

External Review of the Office for Budget Responsibility

Laura van Geest

February 2025

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Foreword

Sound institutions, independent economic bodies, checks and balances on forecasts all have a role to play in the pursuit of welfare. Daron Acemoglu, Simon Johnson and James Robinson received the Nobel Prize in Economic Sciences in 2024, because they were able to demonstrate the importance of societal institutions for a country's prosperity.

The notion of independence for macroeconomic and fiscal institutions as a means to promote economic welfare came to the fore in the latter part of the twentieth century. Monetary policy has been the most popular and perhaps the more straightforward field to advance independent institutions.

Independence can play an important role in the fiscal field as well, by ensuring more transparency and a proper fact base. While fiscal policy is clearly an area that is more closely defined by political values and objectives, bias, wishful thinking and short-termism can cloud discussions and lead to suboptimal results from a long-term perspective, irrespective of the intended goals. Independent forecasts show less bias, even if they are not perfect estimates.

Each jurisdiction develops its own arrangement and norms. In some jurisdictions independent fiscal institutions provide an independent assessment of the government's budgetary forecasts; in other cases, they produce separate, independent budgetary forecasts which act as a 'second opinion' to the government's own forecast. The UK has a unique arrangement.

The obligation for the UK government to use the independent economic forecast in the budgetary preparation is good practice. The Office for Budget Responsibility (OBR) has gained a reputation for its independence and demonstrated a solid forecasting performance during a challenging period.

The OBR is mandated to produce the official government fiscal projection (and assess 'fiscal headroom') following (literal) stated policies, a practice that stands out internationally. In most countries, the independent fiscal institution endorses the government's forecast or produces its own alternative fiscal forecast. The UK practice puts a lot of (political) pressure on the OBR fiscal forecast. The headroom forecast, which has become central in UK fiscal debate, is based on fiscal rules that have been typically designed as an annually moving target for the medium term, generally reaching beyond the current Parliament. As it is difficult to hold the

government of the day accountable for future outcomes, this rule has elicited overly optimistic assumptions on the part of government, especially for the outer years, particularly for spending under the departmental expenditure limits (DELs). This delicate arrangement has left the OBR open to gaming of its projections with budgetary forecasts vulnerable to bias over the period of the review, through factors beyond its control. The Chancellor recently proposed revisions to the fiscal framework that will partly mitigate this risk, including moving the target to earlier in the forecast period.

Despite these challenges, the OBR did a good job. It weathered debates on its forecast timetable, the mini-budget episode and departmental expenditure limit spending pressures. And more importantly, after root cause analyses by the OBR's Oversight Board, arrangements were made to avoid future misunderstandings in the latter. The recent announcements by the Chancellor address part of the concerns above, but not all.¹ It will be useful for the next external review of the OBR to observe how these reforms operate in practice, and assess whether they effectively address these challenges.

As an independent fiscal institution, the OBR contributes to better policy making. The OBR's presence reduces incentives for the government to use overly optimistic forecasts to prepare the budget, leads to greater transparency and fosters a sound fiscal debate. The assessment and proposals in this review aim to ensure that the OBR retains its strengths and is able to play an even more effective role in the interest of the people of the United Kingdom.

While working on this review, I benefitted greatly from the contributions of Johannes Hers (AFM, formerly CPB Netherlands Bureau for Policy Analysis) and Sebastian Barnes (OECD, former Chair of the Irish Fiscal Advisory Council), and the technical support of David Clinton (HMT) and Matthew Bunny (OBR). They proved an invaluable sounding board thus contributing to recommendations that aim to stretch, but not overstretch, both OBR and the fiscal policy community at large in arriving at ever better fiscal policy.


Laura van Geest



¹ This review was finalised in December 2024.

Executive summary

1. Over the last five years, the OBR has successfully navigated a series of unprecedented economic and fiscal challenges. Our overall assessment is that it emerges stronger from the period.
2. Since its last external report in 2020², it has worked to broaden and deepen its credibility with partner institutions, academics, and across different parts of the economic, fiscal and political landscape.
3. Having smoothly managed succession from the previous Chair and members of the Budget Responsibility Committee (BRC), it is well-equipped to continue to deliver its core mission: providing authoritative, impartial and respected forecasting and examination of the sustainability of the public finances.³
4. Recently, the introduction of the ‘fiscal lock’,⁴ the review of the forecast for departmental expenditure limits,⁵ and amendments to the OBR Charter at the Autumn 2024 Budget have cemented the OBR’s central place in the UK economic and fiscal landscape.⁶
5. So now is the time to set up the OBR for long-term success. In line with international best practice, supported by input from a wide range of representatives, and informed by OBR self-assessments, we recommend that the OBR should:
 - work with government and other actors to take continued steps safeguarding and underpinning its **independence**;
 - commit to a long-term programme updating, streamlining and sharing more transparently its **modelling infrastructure**;
 - aim to deepen its overall **impact**, more effectively informing the UK fiscal debate alongside other institutions, experts, the media and other actors.

² The previous external review was carried out by the OECD. See OECD, [Independent Fiscal Institutions Review: Office for Budget Responsibility of the United Kingdom](#), September 2020

³ The [Charter for Budget Responsibility](#), updated in Autumn 2022, sets out ‘the main duty of the OBR is to examine and report on the sustainability of the public finances’.

⁴ [Budget Responsibility Act 2024](#), September 2024

⁵ OBR, [Review of the March 2024 forecast for departmental expenditure limits](#), October 2024

⁶ The [Draft Charter for Budget Responsibility: Autumn 2024](#), published in October 2024, will be legally in force once approved by Parliament.

The last five years

6. Economic and political developments have exerted significant stresses on both the OBR's organisation and the underpinning framework set out in its Charter.

7. Public scrutiny of the OBR has intensified both across the period and at several significant junctures. With fuller discussion later in Landscape, these moments have included:

- **judging the impact of Brexit implementation:** where the OBR set out assumptions that the UK leaving the EU 'would reduce long-run GDP by around 4 per cent'.⁷
- **assessing the impact of Covid-19 on the UK economy:** the OBR was seen as amongst the first fiscal institutions to produce assessments of the potential impacts of the pandemic.⁸
- **formally reviewing 'the Budget & Spending Review forecast timetable process' with the Treasury in Autumn 2021:** to ensure a better balance between the need for timely information to support good policy making, and making use of the most up-to-date data and other economic information.⁹
- **revising economic and fiscal forecasts in light of major unexpected events:** most particularly in response to the spikes in energy prices after the invasion of Ukraine in 2022, re-focusing its outputs to consider scenarios on their impact on inflation and output.¹⁰
- **navigating the uncertainty of the Autumn 2022 'mini-Budget' period:** where the use of a 'mini-Budget' avoided the requirements for the OBR to produce a forecast.¹¹
- **formally reviewing the 'adequacy of the information and assurances provided to the OBR by the Treasury regarding departmental spending':**¹² after the new Chancellor set out concerns about 'the scale of spending pressures in 2024-25' in a statement in July 2024.¹³

⁷ OBR, [Economic and fiscal outlook](#), March 2020

⁸ OBR, [Coronavirus analysis](#), April 2021

⁹ OBR, [Review of the Autumn 2021 Budget and Spending Review forecast timetable process](#), December 2021

¹⁰ See [Box 2.2](#) of the OBR's March 2022 Economic and fiscal outlook

¹¹ OBR, [FOI: Information on preparatory work for the mini-budget](#), July 2023

¹² OBR, [Review of the March 2024 forecast for departmental expenditure limits](#), October 2024

¹³ [Letter to Richard Hughes from Rachel Reeves on the forecast commission and the outcome of spending audit](#), July 2024

8. The underlying nature of the UK public debate on fiscal policy has created challenging conditions for the OBR. In particular, we observe the short-term focus of this wider fiscal debate, exemplified by the emphasis on discussion of ‘fiscal headroom’.¹⁴ Those we interviewed were consistent in their belief that this approach is unhelpful, as it threatens to obscure broader assessments of UK fiscal sustainability.
9. Given that successive Chancellors have retained less room for manoeuvre within fiscal rules, there is the danger of the perception that OBR forecast judgements, rather than choices of governments, are the decisive factor in government staying within its own fiscal rules. This focus on the short-term fiscal space has gone hand-in-hand with very limited attention on long-term fiscal sustainability. We discuss ways in which the OBR might move towards a broader assessment of fiscal sustainability later in the report (see **Impact**).

OBR in focus

10. Despite these challenges, the OBR has retained its reputation as an organisation committed to the values enshrined in its Charter, working ‘objectively, transparently and impartially.’
11. Across our consultation, interviewees consistently highlighted three main ways in which the OBR has further pro-actively built on the foundations established in the previous report, by demonstrating:
 - **responsiveness**: from developing one of the first, rapid assessments of the potential economic and fiscal impacts of Covid to revising estimates for publication in March 2022 in light of the energy crisis.
 - **transparency**: publishing a systematic evaluation of its economic and fiscal forecasting performance since 2010, in order to assess forecasting performance and learn lessons for future forecasts. The OBR aims to enhance transparency and accountability, stating that reporting on the ‘differences between forecast and outturn should help to reassure people that our forecasts reflect dispassionate professional judgement rather than politically motivated wishful thinking’.¹⁵ Evaluation over a longer period demonstrated that the OBR’s real GDP

¹⁴ Conway, E., [How fiscal headroom has come to dominate Westminster and why it could decide the next election](#), Sky News, January 2024

¹⁵ OBR, [Briefing paper No.7: Evaluating forecast accuracy](#), November 2022

forecasts perform similar to those of external forecasters and are more accurate than the average of other official forecasters in Europe. The OBR's borrowing forecasts after the first year tend to be less accurate.¹⁶

- **openness to evolving analysis, ways of working and methodological approach:** pro-actively adopting a more transparent approach to evaluating the full economic impact of policy changes through use of dynamic scoring, setting out its rationale and aims in both an OBR article¹⁷ and also in the media.¹⁸ We return to how we recommend the OBR should follow up this approach later in the report (see Infrastructure).

