improving the credibility of forecasts and public finance (fiscal) policy.

Richard Hughes, who held senior roles at the Treasury and International Monetary Fund, has been the chair of the OBR since October 2020. The Treasury Committee has the power of veto over this appointment.

The [Budget Responsibility and National Audit Act 2011](#) established the OBR and sets out its functions and broad governance structure.

## The OBR's role

The OBR produces 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. It also examines the long-term sustainability of the public finances, risks surrounding the public finances, spending on welfare and devolved taxes.

[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 Library briefing [The UK's fiscal targets](#) discuss the government's targets for managing the public finances in more detail.

# 1 What does the OBR do?

The Office for Budget Responsibility (OBR) was created in 2010 to provide independent and authoritative analysis of the UK's public finances. It is one of many [official independent fiscal watchdogs around the world](#).<sup>1</sup>

The OBR:

- produces five-year forecasts for the economy and public finances
- assesses the government's performance against its targets for the public finances (fiscal targets)
- scrutinises the Treasury's costing of tax and welfare spending measures
- assesses the long-term sustainability of the public finances
- produces a welfare trends report and forecasts for devolved taxes

The OBR's role and how it performs its duties are laid out in the [Charter for Budget Responsibility](#) (see Box 1).<sup>2</sup>

## 1.1 The 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.<sup>3</sup> 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 accompany the Budget and other fiscal events, such as the Spring Statement.

Each year the OBR assesses its forecasts against actual outturns in the [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.<sup>4</sup>

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<sup>1</sup> OBR. [International engagement](#) [accessed on 11 June 2024]

<sup>2</sup> For further information see the OBR's website: [What we do - Office for Budget Responsibility \(obr.uk\)](#)

<sup>3</sup> The latest forecasts are available on the OBR's website: [Home - Office for Budget Responsibility \(obr.uk\)](#)

<sup>4</sup> HM Treasury. [Charter for Budget Responsibility \(autumn 2021 update\)](#), January 2022, para 3.13

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.<sup>5</sup>

### **The forecast process**

The Chancellor commissions the OBR to produce its forecasts, usually giving it at least 10 weeks’ notice.

The forecast is produced using an iterative process over several rounds. The OBR produces several draft forecasts which it presents to the Chancellor. In the early rounds the forecasts do not include the Chancellor’s potential new policy measures. These ‘pre measures’ forecasts draw on data released since the previous forecast and judgements on the outlook for the economy. The Chancellor’s policy measures are added into the forecast in the latter forecast rounds.

The forecast process is set out on [the OBR’s website](#) as is [the timetable and details regarding the March 2025 forecast](#).

### **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 about the fiscal targets.

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 measures**

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 it endorses the costings that the government publishes as reasonable central estimates.

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<sup>5</sup> Treasury Committee, [Office for Budget Responsibility](#), HC 385, 21 September 2010 para 20

## Assessing the long-term sustainability of the public finances and fiscal risks

The OBR assesses the long-term sustainability of the public finances in its [fiscal risks and sustainability](#) reports.

When the OBR judges it to be appropriate, the report includes long-term projections for different categories of spending, revenue and financial transactions and assesses what they imply for public sector debt.

The fiscal risks and sustainability report also analyses the public sector's balance sheet.

The government responds to the sustainability report at a subsequent fiscal event, such as a budget.

## Producing a welfare trends report

The OBR produces a [welfare trends report](#) that discusses trends and drivers of welfare spending.

Since the Charter was revised in January 2022,<sup>6</sup> the OBR is required to produce the report biennially. Previously, the OBR was required to produce the report annually.

Since January 2025, the Treasury is required to formally respond to the welfare trends report in its annual report on welfare spending.<sup>7</sup>

## Producing forecasts of devolved taxes

Forecasts of taxes devolved under the Scotland Act 2012, Scotland Act 2016 and Wales Act 2014, are published alongside the OBR's [EFOs](#).

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.<sup>8</sup> The Charter also sets out the government's basic policy for managing the public finances (its fiscal framework) including what Budget reports should include, the policy for debt management and how debt management should operate.

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<sup>6</sup> [HC Deb 10 January 2022 \[Charter for Budget Responsibility and Welfare Cap\]](#).

<sup>7</sup> HM Treasury. [Charter for Budget Responsibility Autumn 2024](#), para 3.44

<sup>8</sup> HM Treasury. [Charter for Budget Responsibility: autumn 2021 update](#), January 2022

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.