¹⁶ Atkins, G., and L. Lanskey, [Working paper No.19: The OBR's forecast performance](#), August 2023

¹⁷ OBR, [Dynamic scoring of policy measures in OBR forecasts](#), November 2023

¹⁸ Miles, D., [OBR's economic forecasts are far more complex than some suggest](#), The Times, November 2023

Summary of recommendations

Independence

1	<p>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.</p> <p>This arrangement should be set out in Charter for Budget Responsibility, safeguarding reasonable discretion for the OBR to independently prioritise activities within an overall, stable quantum of funding. The OBR's funding settlement should be commensurate with activities deemed necessary to perform more intensive scrutiny of DEL budgets.</p>
2	<p>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.</p> <p>This provides an important protection and creates a forum for airing parliamentary or OBR concerns. Going further, should a sitting Government wish to cut future OBR funding significantly, it should signal its intention to do so to the Treasury Select Committee in good time.</p>
3	<p>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.</p> <p>This could be with a responsibility to ensure candidates across the BRC are sufficiently balanced in terms of diversity of thought and are committed to wider organisational goals.</p>

Infrastructure

4	<p>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.</p> <p>This should include plans to publish information more systematically about its key models and associated tools, as well as a list of existing analytical issues that need to be prioritised for future work. Model maintenance and development should be an ongoing priority; supported by a commensurate increase in time</p>
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	and resources dedicated to this effort; and reported on at appropriate intervals in OBR outputs, with discussion about how evolving arrangements help shape BRC judgement.
5	<p>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.</p> <p>Agreeing a clear, well-understood process for monitoring supply-side impacts and ensuring symmetrical submission to the OBR of measures that have positive and negative impacts on growth is necessary to securing the long-term credibility of this practice. This will require a cross-government approach with an effective set of working arrangements between the OBR and HMT to secure consistency. This should ensure proper accounting of indirect effects in the forecast.</p>
6	<p>The OBR should conduct an evaluation of its use of dynamic scoring to date.</p> <p>Anticipating the next external OBR review, this evaluation should inform criteria for how this practice will be used going forwards (and mutatis mutandis for other practises as they emerge).</p>
7	<p>The OBR should consider mechanisms to signal to academic and practitioner community key areas of upcoming interest and review high-quality submissions.</p> <p>This could build on the development of the OBR’s Advisory Panel, working to ‘crowd-in’ expertise on policy areas where the evidence base and policy consensus is less settled.</p>

Impact

8	<p>The OBR should focus more explicitly on highlighting uncertainty around its medium-term forecasts in a user-friendly manner.</p> <p>This applies especially to the presentation of the fiscal forecast which the OBR is legally obliged to condition on stated policy. The OBR could experiment with asymmetric fan charts to correct for the historical optimism bias resulting from mandated adherence to stated policies. The OBR should consider in parallel the presentation of various economic scenarios. These important discussions, as</p>
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	<p>well as those suggested below, should be properly foregrounded within OBR outputs and in media discussions.</p>
9	<p>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.</p> <p>This should draw upon best practice from comparable independent fiscal institutions. Examples include: highlighting uncertainties surrounding the central medium-term forecast and/or developing long-term fiscal sustainability metrics linked to the medium-term forecast. OBR could revisit the timing of the FRS, to increase the impact of this report. However, it would not be helpful for the OBR to go as far as costing opposition party proposals.</p>
10	<p>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.</p> <p>This could be achieved in a number of ways, including: extending the risk paragraph in the EFO with illustrative examples of implications for public service levels; and/or presenting trend or standstill scenarios (i.e. those needed simply to maintain existing levels of service in a public service)¹⁹ against the fiscal mandate. The approach should aim to indicate the implied budgetary effort associated with the commitment to stated policies. The current practice of arriving at a probability that the government will meet its fiscal targets should be reconsidered – both in its construction and presentation.</p>
11	<p>The OBR should develop a plan for the next phase of its communications strategy, selectively incorporating best practice from comparable institutions across the OECD.</p> <p>Building on its strengths, we suggest the OBR updates its strategy – making clear its aims, intended audience reach and any innovative methods with which it wishes to experiment.</p>

¹⁹ Comparable to the [practice](#) set out by the Irish Fiscal Advisory Council.

Reading guide

This guide directs readers through the remainder of the document. **Approach** outlines the process followed in conducting the review. **The OBR in context** explains the responsibilities, governance and outputs of the OBR. **2020 OECD recommendations: progress check** evaluates the OBR's effectiveness in implementing the recommendations from the previous external review. **Council on Principles for Independent Fiscal Institutions (2024): OBR in focus** assesses the OBR with respect to the OECD's guidance for good practice in the design and governance of independent fiscal institutions. Based on this assessment, the following sections lay out recommendations for the OBR, grouped by measures relating to **Independence, Infrastructure and Impact**.

This review assesses the performance of the OBR in fulfilling its mission to examine and report on the sustainability of the public finances. OBR's performance in this regard – and indeed how it is perceived to be performing – cannot be assessed in isolation from the overall UK institutional set-up for fiscal policy making. Some observations with respect to features of this set-up that pose specific challenges to the functioning and performance of the OBR are discussed in the **Box: Observations on the institutional backdrop facing the OBR** on pp14.

Approach

Timeline

The OBR Oversight Board formally appointed Laura van Geest, the Chair of the Dutch Authority for Financial Markets, to conduct the Third External Review of the Office of Budget Responsibility through this [correspondence](#) on 24th May 2024.²⁰ Laura has been supported by Johannes Hers (also of the Authority) and a small team. Sebastian Barnes of the OECD has acted as external referee.

Formal preparations:

- began very shortly after the UK General Election 2024 (July 2024) and assessments contained in this report were developed over the ensuing summer;
- were carried out concurrently to i) the government’s announcement of the ‘Fiscal Lock’ legislation and the passing of the Budget Responsibility Act 2024; and ii) ‘DEL Review’ carried out by the OBR Oversight Board. Given the Budget-facing sensitivities of this work, we were not given access to emerging thinking or draft recommendations.

The report has been updated with factual details after the publication of the UK Budget and the draft revised Charter for Budget Responsibility delivered in October 2024.

Sources of information

Following the approaches taken by previous external reviews, this review team developed a holistic view of the OBR’s work. The judgements contained within are informed by:

- **Evaluating self-assessments from the OBR:** reflecting on progress towards implementing recommendations from the 2020 External Review; and on previous external reviews.
- **Consulting with a range of representatives across different institutions.** These include other independent fiscal institutions; colleagues from across the broader media landscape; expert organisations including the OECD and IMF;

²⁰ [Letter to Laura van Geest from OBR Oversight Board commissioning the third external review of the OBR](#), May 2024

former OBR external review authors; government departments including HM Treasury, Department for Work and Pensions, His Majesty's Revenue and Customs; political representatives from across major political parties; the OBR's independent Expert Advisory Panel; and the staff and leadership of the OBR itself.

- **Reviewing OBR outputs:** focusing on – but not limited to – editions of the Economic and fiscal outlook (EFO), Fiscal risks and sustainability report (FRS), and the Forecast evaluation report (FER).
- **Measuring OBR practice against academic and practitioner best practice:** including the [OECD Recommendations on Principles for Independent Fiscal Institutions](#) (2024) and [IMF UK Article IV Consultation](#) (2024).
- **Assessing OBR activities against existing legislation:** including the [Budget Responsibility and National Audit Act 2011](#) and the [Budget Responsibility Act 2024](#).

Box: Observations on the institutional backdrop facing the OBR – a view from the external review team

This review assesses the performance of the OBR in fulfilling its mission to examine and report on the sustainability of the public finances. Yet the OBR's performance in this regard - and indeed how it is perceived to be performing - cannot be assessed in isolation from the overall UK institutional set-up for fiscal policy making.

Each jurisdiction develops its own arrangements and norms. Many of the features of the UK landscape are in line with international best practice. But, in conjunction with many of the views expressed to us by interviewees, **we have identified three dynamics which we feel threaten to undermine the credibility and good reputation of the OBR.** We have mapped these against the IMF's [Fiscal Transparency Code](#).

Left unchecked, we believe these could complicate the efficiency of the budgetary policy making process – undermining its transparency and confusing the clear division of responsibilities between forecasters and politicians. These fall outside the formal confines of this review – but are important for policymakers to consider as the next review period unfolds:

1. Lack of fixed timetabling for budgetary decision making and fiscal reporting.

Fixed budget timetabling can contribute to orderly, structured and evenly-spaced forecasting over the year. Establishing and adhering to clear procedures and timetables also ensures that legislators, markets, and the public know when to expect new information.

The absence of a fixed timing in the UK setting has sometimes led to: the perception of 'gaming' with regard to timing of forecasts; and inefficiencies and suboptimal forecasting when timing is not aligned with data availability, impairing an efficient management of resources. This poses challenges to OBR's reputation as transparent forecaster.

IMF Principle 1.2.1: Frequency and Timeliness: Fiscal reports should be published in a frequent, regular, and timely manner.

2. Lack of (rolling) realistic multi-annual expenditure forecasts. Rolling forecasts contribute to plausible and realistic multi-annual budgetary expenditure forecasts.

By doing so, they help underpin both realistic multi-annual budgetary planning and forecasts of budgetary metrics over the medium term.

In contrast, present UK practice can lead to unrealistic, ‘pencilled-in’ expenditure forecasts for years beyond the Spending Review horizon which previously ranged from one- to five- years ahead. However, there was no mandated minimum frequency or duration for Spending Reviews, which in practice, led to detailed departmental spending plans falling to less than one-year ahead. Spending Reviews often skewed budgetary forecasts of headline balance and debt over the medium term and offer overly optimistic assessments of compliance with fiscal rules. This practice can also lead to large jumps in expenditure forecasts at the end of Spending Review periods, and to increased risks of ‘inheritance’ issues from one administration to another. Legislation mandates that OBR forecasts need to be based on stated policies. Any ensuing bias in the baselines and the (perception of) gaming compromises OBR forecasts and its ensuing probability estimates that fiscal rules will be met. This in turn leads to challenges to OBR’s reputation as a sound and objective forecaster.