## 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](#).

## 1.2

## 2024 legislation increasing the OBR's role

The [Budget Responsibility Act](#) ensures that when the government announces 'fiscally significant' measures, they are subject to an independent assessment by the OBR. [The government calls this a 'fiscal lock'](#).<sup>9</sup>

The Act gives the OBR the power to produce a forecast or assessment of significant fiscal measures without necessarily requiring the Treasury to request it. It requires:

- the government to request a forecast from the OBR before it makes fiscally significant announcements;
- the OBR to produce an assessment of the impacts of fiscally significant measures if the government fails to request a forecast.

The fiscal lock applies to measures that are temporary in response to an emergency.

The Library briefing [Budget Responsibility Bill](#) discusses the policy background and the original bill introduced to Parliament.

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<sup>9</sup> HM Treasury. [Government introduces new Fiscal Lock Law to deliver economic stability and protect family finances](#), 18 July 2024

## What are ‘emergency and temporary measures’?

The fiscal lock applies when the government announces measures that are temporary and in response to an emergency. The Charter for Budget Responsibility (the Charter) says:

- a temporary measure is a measure intended to end within two years
- the Treasury will need to explain why it considers the situation to be an emergency. If the OBR “reasonably disagrees” that the situation is an emergency, it can trigger the fiscal lock and prepare a report.<sup>10</sup>

Genuine temporary emergency measures would be included in the next forecast commissioned by the Chancellor.<sup>11</sup>

## What is ‘fiscally significant’?

Whether a measure, or combination of measures, is deemed to be fiscally significant will be determined by comparing the cost of the measure(s) with the size of the UK economy, as measured by gross domestic product (GDP). The threshold will be set out in the Charter.

The Charter says a measure or combination of measures is significant if their cost is at least equivalent to 1% of GDP in any financial year during the five-year forecast.<sup>12</sup> The threshold applies separately to costs and savings.

## Why was the fiscal lock introduced?

These changes were originally proposed by Labour, while in opposition, in response to issues which arose following the Truss Government’s “mini budget” of September 2022.<sup>13</sup> Labour’s General Election 2024 manifesto confirmed it would ensure that “Every fiscal event making significant changes to taxation or spending will be subject to an independent OBR forecast.”<sup>14</sup>

In the mini budget, the then Chancellor, Kwasi Kwarteng, announced permanent tax changes which would have reduced Treasury revenues by around £45 billion in 2026/27.<sup>15</sup> He did so without asking the OBR to produce a forecast. The OBR would have been able to produce one if one had been requested.<sup>16</sup>

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<sup>10</sup> HM Treasury. [Charter for Budget Responsibility: Autumn 2024](#), paras 3.53

<sup>11</sup> HM Treasury. [Charter for Budget Responsibility: Autumn 2024](#), paras 3.54

<sup>12</sup> HM Treasury. [Charter for Budget Responsibility: Autumn 2024](#), paras 3.49

<sup>13</sup> Officially, the Chancellor was presenting “[Growth Plan – 2022](#)” but the event is widely known as the “mini-budget”.

<sup>14</sup> [Labour Party Manifesto 2024](#)

<sup>15</sup> HM Treasury. The Growth Plan 2022, [Table 4.2](#)

<sup>16</sup> OBR. [Letter from Richard Hughes to Mel Stride MP on the potential Emergency Budget](#), 26 August 2022

Financial markets reacted negatively to the mini budget. One of the reasons given for the adverse market reaction was the lack of OBR forecasts.<sup>17</sup>

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<sup>17</sup> For more, see section 1 of the Library briefing [Background to Autumn Statement 2022](#)

## 2

## Who are the OBR?

The OBR is led by the three members of the Budget Responsibility Committee (BRC). They are responsible for the OBR's core functions including the assumptions used in its forecasts and the judgements reached.

The OBR employ around 45 civil servants to provide analytical and corporate support to the BRC. They work across the economy, receipts and spending forecasts, sustainability and risks, devolved and policy costings analysis, and strategy, operations and communications teams.<sup>18</sup>

### 2.1

## Appointments to the Budget Responsibility Committee

### 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.<sup>19</sup> The Treasury Committee approved Mr Hughes' appointment following an appointment session on 13 July 2020.<sup>20</sup>

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.<sup>21</sup>

### Members of the Budget Responsibility Committee

[Professor David Miles](#) and [Tom Josephs](#) are the other members of the Budget Responsibility Committee (BRC).

[Professor David Miles](#) joined the OBR at the beginning of 2022 and replaced [Sir Charles Bean](#) who served for a planned one term. David Miles is a former

<sup>18</sup> OBR. [Annual report and accounts 2022-23](#), June 2023

<sup>19</sup> HM Treasury Press Release. [Chancellor announces Richard Hughes as preferred Chair of the Office for Budget Responsibility](#), 5 June 2020

<sup>20</sup> Treasury Committee. [Appointment of Richard Hughes as the Chair of the OBR](#), 13 July 2020

<sup>21</sup> OBR. [Who we are](#) [accessed on 23 November 2020]

member of the Bank of England's Monetary Policy Committee and holds a part-time Professorship of Financial Economics at Imperial College, London. He was nominated in December 2021, by Chancellor, Rishi Sunak, to join the BRC.<sup>22</sup> The Treasury Committee approved the appointment.<sup>23</sup>

[Tom Josephs](#) joined the OBR in September 2023 and replaced [Andy King](#) who served for one term. Tom Josephs was most recently Director of Private Pensions Policy at the Department for Work and Pensions (DWP). He was previously the Director of Fiscal Group at HM Treasury between September 2019 and August 2022. Mr Josephs was nominated by the Chancellor, Jeremy Hunt, to join the BRC in August 2023.<sup>24</sup> The Treasury Committee approved the appointment.<sup>25</sup>

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.<sup>26</sup> 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), Professor David Miles, 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 [Dame Susan Rice](#) and Baroness [Sarah Hogg](#).

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<sup>22</sup> OBR. [Prof. David Miles CBE nominated to join OBR](#), 3 December 2021

<sup>23</sup> Treasury Committee, [Ninth Report of Session 2021-22](#), HC966, 16 December 2021

<sup>24</sup> HM Treasury Press Release. [Chancellor announces Tom Josephs as preferred candidate for the Budget Responsibility Committee](#), 14 August 2023

<sup>25</sup> Treasury Committee, [Appointment of Tom Josephs to the Budget Responsibility Committee](#), HC1799, 7 September 2023

<sup>26</sup> OBR. [Who we are](#) [accessed on 23 February 2022]

### 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.

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  $\frac{1}{4}\%$  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.

An aim of establishing the OBR is to make the government's forecasts for the economy and public finances independent. Previously, 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 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.

## 4 The 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 [Budget Responsibility and National Audit Act 2011](#) 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 the forecasts.

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.<sup>27</sup>

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.<sup>28</sup> As Lord Turnbull said in the second reading debate on the Budget Responsibility and National Audit 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.<sup>29</sup>

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

<sup>27</sup> Treasury Committee, [Office for Budget Responsibility](#), HC 385, 21 September 2010 p4

<sup>28</sup> Treasury Committee, [Office for Budget Responsibility](#), HC 385, 21 September 2010 para 91

<sup>29</sup> HL Deb 8 November 2010

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OBR's establishment as a Non Ministerial Department would provide value for money.<sup>30</sup>

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<sup>30</sup> HM Treasury, [Government response to the House of Commons Treasury Committee 4<sup>th</sup> Report of Session 2010-11: Office for Budget Responsibility](#), Cm 7962, November 2010, paras 4.4 – 4.6

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## 5 Reviews of the OBR

The OBR must, at least once in every five-year period, appoint a person or body to review its performance.

Two external reviews have been carried out. Both reported positively on the OBR, particularly on its credibility and reputation, and the greater trust it has brought to the fiscal forecasts. Recommendations were made in both reviews including being cautious about expanding the OBR's role, engaging more with Parliament and avoiding over long reports.

Laura Van Geest – chair of the Dutch financial conduct supervisor – has been commissioned to lead the third external review. A final report is expected by 1 October 2025.

A HM Treasury review was carried out, in September 2015. It reported that the OBR has a strong reputation and credibility that has led to greater trust in the integrity of the forecasts. It recommended changes to some of the OBR's products which have been implemented.