This report acknowledges the recent proposed revisions to the Charter will reduce, but not eliminate, these risks. Specifically, this refers to: amending the fiscal rules so they eventually apply to the third year of the forecast (the rules currently apply to the fifth year); codifying that Spending Reviews cover at least three years of the forecast window and take place every two years; and allowing the OBR to forecast DEL overspends, as well as underspends.

IMF Principle 2.1.3: Medium-term Budget Framework: Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium term on the same basis as the annual budget.

- 3. The OBR’s mandate requires it to ‘have regard to’ stated government policies. But currently the OBR must take (DEL) spending assumptions as ‘given’ and beyond any interrogation. This precludes a full independent assessment of the fiscal position.**

Independent evaluation of forecasts reduces incentives for the government to use overly optimistic economic forecasts to prepare the budget. In some other jurisdictions, independent evaluation takes the form of an independent assessment

of the government budgetary forecasts; and, in other cases, as a separate, independent budgetary forecast used as a ‘second opinion’ on the government’s own forecast.

The obligation for the UK government to use the independent economic forecast in the budgetary preparation is good practice. However, the OBR is mandated to produce the official government fiscal projection (and assess ‘fiscal headroom’), following (literal) stated policies, a practice that stands out internationally. In most countries the IFI endorses governments’ forecast or produces its own alternative fiscal forecast. The UK practice puts a lot of (political) pressure on the OBR fiscal forecast.

The current UK arrangement demands involvement of the main forecasting units within various Ministries (including HM Treasury, DWP and HMRC). Furthermore, it presumes precise scrutiny arrangements and accepts a longer lead-time of the forecast. Recent events suggest a lack of clear scrutiny arrangements with HM Treasury (in place with HMRC and DWP). OBR’s ‘ownership’ of the official budgetary forecast (in particular) in combination with the obligation to use stated policies can lead to biased forecasts (see point 2 above) and confusion about who is responsible for the political choices underpinning the stated policies and fiscal rule. This could put at risk the perception of OBR’s impartiality and independence.

IMF Principle 2.4.1: Independent Evaluation: The government’s economic and fiscal forecasts and performance are subject to independent evaluation.

The OBR in context

Overview

12. The OBR's duty of office is to 'examine and report on the sustainability of the public finances'. It was set up in 2010 as part of a major reform to the fiscal framework to address 'past weaknesses in the credibility of economic and fiscal forecasting and, consequently, fiscal policy'.²¹ It is one of the few independent fiscal institutions (IFIs) in the OECD with responsibility for producing official, independent macroeconomic and fiscal forecasts. OBR has five main roles:²²

- Produce detailed five-year forecasts for the economy and public finances (usually) twice a year.
- Evaluate the public finance forecasts to judge the government's performance against its fiscal targets.
- To assess the long-term sustainability of the public finances.
- To evaluate fiscal risks by providing a review of risks from the economy and financial system.
- Scrutinise tax and welfare policy costings.

13. Its formal responsibilities are outlined in four documents:

- [Budget Responsibility and National Audit Act 2011](#): sets out the overarching duty of the OBR to examine and report on the sustainability of public finances. Duties are performed objectively, transparently and independently. The OBR must also only take into consideration the sitting government's policies and not alternative policies.²³
- [Charter for Budget Responsibility](#): sets out the OBR's remit, how it should perform its duties, the required content of its key publications and the arrangements for determining the timing of its forecasts and other key publications.
- [Framework document](#): sets out the OBR's governance and management arrangements.

²¹ [Charter for Budget Responsibility](#), April 2011

²² [Budget Responsibility Act 2024](#), September 2024

²³ [Budget Responsibility & National Audit Act 2011](#), March 2011

- [Memorandum of Understanding](#): sets out the agreed working relationship between the OBR, HM Revenue and Customs, the Department for Work and Pensions, and HM Treasury.²⁴

14. In 2024, the new government:

- introduced the **Budget Responsibility Bill**: creating a ‘fiscal lock’ – requiring any major fiscal announcements (specified as tax and spending changes exceeding 1 per cent of GDP) be subject to an independent OBR assessment. This also grants the OBR the power to produce a forecast or assessment of significant fiscal measures without a request from the Treasury.
- proposed updates to the **Charter for Budget Responsibility**:²⁵ changes include revisions to fiscal targets,²⁶ a multi-year funding commitment for the OBR, mandating regular spending reviews, improved transparency over departmental spending and an obligation for the OBR to assess the long-term impact of policies. The update includes a commitment to hold only one ‘major’ fiscal event a year except in the case of an economic shock, although the OBR remains legally required to produce at least two forecasts each year.

Leadership

15. The OBR is led by the three members of the Budget Responsibility Committee (BRC), who hold executive responsibility for the core functions of the OBR – including the judgements reached in its forecasts. These appointments require approval from both the Chancellor and the Treasury Select Committee.

16. The Chair is responsible for representing the views of the OBR to the Chancellor, Parliament and the public. They also hold the position of the Accounting Officer, taking responsibility for the day-to-day operations and management of the OBR and for safeguarding public funds given to the OBR.

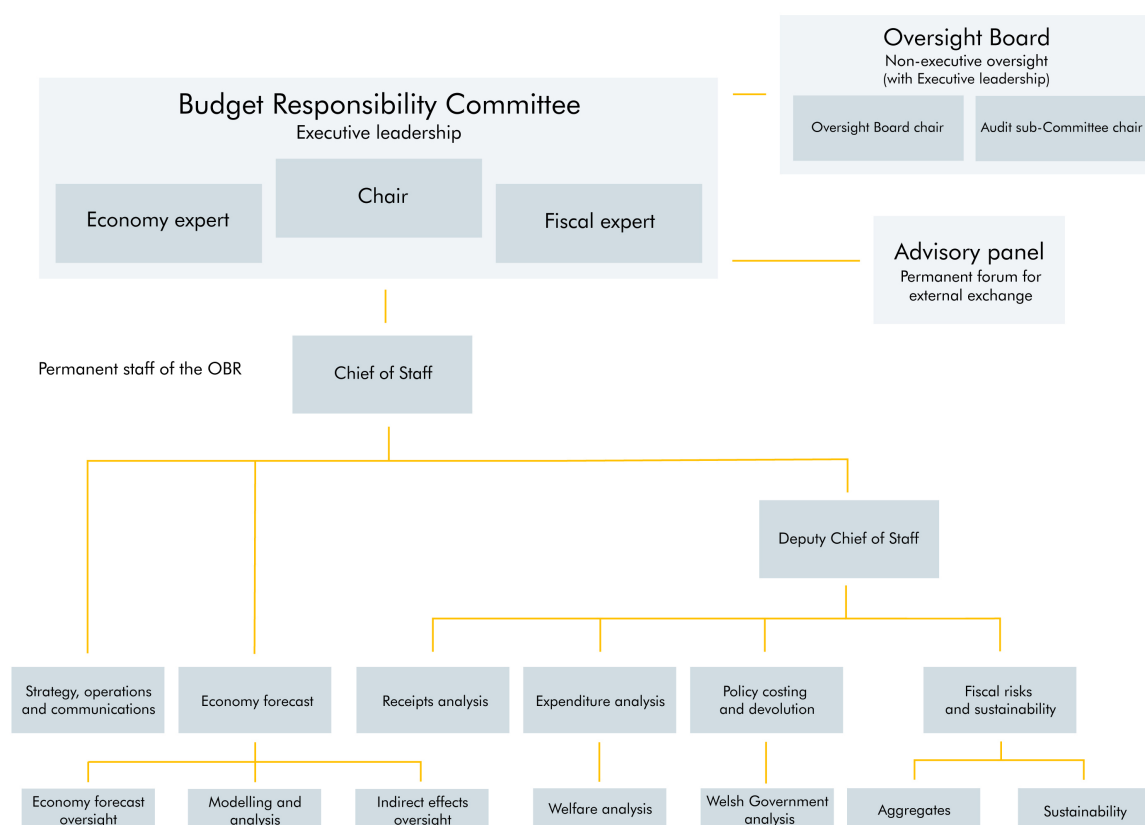
²⁴ [Memorandum of understanding between the Office for Budget Responsibility, HM Treasury, the Department for Work & Pensions, and HM Revenue & Customs](#), November 2023

²⁵ See [Draft Charter for Budget Responsibility: Autumn 2024](#)

²⁶ The new fiscal targets apply to the current budget and public sector net financial liabilities, which, after a period of transition will apply to the third year of the forecast period from 2029-30. The previous targets for public sector net debt excluding the Bank of England and public sector net borrowing, which applied to the fifth year of the forecast period, will no longer be applicable once Parliament approves the revised Charter.

17. The OBR is supported by 52 civil servants who provide analytical and corporate support to the BRC, led by a Chief of Staff. The organisation has grown significantly since it was established in 2010, when it was set up with an original 17 members of staff. In recent years, resourcing increases have been driven by new analytical challenges such as Brexit, Covid, net-zero ambitions and European energy price spikes, and to enhance the supply-side impacts of policy measures in 2023.²⁷

Figure 1: Organisational structure of the OBR (as at time of publication)²⁸



Source: OBR

Oversight

18. The OBR Oversight Board comprises the: Chair of the OBR; the members of the BRC; and the non-executive members of the OBR. It is tasked with ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal controls.²⁹

²⁷ OBR, [Annual Report and Accounts 2021-22](#), June 2022

²⁸ See [OBR – Who we are](#)

²⁹ See [OBR – Governance and reporting](#)

19. The non-executive members are appointed by the Chancellor for a three-year term, renewable once, following a recruitment process and nomination of candidates by the OBR. The non-executive members play an important role in safeguarding the independence of the OBR, providing support and constructive challenge to the executive BRC members. They also chair the OBR's Oversight Board and Risk and Audit Committees.
20. These responsibilities include reviewing any correspondence that OBR staff feel breaches the MoU requirements that it be confined to factual comments only or could be construed as doing so. That review takes place as soon as practicable after each EFO has been published. Concerns raised by the non-executive members are raised with the Treasury's Permanent Secretary or the Treasury Select Committee if they deem that appropriate.³⁰

Outputs

21. The OBR produces the following outputs as set out in the Charter for Budget Responsibility:

Output	Published when?	Purpose
Economic and fiscal outlook (EFO)	Usually accompanies fiscal events.	Provide detailed five-year forecasts for the economy and public finances, normally twice a year. Assess whether the government has a 50 per cent chance of meeting fiscal targets under the current policies.
Forecast evaluation report (FER)	Annually	Examines how OBR forecasts compare to subsequent outturn data and identify lessons for future forecasts.
Fiscal risks and sustainability report (FRS)	Biennially	Provide analysis which incorporates biennial long-term projections and an updated

³⁰ See the OBR's October 2024 [Economic and fiscal outlook](#)

		analysis of major potential fiscal risks.
Public finances releases	Monthly	Analysis of the Treasury and Office for National Statistics joint statistical bulletin on the latest public finances data.
Welfare trends report	Once every two years	Provide an in-depth look at the drivers of welfare spending both inside and outside the Government's welfare cap.
Welsh taxes outlook	Alongside draft budgets	Provide independent forecasts for devolved Welsh taxes.
Devolved taxes	Published alongside each EFO	Forecast the tax streams devolved to the Scottish Parliament and, more recently, taxes devolved to the National Assembly for Wales.