### 5.1 First external review: Kevin Page (September 2014)

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.<sup>31</sup>

The review made five recommendations to support the OBR's future work:<sup>32</sup>

- 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

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<sup>31</sup> Kevin Page for the OBR. [External review of the Office for Budget Responsibility](#), September 2014

<sup>32</sup> OBR. [External review of the Office for Budget Responsibility](#), 3 September 2014

- 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 Second external review: OECD (September 2020)

The [OECD published a review](#) of the OBR in September 2020.<sup>33</sup>

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:<sup>34</sup>

- 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.

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<sup>33</sup> OECD Independent Fiscal Institutions Review, [OBR](#), September 2020

<sup>34</sup> OBR News Release, [OECD review hails OBR's outputs and independence](#), September 2020

## 5.3

## Third external review: Laura van Geest (February 2025)

In May 2024, Laura van Geest – chair of the Dutch financial conduct supervisor – was commissioned to lead the third external review of the work of the OBR.<sup>35</sup> The final report was published in February 2025.

The review concluded that the OBR has “successfully navigated a series of unprecedented economic and fiscal challenges” over the last five years. These challenges included the Covid-19 pandemic, Russia’s full-scale invasion of Ukraine (and subsequent energy crisis) and political challenges.<sup>36</sup>

The review found that since the second external review, the OBR:

- deepened its credibility with partner institutions, academics, and across different parts of the economic and political landscape;
- smoothly managed succession from the previous chair and members of the budget responsibility committee
- has demonstrated responsiveness; transparency and openness to evolving analysis, ways of working and methodological approach.

In a video summarising the report, Laura van Geest highlighted two of the review’s recommendations:<sup>37</sup>

- The OBR should receive a multi-year budget on a rolling basis so that its budget extends at least 3 years into the future at any given time. This recommendation was aimed at securing independence. The issue was resolved in the autumn 2024 update to the Charter for Budget Responsibility.
- The OBR should focus more explicitly on highlighting uncertainty around its medium-term forecasts in a user-friendly manner. Specifically, Laura van Geest said that the debate in the UK has too often focused on the margin by which the government was meeting its fiscal targets – often described as its ‘headroom’. The OBR could shift the debate by highlighting: uncertainties around the economic forecast; fiscal pressures on inputs; and, long term sustainability

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<sup>35</sup> Laura van Geest’s experience includes: Director of the Netherlands Bureau of Economic Policy Analysis, Director General for Budget at the Dutch Ministry of Finance, Chair of the Dutch Authority for Financial Markets, and Advisor at the International Monetary Fund.

<sup>36</sup> OBR. [External review of the Office for Budget Responsibility 2025](#), 10 February 2025

<sup>37</sup> OBR. [Third external review of the OBR published](#), 10 February 2025

The remaining recommendations were:

### **Independence**

- The OBR should maintain its existing accountability arrangements with Parliament, through which the Treasury Select Committee retains the power to veto appointments or dismissals of OBR leadership.
- The OBR Oversight Board plays a crucial role in safeguarding the long-term interests of the organisation and should therefore play a meaningful role in process to select and appoint both the Budget Responsibility Committee and OBR Chair.

### **Infrastructure**

- The OBR should establish a clear policy and workplan for model maintenance and development across the breadth of its work, with an initial emphasis on its economy forecasting.
- The OBR should use clear criteria for additionality to the baseline forecast and the required evidence base for the policy measures it is willing to score dynamically; it should then apply these strictly.
- The OBR should conduct an evaluation of its use of dynamic scoring to date.
- The OBR should consider mechanisms to signal to academic and practitioner community key areas of upcoming interest and review high-quality submissions.

### **Impact**

- The OBR should move towards a broader assessment of fiscal sustainability, whilst continuing to avoid the perception of making normative assessments of policies to maintain its impartial status.
- The OBR should experiment with ways to increase transparency around the role and implications of the stated policies assumption it is required to use in its forecasts, signalling implicit fiscal pressures in the assumed path.
- The OBR should develop a plan for the next phase of its communications strategy, selectively incorporating best practice from comparable institutions across the OECD.

## 5.4

## HM Treasury Review (September 2015)

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.

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.<sup>38</sup>

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 6.1) 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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<sup>38</sup> HM Treasury, [HM Treasury led review of the Office for Budget Responsibility: terms of reference](#), 11 June 2015

- 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 6.2 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.

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## 6 Issues

### 6.1 Independence

The OBR's independence from the Treasury is important. 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?<sup>39</sup>

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.<sup>40</sup>

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:

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<sup>39</sup> Treasury Committee, [Office for Budget Responsibility](#), Fourth Report of Session 2010-11, HC 385, 21 September 2010, para 68

<sup>40</sup> 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.<sup>41</sup>

The OBR has around 45 staff, who are civil servants and are primarily employees of the OBR, rather than seconded from other departments.<sup>42</sup> 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.<sup>43</sup>

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<sup>41</sup> Establishing the Office for Budget Responsibility, Letter from interim OBR to Chancellor, 12 July 2010, paras 44-46

<sup>42</sup> OBR, Annual report and accounts 2020/21, 4 June 2014, [para 2.63-2.72](#)

<sup>43</sup> 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.<sup>44</sup> 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.<sup>45</sup>

## 6.2 Costing Opposition policies

The issue of whether the OBR should cost Opposition parties' tax and spending 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'.<sup>46</sup>

During the 2024 General Election campaign the Institute for Government – a think tank working to make government more effective – called for the OBR to oversee the costing of opposition policies.<sup>47</sup> The current process sees estimates produced by civil servants at the behest of ministers, based on assumptions chosen by ministers and their special advisers.

### 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

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<sup>44</sup> Obr.uk [Where are you located?](#) [accessed on 15 September 2021]

<sup>45</sup> Establishing the Office for Budget Responsibility, Letter from interim OBR to Chancellor, 12 July 2010, para 57

<sup>46</sup> 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](#)

<sup>47</sup> IFG. [The job of costing opposition policies should be removed from ministerial influence](#), 5 June 2024

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 always going to be there, but you also start a dialogue with the Opposition. I think that would be useful for independence as well.<sup>48</sup>

In October 2010, the former Chancellor, George Osborne, 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.<sup>49</sup>

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."<sup>50</sup> 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.<sup>51</sup>

### 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.<sup>52</sup> 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 costing.<sup>53</sup>

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<sup>48</sup> Treasury Committee, [Office for Budget Responsibility](#), Fourth Report of Session 2010-11, HC 385, 21 September 2010, Q86

<sup>49</sup> [HC Deb 12 October 2010 c142](#)

<sup>50</sup> Government response to the House of Commons Treasury Committee 4th Report of Session 2010-11, Office for Budget Responsibility, Cm 7962, November 2010, para 2.23

<sup>51</sup> For instance see: [HC Deb 29 April 2014:c693](#); [HC Deb 11 March 2014:c165](#); [HC Deb 10 December 2013:c118](#)

<sup>52</sup> [Ed Balls MP's speech to Labour Party Annual Conference 2013](#)

<sup>53</sup> [Letter](#) from Ed Balls MP to Robert Chote, Chairman of the OBR, 22<sup>nd</sup> 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.<sup>54</sup>

The issue was raised shortly after, in December 2013, when Mr Chote gave evidence to the Treasury Committee.<sup>55</sup> 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 preelection 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.

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<sup>54</sup> [Letter](#) from Robert Chote in response to Rt Hon Ed Balls MP on Opposition policy costings, 23<sup>rd</sup> September

<sup>55</sup> 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.<sup>56</sup>

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.<sup>57</sup>

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.<sup>58</sup>

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

### General Election 2024: IFG calls for the OBR to oversee opposition policy costings

The Government can ask the Treasury to cost opposition policies up to the start of a formal general election campaign.<sup>59</sup> The civil service has been doing this at ministers' request since at least the 1950s. The Institute for Government (IfG) – a think tank working to make government more effective – has an explainer of [Costing opposition policies](#).

The independence of the opposition policy costing process has been questioned. Ministers and their advisors often choose the underlying assumptions used for calculations, which can influence the results. As the IfG

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<sup>56</sup> [Letter](#) from Robert Chote to Andrew Tyrie, Chairman of the Treasury Committee, 15 January 2014.

<sup>57</sup> 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](#)

<sup>58</sup> Further discussion is available in paras [3.61 – 3.93](#) of HM Treasury review of the Office for Budget Responsibility

<sup>59</sup> The reasoning for this, as set out in [civil services guidance](#) (PDF), is, "since Departments would provide factual answers (subject to the limits on disproportionate costs) to questions from MPs/Peers about the costs of identifiable changes in activities or benefits, there is no objection to officials providing Ministers with such factual information".

explain the costings are “based on assumptions chosen by ministers and their special advisers and, as a result, they are partial at best and can be extremely misleading.”<sup>60</sup>

The IfG say that the process would be “more robust and engender greater trust across the political spectrum if it were overseen instead by the Office for Budget Responsibility..”<sup>61</sup> It suggests two options for involving the OBR:

- the OBR to decide what assumptions should be made and to quality assure the costing, with most of the work to produce the policy costings to continue to be done by civil servants and for government ministers to continue to be the only ones able to commission this work. This is broadly similar to how costings of government policies for fiscal events work;
- allowing opposition parties to be able to ask for such costings.