2020 OECD recommendations: Progress check

Recommendation	Progress check
<p>The Charter for Budget Responsibility should be revisited to clarify how the OBR should proceed if the Chancellor does not commission two forecasts during the financial year or if there is no budget in that period.</p> <p>Ideally, and barring exceptional circumstances, the dates for the Government’s fiscal events and accompanying OBR forecasts should be fixed in legislation.</p>	<p>The Budget Responsibility Act 2024 now formalises the terms by which the OBR assesses measures which are ‘fiscally significant’. This ‘fiscal lock’ does not apply to measures which are temporary and announced in response to an emergency.</p> <p>There remains no fixed calendar for fiscal events in the UK, though we recognise the potential value of there being so, as highlighted by commentators and some of our interviewees. The National Institute of Economic and Social Research (NIESR), for example, argues that: ‘Any reform of the fiscal rules should also aim to uncouple fiscal policy choices from political cycles. This could be done by establishing fixed dates for fiscal events, such as budgets and spending reviews.’³¹ The IMF’s Fiscal Transparency Code also emphasises that: ‘...fiscal reports should be published in a frequent, regular, and timely manner.’³²</p> <p>This report also recognises the government recently ‘committed to the principle of holding one major fiscal event a year, unless in the case of an economic shock.’³³ The OBR remains legally required to produce at least two forecasts each year. We recommend these forecasts are evenly spaced over the year.</p>

³¹ NEISR, [The UK’s Public Finances: Is it Time to Reform the Fiscal Rules?](#), June 2024

³² IMF, [Fiscal Transparency Code](#), 2019

³³ [Draft Charter for Budget Responsibility: Autumn 2024](#), October 2024

The **temporary resources provided for Brexit analysis should be made permanent** (as assumed in the current budget allocation) to ease resourcing pressures. It will be important to avoid additional mission creep.

This specific resource was secured and supported impactful analysis on Brexit across the last Parliament. The OBR also agreed with government at points in the current Spending Review period further ‘top-ups’ of resource to support targeted work on the impact of the Covid pandemic, net zero and energy prices.

We recommend a commitment to longer-term funding settlements (Rec. 1), with an emphasis on safeguarding reasonable discretion for the OBR to independently prioritise activities within an overall, stable quantum of funding.

The **OBR should do more to engage with the community of macroeconomic and fiscal experts outside government.** It should seek to build interest in fiscal issues, in part to help to develop a broader pipeline of future staff.

In **Infrastructure**, we:

- commend the OBR for its work to strengthen significantly its engagement with external experts through its re-vamped Advisory Panel;
- suggest it could work further to guide and accelerate high-quality research (**Rec. 7**); and also
- recognise the efforts the organisation has made to connect with experts around discrete areas of policy in response to topical events.

The **OBR should explore how to broaden engagement with their reports outside of the Economic and Fiscal Outlooks.** In particular, there remains scope for the OBR to engage further with the UK Parliament’s Treasury Select Committee.

The OBR has worked to increase the prominence and impact of its non-EFO publications. The [Fiscal risks and sustainability report \(FRS\)](#), which consolidates a few of OBR’s outputs into one publication, aims to highlight the interplay between near-term shocks and long-term threats to public finances. We suggest ways in which the OBR might build on this aim in **Impact**.

The latest version of FRS pays specific attention to the future effects on climate change and explores long-term health trends.³⁴ The OBR's work on climate change, in particular, has seen the OBR produce a body of highly-respected analysis, with the organisation now chairing the OECD's new IFI working group on climate change.

We also considered the OBR's engagement with devolved nations within the auspices of this recommendation. The OBR's [Devolved tax and spending forecast](#) supports more regular engagement with devolved nation IFIs and the finance committees of devolved parliaments in Scotland, Wales and Northern Ireland. We noted good relationships between the OBR and these devolved nations – and urge the continuation of the OBR's role in supporting high-quality analysis of this sort.

³⁴ OBR, [Fiscal risks and sustainability](#), September 2024

Council on Principles for Independent Fiscal Institutions (2024): OBR in focus

Principles for IFIs	How the OBR meet these principles
<p>Local ownership: An IFI requires broad national ownership, commitment, and consensus across the political spectrum. Its functions should be determined by the country’s fiscal framework and specific issues that need to be addressed.</p>	<p>Those we consulted were clear that the OBR has become a central and authoritative fixture in the UK’s economic and fiscal landscape.</p> <p>During the past five years, the role and purpose of the OBR has come under close scrutiny from actors in the political process. This was most particular in the case of the so-called mini-budget of 2022. But it was also generally recognised that attempts to ‘block’ the OBR’s involvement in a major fiscal moment had the ultimate effect of ‘undermin[ing] the credibility’³⁵ of government plans.³⁶</p> <p>Whilst we acknowledge that there have been criticisms of the OBR, we recognise the very strong parliamentary support behind the Budget Responsibility Act 2024 and comments from many members across the political divide on the importance of the OBR. We also note the contribution of the OBR’s Oversight Board in supporting the organisation navigate potential and actual challenges, suggesting this body should have a role in supporting the long-term leadership of the organisation. See Independence (Rec. 3).</p>
<p>Independence and Fiscal Institutions: A truly nonpartisan body does not present its analysis from a political</p>	<p>Our interviewees strongly supported the view that the OBR is allowed to work independently of government.</p>

³⁵ Institute for Government, [Blocking OBR forecasts undermines the credibility of Liz Truss’s economic plans](#), September 2022

³⁶ The Economist, [Britain’s fiscal watchdog is caught up in a political storm](#), October 2022

perspective; it always strives to demonstrate objectivity and professional excellence, and serves all parties.

The OBR attests itself to this independence from government influence in its recent Fiscal risks and sustainability report when it sets out that: ‘At no point in the process did we come under any pressure from Ministers, special advisers or officials to alter any of our analysis or conclusions.’³⁷

Whilst current arrangements seem supportive of this ongoing independence, we suggest that there are provisions made to secure the longer-term independence of the OBR, regardless of its relationship with the government of the day. See **Independence (Rec. 2 and 3)**.

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

As set out in the Charter for Budget Responsibility, the OBR’s mandate is clearly understood across a wide range of actors – with ‘impartiality’ at its core. The passage of the Budget Responsibility Act 2024 further codifies the expectations of how and when the OBR should prepare forecasts.

The mandate has created powerful norms by which stakeholders evaluate the work of the OBR. There was strong feedback from those consulted on the importance of OBR ‘not provid[ing] normative commentary on the particular merits of government policies’,³⁸ with respondents highlighting the complementary role of institutions such as the Institute for Fiscal Studies to offer a greater breadth of judgements. In the UK context, respondents continually emphasised the importance of the OBR to retain its impartiality, whilst providing the most impactful contribution to the UK fiscal conversation. See **Impact (Rec. 8, 9 and 10)**.

Resources: The resources allocated to IFIs must be commensurate with their

Factoring in successive top-ups to the OBR’s budget to provide topical analysis and upgrade its approach to dynamic scoring, we judge that overall staffing levels appear broadly commensurate with the tasks currently expected of the organisation.

³⁷ OBR, [Fiscal risks and sustainability](#), September 2024

³⁸ See provision 4.12 of the [Charter for Budget Responsibility: Autumn 2021](#)

mandate in order for them to fulfil it in a credible manner.

We note that previous external review recommendations to secure multi-annual funding commitments to the OBR have not been met – and should be revisited as a priority. Crucial to the success of the OBR is its ability to independently prioritise activities within an overall, stable quantum of funding. See **Independence (Rec. 1)**.

We recommend that, over the lifespan of the coming review period, time and resources are dedicated to model maintenance. This was recognised as a priority by a wide range of stakeholders. See **Infrastructure (Rec. 4)**.

We suggest that OBR’s funding settlement may need to be considered in light of activities deemed necessary to perform more intensive scrutiny of DEL budgets. It should also be reviewed in line with the development of government ambitions to undertake a single ‘major’ fiscal event each year.

Relationship with legislature:

Legislatures perform critical accountability functions in country budget processes and the budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work. Regardless whether an independent

The OBR’s governance framework sets out that the OBR:

- is accountable to Parliament and to the Chancellor for the analysis it produces and for the way it uses public funds.
- accountable directly to Parliament for its analytical reports. The OBR will lay the reports it produces in performing its main duty directly before Parliament and will make itself available to discuss them with the relevant Parliamentary Committees.³⁹

We support the continuation of these dual-accountability arrangements. In particular, a number of our interviewees commented on the usefulness of the Treasury Select Committee at the time of

³⁹ [Office for Budget Responsibility and HM Treasury: Framework document](#), March 2019

fiscal institution is under the statutory authority of the legislative or the executive branch, mechanisms should be put in place to encourage appropriate accountability to the legislature.

the so-called mini-budget, where the Committee provided an effective safeguard and an open forum for parliamentary views. We support strengthening this safeguard in **Independence (Rec. 2)**.

Access to information: This creates a special duty to guarantee in legislation – and if necessary to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals.

We found the relationships between the OBR and government departments to be healthy and collaborative. Protocols to share information are well-observed, though we suggest there could be clearer scrutiny arrangements between government departments and the OBR.

There exist real challenges about the precision of public spending plans shared by government with the OBR beyond the existing Spending Review period. The Chair of the OBR has stated that the outlook for public finances has been ‘clouded’ by a lack of credible information.⁴⁰ In the review of departmental expenditure limit spending pressures, the OBR found it would have reached ‘a materially different judgement’ on departmental spending if the Treasury provided the OBR with all information available to them.⁴¹ Steps have been taken to improve the credibility of this process and embedded in the revised Charter.

⁴⁰ Richard Hughes, Chair of the OBR, commented on the lack of insight into government budgets beyond the current SR period: ‘We basically have to make our own assumptions. In the near term, we take what the Government tell us about the path of departmental spending. We have a lot of detail about that for the next two years and then, as I said, basically no detail about it from 2025 to the end of the decade.’ See House of Lords Economic Affairs Committee, [Corrected oral evidence: How sustainable is our national debt?](#), January 2024

⁴¹ OBR, [Review of the March 2024 forecast for departmental expenditure limits](#), October 2024

We also note that a systematic approach to dynamically scoring policy requires the OBR to have timely access to all relevant information on fiscal proposals from government departments. This is necessary for the symmetric application of positive and negative dynamic effects on the forecast. See **Infrastructure (Rec. 5 and 6)**.

Transparency: Full transparency in their work and operations provides the greatest protection of IFI independence and allows them to build credibility with the public.

The OBR was seen by interviewees as being exemplary in its transparency. This is borne out by the volume, depth and timeliness of its publications. It is also reflected in its laudable attempts to review its own practice at regular intervals – notably on the historic accuracy of its forecasts.⁴² Working Paper No.19 took a comprehensive look at the organisation’s overall forecasting record since 2010. This made a series of comparisons with official forecasts previously made by HM Treasury, as well as with a range of other official forecasters in Europe.

However, we see the case for the OBR to set out greater detail and clarity on its approach around dynamic scoring. Whilst interviewees supported the OBR’s continued push to score such effects more fully, we judge there is a need to formalise a whole-government approach to its accounting. There is also a need for the OBR to evaluate its success in forecasting the dynamic effects of policies individually and as a practice as and when policies start to have a permanent effect in the forecast later this decade. See **Infrastructure (Rec. 5 and 6)**.

Communications: IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders.

Those we consulted championed the consistency and clarity of OBR’s reports and wider commentary. OECD analysis shows that the OBR compares favourably with comparable independent fiscal institutions in both terms of news articles generated and media share on budget topics.

⁴² Atkins, G., and L. Lanskey, [Working paper No.19: The OBR’s forecast performance](#), August 2023

Building on these strengths, we suggest the OBR develops a communications strategy – making clear its aims, intended audience reach and any innovative methods with which it wishes to experiment. See **Impact (Rec. 11)**.

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

The OBR’s founding legislation enshrines the need for an external review every 5 years, of which this review is the latest instalment.

Over the last five years, the OBR has also overhauled its approach to engaging with the community of outside experts in macroeconomic and fiscal disciplines through its revamped Advisory Panel. This approach is to be commended. Indeed, we suggest the OBR go further to leverage the skills, insights research interests of this group. See **Infrastructure (Rec. 7)**.

Independence

The Charter for Budget Responsibility: The role of the Office for Budget Responsibility

The OBR will perform [its] duty independently, subject to its statutory duties and the guidance this Charter provides to the OBR in fulfilling its responsibilities. This independence provides complete discretion to independently determine:

- the methodology by which the OBR produces its forecasts, assessments and analyses
- the judgements made in developing these forecasts
- the content of OBR publications, which are completely at the discretion of the OBR subject to fulfilling the minimum requirements contained within the act and this Charter
- the work programme by which the OBR may initiate research and produce additional analysis.

22. The notion of ‘independence’ is central both to the original design and continued success of the OBR. The Charter for Budget Responsibility enshrines its ‘duty’ and ‘discretion’ to work independently. Such independence, according to the OECD, is an ‘important pre-condition for [an independent fiscal institution’s] views to be influential in the public debate’.⁴³

23. Stakeholders were very clear that the OBR is seen to work scrupulously to guard that independence and impartiality. We judge that this is demonstrated in two main ways:

- **maintaining widespread political support for the OBR:** with both main political parties acknowledging the fixed position and central importance of the OBR ahead of the 2024 July General Election.
- **securing institutional independence from government:** whilst recognising the proper collaboration (particularly with HM Treasury) needed to support high-quality outputs. This was most profoundly tested at the so-called 2022 mini-budget but has resulted in the long-

⁴³ OECD, [Independent fiscal institutions](#), Government at a Glance 2023, June 2023

term strengthening of the OBR's independent position within the fiscal architecture.

Widespread political support

24. Going into the 2024 General Election, both main political parties highlighted the OBR as intrinsic to their preferred fiscal framework. The Conservative Manifesto highlighted previous Budget-adjacent forecasts from the OBR on childcare and tax avoidance.⁴⁴ In her Mais Lecture 2024, the then Shadow Chancellor set out ambitions for a strengthened OBR, with all 'significant and permanent tax and spending changes...subject to an independent forecast from the OBR'.⁴⁵
25. This widespread and non-partisan acceptance of the importance of the OBR was also reflected in many of the views proffered through our consultation. As in the 2020 OECD Review, we found that 'stakeholders...active in the political arena noted that EFOs...had become the first point of reference for a factual check of the Chancellor's speeches' at Budgets.⁴⁶
26. Despite the risk of becoming the subject of political debate, several interviewees also noted how the organisation had spoken 'truth to power' at key junctures.
27. This was perhaps most visible in the OBR's analysis around Brexit, when the OBR set out in its March 2020 EFO that the impact of Brexit 'would reduce long-run GDP by around 4 per cent'.⁴⁷ Since that time, the OBR has worked to revise and re-state ongoing analysis, which has remained 'broadly consistent' with that initial figure.⁴⁸ This assessment caused disagreement with the government, when the then-Chancellor publicly went on record on the long-term impacts of Brexit, stating that he did not 'accept all' of the OBR's forecasts.⁴⁹
28. There are criticisms of the OBR, but the general view is positive, and its impartiality is not questioned. We note moments of potential political challenge which, to observers we interviewed, was evidence that the OBR has not 'gone local' or become the preserve of one political party. One notable moment of

⁴⁴ See [The Conservative and Unionist Party Manifesto 2024](#)

⁴⁵ Reeves, R., [Mais Lecture 2024](#), March 2024

⁴⁶ OECD, [Independent Fiscal Institutions Review: Office for Budget Responsibility of the United Kingdom](#), September 2020

⁴⁷ OBR, [Economic and fiscal outlook](#), March 2020

⁴⁸ See [Box 2.4](#) of the OBR's March 2024 Economic and fiscal outlook

⁴⁹ Merrick, R., [Chancellor rubbishes his own advisers and denies Brexit 'will make us poorer'](#), The Independent, November 2022

challenge in this vein came in January 2024 when 50 MPs signed an open letter arguing that the OBR's 'forecasting errors'...could 'be holding back the country's recovery'.⁵⁰ Significantly, we also noted the existence of countervailing views from within the same political party, stating that '...blaming the OBR is just trying to escape from the constraints of reality'.⁵¹

29. Maintaining this important, widespread support requires sustaining the robust and independent working of the OBR, and ongoing and careful handling of communications and relationships from the OBR Chair and from across the OBR. Though there have been moments where this has been tested over the last five years, we generally recognise that public discourse has been factual and evidence-led. Interviewees were unanimous that this should continue to be the overriding tone of the OBR's commentary. In addition, interviewees highlighted that the OBR has benefitted from robust current and former leadership, who are widely respected across Parliament, which has helped the OBR to weather political challenge. It was noted that weaker leadership could pose a risk to the institution.

Institutional independence

30. Looking back, the 2020 OECD Review was prescient on the potential for a significant challenge to the institutional independence of the OBR, where its work 'could easily be undermined if the current or future government were to impede the independent scrutiny provided by the OBR'.⁵² This came to pass at the time of the so-called mini-budget in 2022.

31. The OBR wrote about this in retrospect in its November 2022 EFO that 'the Chancellor would not be commissioning a forecast to accompany the Growth Plan fiscal statement that was delivered on 23 September'.⁵³ This was a moment of significant challenge to the OBR. In November 2022, the organisation reasserted its processes to maintain independence in its EFO:

We have been provided with all the information and analysis that we requested and have come under no pressure from Ministers, advisers or officials to change any of our

⁵⁰ Financial Times, [Senior Tories 'trying to escape reality' over attack on OBR forecasts](#), January 2024

⁵¹ [Ibid](#)

⁵² OECD, [Independent Fiscal Institutions Review: Office for Budget Responsibility of the United Kingdom](#), September 2020

⁵³ OBR, [Economic and fiscal outlook](#), November 2022

conclusions. A full log of our substantive contact with Ministers, their offices and special advisers can be found on our website, including the list of special advisers and officials that received the near-final draft of the EFO on 11 November. Our non-executive members, Sir Christopher Kelly and Bronwyn Curtis OBE, provide additional assurance over our engagement with the Treasury and other departments.