The second option is more radical. As the IfG point out, it would require a big shift from the current duty of civil servants in the UK to serve the government of the day. Ministers may question how much time civil servants would need to devote to this task. The OBR could do all the work itself to mitigate this problem but the OBR would need to “have far more than its current contingent of around 50 staff and greater direct access to government data.”<sup>62</sup>

## 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, 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 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

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<sup>60</sup> IfG. [The job of costing opposition policies should be removed from ministerial influence](#), 5 June 2024

<sup>61</sup> IfG. [The job of costing opposition policies should be removed from ministerial influence](#), 5 June 2024

<sup>62</sup> IfG. [The job of costing opposition policies should be removed from ministerial influence](#), 5 June 2024

accepted within its remit under the broad heading of achieving fiscal sustainability.<sup>63</sup>

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.<sup>64</sup>

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.<sup>65</sup>

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.<sup>66</sup>

## 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.<sup>67</sup> 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 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

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<sup>63</sup> Treasury Committee, [Office for Budget Responsibility](#), Fourth Report of Session 2010-11, HC 385, 21 September 2010, Q82

<sup>64</sup> Institute for Fiscal Studies, [The IFS Green Budget: February 2010](#), pp257-58

<sup>65</sup> HM Treasury, Charter for Budget Responsibility autumn 2016 update, [para 4.12](#)

<sup>66</sup> Treasury Committee, [Office for Budget Responsibility](#), Fourth Report of Session 2010-11, HC 385, 21 September 2010, para 64

<sup>67</sup> 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%.

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.<sup>68</sup>

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.<sup>69</sup>

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.<sup>70</sup>

## Performance of the OBR’s forecasts

As we explain above, economic and fiscal forecasting is notoriously difficult. For example, government borrowing is the difference between revenue and spending – both very large numbers. Small errors in forecasting these can make a large difference to the forecast for borrowing.

In 2023, the OBR took a comprehensive look at its forecasting record since it was established in 2010. The analysis found that:<sup>71</sup>

- Both the OBR’s real GDP growth and borrowing forecasts are more accurate and less biased than the previous UK official forecasts produced by the Treasury.
- The OBR has tended to overestimate real GDP growth and underestimate government borrowing over the medium term.

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<sup>68</sup> Treasury Committee, [Office for Budget Responsibility](#), Fourth Report of Session 2010-11, HC 385, 21 September 2010, Q82

<sup>69</sup> Ibid

<sup>70</sup> Treasury Committee, [Office for Budget Responsibility](#), Fourth Report of Session 2010-11, HC 385, 21 September 2010, para 39

<sup>71</sup> OBR. [Working paper No.19: The OBR’s forecast performance](#), 10 August 2023

- The OBR's real GDP growth forecast differences are similar to those of external forecasters, but its borrowing forecasts tend to be less accurate beyond the first year of the forecast.
- The OBR's forecasts for real GDP growth in the UK are more accurate than the average of other official forecasters in Europe, but the UK's borrowing forecasts are less accurate than the average beyond the first year.

The OBR is subject to some constraints that other forecasters are not, like the legal requirement to base its forecasts on stated (rather than anticipated) government policy and to produce its forecasts when the Government requests them rather than when the latest data might be available.

The OBR assess the performance of their forecasts annually in their [forecast evaluation report](#).

### Highlighting uncertainty and risk

The OBR highlights the uncertainty of its forecasts by presenting key forecasts as fan chart, which highlight the range of possible outcomes around a central estimate. It also carries out sensitivity analysis and looks at alternative scenarios to illustrate the risks around its forecast.

Sensitivity analysis illustrates the vulnerability of government's debt and borrowing targets to changes in economic factors such as growth, inflation and interest rates.

Alternative scenarios consider the implications of an adverse shock to assumptions used in the forecast. For instance, in the March 2024 forecast the OBR considered alternative paths for energy prices and migration.

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