32. In the longer-run, this experience has informed the much-needed clarification of expectations for when and how the OBR will be expected to produce forecasts – now enshrined in law in the Budget Responsibility Act 2024.
33. The OBR must balance continued, close collaboration with HM Treasury and other government departments with remaining independent – and being seen to remain so. This review period has offered examples of where we have seen this balance being negotiated in the public domain – perhaps most notably around the July 2024’s Chancellor statement on ‘public spending inheritance’.⁵⁴
34. Immediately following that statement, the OBR Chair wrote to the Rachel Reeves, the new Chancellor, about his ‘concerns about the transparency and credibility of the existing arrangements within government for forecasting, planning and controlling 40 per cent of public expenditure under DEL’.⁵⁵ In earlier work, the OBR has highlighted potential overspending against the DEL plans set by the Treasury as one of the most significant risks to the fiscal outlook. In that light the OBR Chair announced to ‘initiate a review into the preparation of the DEL forecast in the March 2024 EFO’⁵⁶ – all recommendations of which have now been accepted by the government. This clear and robust approach reflects the OBR’s confidence in asserting its independence.
35. Those we interviewed also pointed to the less public but equally significant processes the OBR undergoes to maintain its institutional independence. One example of this was in 2021 when the OBR commissioned its Oversight Board to conduct an enquiry to respond to a media ‘implication’ suggesting ‘that in agreeing the forecast timetable the OBR had behaved with less independence from the Chancellor than its mandate requires’.⁵⁷ This review was self-commissioned, with the OBR Advisory Board concluding that:

⁵⁴ [Chancellor Statement on public spending inheritance](#), July 2024

⁵⁵ [Letter to the Treasury Committee Clerk from Richard Hughes on the OBR Review of the March 2024 Forecast for Departmental Expenditure Limits](#), July 2024

⁵⁶ [Ibid](#)

...we have found no evidence to suggest that in agreeing the timetable the OBR behaved with less than the forthright independence rightly expected of it. The timetable did involve an unusually long period between the closedown of the pre-measures forecast and Budget Day. But we believe that to have been a reasonable consequence of the exceptional circumstances of the time.⁵⁸

Crucially, the enquiry's conclusion also made future-facing recommendations that 'the main features of forecast timetables should in future be published in advance, to avoid any misunderstandings and in the interests of transparency.'⁵⁹ This recommendation remains relevant as the conclusions of the DEL Review are operationalised, with interviewees highlighting the additional steps now required in the forecast process, which could place further pressure on the timetable.

Funding

36. OECD best practice suggests that ongoing independence of an IFI depends on 'the resources allocated to IFIs...[being] commensurate with their mandate'.⁶⁰

37. The OBR is funded as part of the Treasury Group and, as such, receives agreed funding from the Chancellor confirmed on an annual basis. Previous external reviews of the OBR have understandably majored on this theme. The 2015 Ramsden Review set out the need for greater resources to be made available to the OBR to fulfil its basic functions. In 2020, the OECD recognised the continued growth of the OBR, as well as the need for greater resources to support its Brexit analysis.

38. This review recognises the increases in OBR's overall budget over the period since 2020 (see below). This overall increase has taken the form of a number of specific 'top-ups' reflected in the OBR's annual funding settlement, which have been earmarked to fund a number of topical items. These have included 'top-ups' for the OBR to: track economic and fiscal impacts of the final Brexit deal; chart the economic and fiscal implications of Covid; produce analysis on the fiscal cost of the UK reaching net zero; and evolve the approach of the OBR in its modelling of dynamic scoring.

⁵⁸ OBR, [Review of the Autumn 2021 Budget & Spending Review forecast timetable process](#), December 2021

⁵⁹ [Ibid](#)

⁶⁰ OECD, [Recommendation of the Council on Principles for Independent Fiscal Institutions](#), 2024

FY ending 31 Mar	Total £('000s)
2025	4,474
2024	5,366
2023	4,347
2022	4,480
2021	3,825
2020	3,430

39. Factoring in successive top-ups to the OBR’s budget, we judge that overall staffing levels appear broadly commensurate with the tasks currently expected of the organisation. We also note, however, that this is a fragile equilibrium between the OBR’s resources and its expected functions, which will take significant discipline from both the OBR and government to maintain. There may also be further, future resource pressures exerted on the organisation based on the need to scrutinise DEL spending figures, and the government’s financial asset and liability holdings since the fiscal target has shifted from net debt to net financial liabilities. We also underline which functions the OBR should not be expected to undertake later in the report (see **Impact**).
40. But as well as recognising the quantum of resource, it is now important to secure the longer-term stability of funding for the OBR. On the one hand, successive ‘top-ups’ for specific functions demonstrate a joined-up relationship between OBR and HM Treasury, ensuring an ability to respond to emerging needs. Yet, on the other, longer-term and more stable funding (without the successive top-ups) would better support the organisation to identify priorities alongside government and invest in stable resource and capability to deliver.
41. Though there has been no suggestion from any quarter that successive top-ups have been used as ‘leverage’ from government over the OBR, this review recommends eliminating the prospect more forcefully. For that reason, we suggest that longer-term funding certainty would both support the OBR’s ability to plan for the longer-term, whilst also further insulating it from potential political pressure going forwards.
42. At the time of interviewing stakeholders for our report, the need for longer-term certainty was acute, with the OBR facing a ‘cliff-edge’ of funding after the published SR period (i.e. beyond 2025). This report welcomes the subsequent,

broader government reforms to provide longer-term clarity to public spending, which now gives the OBR sight of its budget for over a three-year horizon.

43. However, it also recognises that similar arrangements had previously been in place as recently as in 2020, only to fall into abeyance in recent years. So, in addition to rolling budgets, we recommend further guarantees to underscore the OBR’s long-term funding independence.
44. Though the UK government should continue to protect value-for-money in the work of the OBR, it should now set out stable, multi-annual funding commitments for the organisation, in line with OECD best practice. In line with the DEL Review findings, such a settlement should also reflect the potential need for the OBR to undertake more intensive scrutiny of DEL budgets and public sector financial asset and liabilities. This report welcomes the recent proposed revisions to the Charter to codify a multi-year funding commitment for the OBR, and set out clear parameters for the OBR to exercise proper discretion within those budgets.

1 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 arrangement should be set out in Charter for Budget Responsibility, safeguarding reasonable discretion for the OBR to independently prioritise activities within an overall, stable quantum of funding. The OBR’s funding settlement should be commensurate with activities deemed necessary to perform more intensive scrutiny of DEL budgets and public sector financial assets and liabilities.

Accountability

45. The OBR is accountable both to the Chancellor and to Parliament. As the 2015 Ramsden Review stated, this ‘dual accountability underpins the OBR’s legitimacy and independence’.⁶¹
46. The most visible feature of the OBR’s accountability to Parliament is in the appearances of the Chair and the BRC at the Treasury Select Committee and the Lords Economic Affairs Committee. This often occurs around significant fiscal events. The OBR also works to respond to specific questions tabled by

⁶¹ [HM Treasury review of the Office for Budget Responsibility](#), September 2015

Parliamentarians. Though the Chancellor moves to appoint the Chair and members of the BRC, the Treasury Select Committee retains a veto over such appointments.

47. These arrangements, supported by strong and healthy relationships between the BRC and the Treasury Select Committee across the period, have proven robust and we recommend keeping them as the foundation for ongoing work. The dual accountability was an important safeguard for the OBR at the time of the so-called mini-budget in 2022, when the then Chancellor informed the OBR that he would not be commissioning a forecast from the OBR.
48. In that instance, the Treasury Select Committee provided an effective forum for Parliamentarians to argue for independent scrutiny of major fiscal decisions. In Autumn 2022, the then Chair of the Treasury Select Committee went on record stating that the Committee had ‘been consistent over the summer asking for your [OBR’s] forecast to be published alongside what has been referred to as a mini-Budget’.⁶²
49. We recommend further formalising and strengthening this parliamentary safeguard. The Treasury Select Committee already receives OBR reports and has the opportunity to scrutinise senior OBR staff judgements. In line with OECD best practice, we now recommend that it takes a more active role in budgetary scrutiny of the OBR. In this event where a government may consider a significant cut to the OBR’s budget, we suggest that the Treasury Select Committee expect timely forewarning from HM Treasury, so as to be able to discuss and highlight such a decision as it sees fit.

2	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.
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2	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. This provides an important protection and creates a forum for airing parliamentary or OBR concerns. Going further, should a sitting Government wish to cut future OBR funding significantly, it should signal its intention to do so to the Treasury Select Committee in good time.
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⁶² House of Commons Treasury Committee, [Oral evidence: Autumn 2022 Fiscal Events](#), November 2022

Oversight

50. The OBR Oversight Board is the body charged with establishing and taking forward the strategic aims of the OBR. It is also seen as being responsible for managing risks and safeguarding the independence of the OBR. The Chancellor approves appointments to this Board, with set term limits for members.
51. Over the past five years, the OBR Oversight Board has played a significant role in helping the OBR navigate actual and reputational risks. It also serves an important function in reviewing the effective governance and proper running of the organisation. This includes holding the organisation to account on its aims to drive the diversity of the staff.
52. The Oversight Board is a trusted body. Most recently, it authored a comprehensive review on the expectations around DEL forecasts from government, with a range of recommendations accepted by HM Treasury to improve future collaboration.
53. We suggest it should play a more active role in supporting the long-term leadership of the organisation. We recommend that the Oversight Board should play a meaningful role in supporting the process to appoint the Chair and BRC. This would both inform the decision-making with real, granular insight into the organisation. It would also guard against any potential accusations of government influence around such key appointments, further underpinning the independence of the organisation.

3	<p>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.</p> <p>This could be with a responsibility to ensure candidates across the BRC are sufficiently balanced in terms of diversity of thought and are committed to wider organisational goals.</p>
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Infrastructure

Model maintenance

Fiscal models

54. The OBR uses a range of fiscal forecasting models in generating ‘bottom-up’ forecasts of public finances. Ownership of these models typically belongs to relevant departments which have the responsibility for the specific policy areas, such as on business rates and environmental levies. Most tax forecasting models are maintained by HMRC, with DWP playing an equivalent role on benefit forecasting.
55. For reasons of confidentiality – often related to sensitive taxpayer and benefits claimant information – it is not always possible for departments to open up the full workings of the model for OBR scrutiny. In that instance, OBR staff told us that they aim to gather as close an understanding as possible on the workings of the model. In our interviews with both OBR colleagues and those from government departments, it is clear there are good working relationships between the organisations – allowing the proper exchange of information for scrutiny, challenge and quality assurance.
56. Although these models sit outside of the OBR’s ownership, the BRC approve parameter changes to the models at HMRC and DWP, as well as owning the judgements applied to the outputs of the model. This ownership is asserted in all OBR publications.
57. For departmental spending, the forecast is based on the Spending Review, and the OBR might forecast an underspend vis-a-vis those limits. For the years after the current Spending Review (in the March 2024 EFO, four of the five years of the medium-term forecast) HMT ‘pencils in’ spending envelopes. These envelopes imply a substantial reduction in expenditure growth for ‘unprotected’ departments. ‘With the post-SR21 envelope for total RDEL spending provided by the Treasury, these assumptions would leave other ‘unprotected’ RDEL spending (accounting for just under a third of day-to-day departmental spending) needing to fall by 2.3 per cent a year in real terms from 2025-26... The implementation of these assumptions for departmental spending therefore remain a significant risk to our forecast. As Spending Reviews have approached, governments since 1998 have increased the annual real growth in day-to-day spending by an average of

1.1 per cent. In the run-up to the two Spending Reviews in November 2015 and October 2021, governments topped up the RDEL envelope by an average of £39 billion and £32 billion per year respectively. Such increases have been a major cause of the differences between our past borrowing forecasts and outturn, explaining around half of the difference on average between 2011-12 and 2021-22.⁶³ Following the recommendations of the DEL review, this report acknowledges the recent proposed revisions to the Charter which will allow the OBR to forecast DEL overspends, as well as underspends.⁶⁴

Economic models

58. The OBR uses a wide variety of models and auxiliary tools to produce its fiscal and economic forecasts. Its main macroeconomic model is jointly maintained and developed by HM Treasury and the OBR; and the governance, management and development of this model is underpinned by a Memorandum of Understanding. Within this, there are provisions for HM Treasury, DWP and HMRC to ‘provide necessary assistance to allow the OBR to appropriately scrutinise these models’.⁶⁵

59. Beyond this main macroeconomic model, the OBR uses a range of supporting analytical models and tools, many of which are owned and generated exclusively by the OBR. It also assesses outputs against alternative economic forecasts.

60. Resource is allocated in both the OBR and HM Treasury to maintain the main macroeconomic model and to ensure it remains up-to-date and ‘fit-for-purpose’. Our latest conversations with HM Treasury and the OBR suggest that the OBR dedicates five economic analysts to the economic forecast and management of this model.

Model review, development and maintenance

61. Both OBR colleagues and those working in government departments reported on good working relationships to facilitate the running of these models. Furthermore, there was a recognition from all sides that they are free, *in extremis*, to adopt alternative versions of these models, should they see fit to do so. This is a useful demonstration of ways of working to safeguard mutual independence.

⁶³ See [Box 4.2](#) in OBR’s March 2024 Economic and Fiscal Outlook

⁶⁴ [Draft Charter for Budget Responsibility: Autumn 2024](#), October 2024

⁶⁵ [Memorandum of Understanding between the Office for Budget Responsibility and HM Treasury – the macroeconomic model](#), February 2013

62. We note that both the 2015 Ramsden Review and 2020 OECD Review underlined the importance of ensuring ‘key models are fit for purpose’.⁶⁶ Each noted the challenge of appropriately ringfencing time and resources for this activity.
63. We strongly agree that maintaining the credibility of the OBR’s modelling infrastructure is crucial. Several of our interviewees echoed the importance of such work and underlined the continuing importance of the OBR sharing its outputs in a transparent and timely manner.
64. Our conversations with the OBR underlined how the senior leadership is in full agreement with this aim – but has struggled to ringfence sustained time and resources to meet it. Having negotiated a very busy five-year period – with many unexpected peaks of OBR business and attention – now is the time to enshrine model maintenance as a high, visible and ongoing priority.
65. On the fiscal side, models are reviewed annually in the OBR’s Forecast Evaluation Report. Alongside this report, the OBR has published a ‘model assessment database’ which ‘reviews progress against previously identified priorities’.⁶⁷
66. We call for comparable arrangements and transparency on the economy side. The latest OBR’s Forecast Evaluation Report reflects on the process by which the OBR develops its economy forecast, highlighting the need to ‘focus model development on new smaller models’ alongside its large-scale macroeconomic model.⁶⁸ As part of its overall work in this space, we suggest the OBR brings greater transparency to these auxiliary economic tools, which are not currently made available on its website.
67. In line with the long-term priorities of the organisation, we also extend this recommendation to those labour market models supporting some of the organisation’s work on dynamic scoring (see **Rec. 5 and 6**). The same applies for the important work on the OBR models to provide the basis for the Debt Management’s Office’s financing remit, and to quantify the gilts and Treasury bills issued each year to service cash needs.
68. This overall programme of maintenance will not be an instant, overnight activity. Rather, we recommend that the OBR develop a clear, long-term workplan of maintenance between now and the next external review. Given the relatively

⁶⁶ OECD, [Independent Fiscal Institutions Review: Office for Budget Responsibility of the United Kingdom](#), September 2020

⁶⁷ OBR, [Forecast evaluation report](#), October 2023

⁶⁸ OBR, [Forecast evaluation report](#), January 2023

small set of resources allocated to economic forecasting – and the current, less codified approach to model management – we suggest initial emphasis is placed there and moves towards the fiscal side of the organisation in time.

69. In line with its own current best practice within the Forecast Evaluation Report, the OBR should also set out ambitions, in concert with HM Treasury and relevant government departments, to publish information systematically about its maintenance and development of models and tools.

70. This work is vital to: securing continued trust in the OBR’s outputs; supporting the organisation navigate future reputational risk; and stimulating academic discourse on models and their parameters by way of external quality control. Crucially, it would be advisable to set out, where important, how models interact with the judgement of the BRC in determining key decisions.

4	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.
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This should include plans to publish information more systematically about its key models and associated tools, as well as a list of existing analytical issues that need to be prioritised for future work. Model maintenance and development should be an ongoing priority; supported by a commensurate increase in time and resources dedicated to this effort; and reported on at appropriate intervals in OBR outputs, with discussion about how evolving arrangements help shape BRC judgement.

Dynamic scoring

71. Dynamic scoring is a hazardous enterprise. ‘Dynamic scoring – taking full account of all the economic effects of policies when estimating their budgetary effects – is almost self-evidently attractive. But it is formidably difficult to achieve... The difficulty of dynamic scoring means it has serious downsides. It would be costly and time-consuming. It would be difficult to do consistently across policies, and the greater use of assumption, guesswork and judgment required would make it harder to keep the scoring of policies out of the political fray and trusted as impartial.’⁶⁹ These difficulties are especially relevant when

⁶⁹ Adam, S. and A. Bozio, ‘Dynamic Scoring’, *OECD Journal on Budgeting*, November 2009

estimating productivity effects of policies, as these are notoriously hard to establish causally, in addition to the fact that productivity in and of itself is difficult to predict.

72. Since 2022, the OBR has taken a more formal and transparent approach to dynamic scoring. This is the method of estimating the total fiscal impact of a given policy change, accounting for the indirect effects of policies on revenues and spending.
73. This was not a wholly new departure. OBR forecast methodologies had always considered indirect effects of policies. This included accounting for the behavioural effects of policy measures or using fiscal multipliers to estimate the impact of a package of policies at a given fiscal event. However, at its most ambitious, this practice has incorporated more innovative and novel techniques, and taken OBR deliberations into newer, less established domains.
74. Working closely with HM Treasury, the OBR set out the key tenets of this approach in November 2022.⁷⁰ This set out to make more explicit the methodology being used to capture such effects. In part, this was motivated by criticisms that the OBR had been ‘too cautious in assessing dynamic tax changes’⁷¹ and was insufficiently attuned to the dynamic effects of policy interventions.⁷²
75. Those we interviewed suggested that this move was welcome. OBR publications shows that the organisation scored supply side effects of significant policy interventions including: the expansion of childcare provisions; cuts in National Insurance Contributions; and up-front corporate tax relief on business investment. However, we also discussed with interviewees the potential for the OBR to be clearer on the principles by which it makes judgements on specific policy measures.
76. We recommend that it is important for the OBR to supplement its November 2022 approach with greater clarity on the criteria and the evidence thresholds by which it will recognise the additional effects of a policy measure. These criteria should be transparent and applied stringently.

⁷⁰ OBR, [Dynamic scoring of policy measures in OBR forecasts](#), November 2023

⁷¹ This was alluded to by Dr Therese Coffey in the Treasury Select Committee hearing. See House of Commons Treasury Committee, [Oral evidence: Budget 2024](#), March 2024

⁷² Former UK Prime Minister Liz Truss said this ‘whole language of “unfunded” tax cuts implies the static model, the so-called abacus economics that the Treasury orthodoxy has promoted for years’. See Lynch, D., [Truss attacks ‘Treasury Orthodoxy’ as she promotes tax-cutting leadership pitch](#), The Standard, August 2022

77. Given the range of policy measures agreed across fiscal events, it will also be acutely important to agree across government a systematic approach to keeping track of these interventions and ensuring a symmetrical application of both positive and negative dynamic effects on the forecast. This will require close working with HM Treasury and across government, ensuring all effects – both positive and negative – are captured comprehensively and presented in an accessible way to the OBR.

5	<p>The OBR should use clear criteria for additionality to the baseline forecast and required evidence base of policies it is willing to score dynamically; it should then apply these strictly.</p> <p>Agreeing a clear, well-understood and process for monitoring supply side impacts and ensuring symmetrical submission to the OBR of measures that have positive and negative impacts on growth is necessary to securing the long-term credibility of this practice. This will require a cross-government approach with an effective set of working arrangements between the OBR and HMT to secure consistency. This should ensure proper accounting of these indirect effects in the forecast.</p>
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78. Recognising the importance of proceeding with credibility and confidence, we recommend that the OBR undertakes an evaluation of its use of dynamic scoring. This should inform the OBR’s approach to tackle emerging issues where the evidence base may not be as settled, including on spatial planning and productivity.

6	<p>The OBR should also conduct an evaluation of its use of dynamic scoring to date.</p> <p>Anticipating the next external OBR review, this evaluation should inform criteria for how this practice will be used going forwards (and mutatis mutandis for other practices as they emerge).</p>
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Academic and practitioner community

79. The 2020 OECD External Review noted the OBR’s work to assemble a nine-member Advisory Panel of ‘economic and fiscal experts drawn mainly from academia, the private sector, and think tanks’. It also noted that interaction with

this panel was deemed by members as ‘fairly light touch’, suggesting that the OBR could ‘use the Panel more extensively’.⁷³

80. We saw strong evidence that the OBR has delivered fully on this recommendation. The Advisory Panel, now 25 experts strong, has been overhauled after the OBR sought expressions of interest from academics, economists, researchers and industry specialists in 2023.
81. More broadly, the manifold, novel challenges which the OBR has had to tackle over the last five years have necessitated seeking out and collaborating with subject matter experts. This has ranged from working with public health and energy market experts to better understand the 2020 Covid pandemic and 2022 energy crisis, to sustained engagement with the UK Climate Change Committee and other international experts on the fiscal risks from climate change.
82. We now suggest the OBR can go further still, leveraging expertise from the academic community by signalling areas of emerging analytical interest. Some potential contributors felt the OBR could do more to set out clearly the research questions from which it would most benefit from peer-reviewed, high-quality research in tackling. For specific research topics where OBR has a clear and urgent interest, (co-)funding of a PhD programme might be considered.
83. We recognise that constructing such a mechanism will take time and consideration from the OBR. Nevertheless, we encourage the organisation to take forward its collaborative approach and develop this function to guide and accelerate the generation of relevant research.

7	The OBR should consider mechanisms to signal to academic and practitioner community key areas of upcoming interest, reviewing high-quality submissions.
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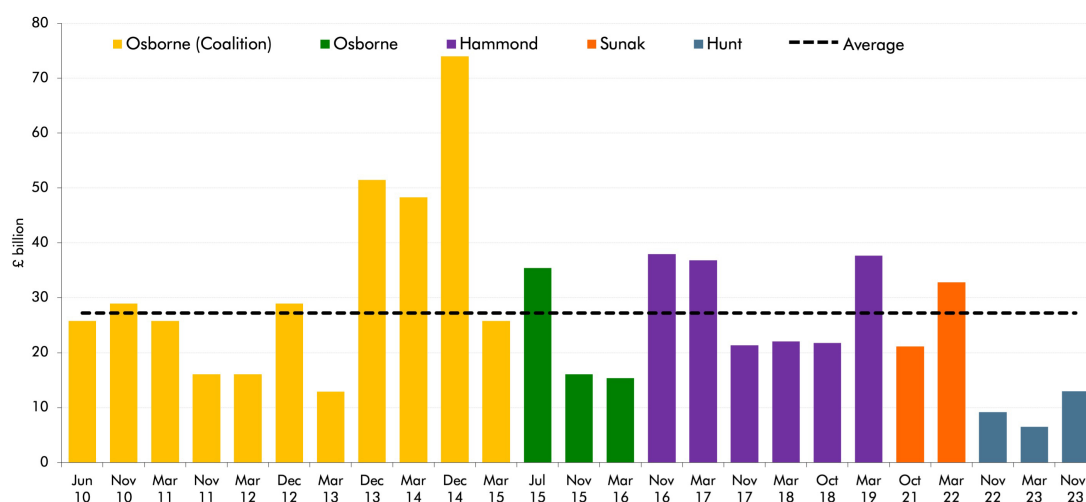
This could build on the development of the OBR’s Advisory Panel, working to ‘crowd-in’ expertise on policy areas where the evidence base and policy consensus is less settled.

⁷³ OECD, [Independent Fiscal Institutions Review: Office for Budget Responsibility of the United Kingdom](#), September 2020

Impact

84. Within its mandate to examine and report on the sustainability of the public finances, the OBR is asked to comment on whether the government’s stated policies have a better than 50:50 chance of meeting the Chancellor’s fiscal rules. In producing its forecasts, the OBR must ‘have regard to’ government policies and is forbidden from considering ‘what the effect of alternative policies would be’.
85. As already observed, our assessment of the UK fiscal debate is that it can all too readily be reduced to a headline assessment of whether the government will enjoy any ‘fiscal headroom’ between meeting the Chancellor’s fiscal rules and existing government policies. As shown below, recent and successive Chancellors have opted to retain, on average, ever less ‘headroom’ to the minimum requirement across the period – down from around £25bn (1 per cent of GDP) in 2010 to less than £10bn (0.3 per cent of GDP) presented in November 2023’s EFO.

Figure 2: Successive forecasts for ‘headroom’ against fiscal targets⁷⁴



Note: For comparability with headroom against the current fiscal mandate, past headrooms have been calculated in per cent of GDP as forecast at the time and multiplied by our latest forecast for nominal GDP in 2028-29. For November 2016, we have used the Chancellor’s headroom against his proposed mandate at the time.

Source: OBR

86. Given that this figure is much smaller than the average forecasting error of the OBR and other forecasters’ estimates, it becomes clear that an undue focus on this one measure is at best partial and at worst misleading – especially when viewed in isolation. As a result, compliance with the rule becomes uncertain and

⁷⁴ OBR, [Economic and fiscal outlook](#), November 2023

subject to frequent revisions, requiring policy responses to changes in economic parameters that are entirely within the expected margins of uncertainty. To make matters worse, the ‘conditional forecast’ based on stated policies is unrealistic because of unrealistic policy assumptions (DEL in post spending review years, fuel duty) and is likely to force a systematic upward revision of (tax) spending, implying an ever-smaller fiscal headroom.

87. Indeed, by some commentators, the notion of ‘headroom’ has been implicitly attached to the OBR. In one media characterisation ahead of the 2024 Budget, this perceived dynamic was described in such a way that the government was seen to be ‘awarded’ the ‘headroom’ by OBR forecasts,⁷⁵ rather than the forecasts simply representing an estimate of the fiscal position.

88. The OBR already does much to attempt to broaden out this discussion. Such efforts include:

- discussing potential economic scenarios which may impact the central forecast, such as movements in interest rates and volatile inflationary pressures;
- constructing fan charts to help calculate the probability of hitting fiscal targets;
- using sensitivity analysis to help estimate ‘what would need to happen to key forecast parameters and judgements to reduce the headroom against different targets to zero’.⁷⁶
- evaluating and assigning uncertainty ratings to the costing of each policy, considering modelling challenges and the data available – recognised as particularly good practice in the 2020 OECD Review.⁷⁷

89. Discussions with our interviewees reflected positively on these range of practices, whilst also urging the OBR to go further. This chapter looks at ways in which the OBR might respond to this challenge by:

- highlighting **uncertainty** more clearly in its outputs and pronouncements;
- making **broader assessments** of fiscal sustainability;

⁷⁵ Halligan, L., [The absurd concept of fiscal headroom has become all-powerful](#), The Telegraph, March 2024

⁷⁶ OBR, [Economic and fiscal outlook](#), March 2024

⁷⁷ OECD, [Independent Fiscal Institutions Review: Office for Budget Responsibility of the United Kingdom](#), September 2020

- ensuring ‘**implicit**’ pressures within stated policies are rendered more clearly.

It concludes with reflections on how the OBR should aim to disseminate messages with best effect to different audiences, making intentional choices about how to meet the needs of each.

90. In volunteering these views, interviewees characterised here an inherent tension for the OBR – between not venturing into normative assessments of policy choices (as forbidden by the requirements of its establishing mandate) whilst bringing greater clarity about the public finances and the implications of government’s stated plans (as advocated for by both commentators and some of those we interviewed).⁷⁸
91. We believe there is a spectrum of potential activities which strikes this balance, though we recognise there will be different views about the optimum place of where the OBR’s work should sit. We also note the distinct but complementary roles of organisations such as the Institute for Fiscal Studies and other reputable think-tanks which sit further away from government.

Highlighting uncertainty

92. Forecasts are necessarily surrounded by uncertainty. Apart from standard model uncertainty, the external environment can develop differently than expected. Economic scenarios and fan charts should be front and centre to any presentation of the forecast to underscore this fact.
93. Historical forecasting errors for the fiscal forecast show underestimates in forecasted spending, in large part due to actual DEL spending being higher than the stated policy assumptions the OBR is required to use.⁷⁹ These forecasting errors lead to asymmetric fan charts which would demonstrate the bias towards optimistic fiscal forecasts. Asymmetric fan charts may provide a means to illustrate the (historical) bias in budgetary inputs resulting from ‘stated policies’. Of course, this would be a relatively crude way to (visually) correct for this bias as the size of the underestimation of actual DEL expenditures will probably vary between forecasts (and hence the historical bias might be too small or too large).

⁷⁸ This case has been recently set out by a number of commentators, including former BRC member Andy King and colleagues at NIESR. See King, A., [How the OBR can help people understand the implications of government’s stated spending plans](#), Institute for Government, February 2024; NEISR, [It’s Time for the OBR to Look Beyond the Fiscal Rules](#), September 2024

⁷⁹ See Chart 1.7 in Atkins, G., and L. Lanskey, [Working paper No.19: The OBR’s forecast performance](#), August 2023

However, it would be a way of illustrating the bias in the conditional forecast without having to make alternative policy assumptions. If HMT were to use this more central fiscal forecast as a base for policy making, this would imply (justifiably) tighter fiscal policy.

8	<p>The OBR should focus more explicitly on highlighting uncertainty around medium-term forecasts in a user-friendly manner.</p> <p>This applies especially to the presentation around the conditional fiscal forecast, where OBR could experiment with asymmetric fan charts to correct for the historical upward bias resulting from mandated adherence to stated policies. The OBR should consider the presentation of various economic scenarios. These important discussions, as well as those suggested below, should be properly foregrounded within OBR outputs and in media discussions.</p>
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Broader assessments

94. To broaden the assessment of the fiscal situation beyond the fiscal headroom, the OBR could develop a long-term sustainability metric linked to its medium-term forecast and present this when discussing the medium-term fiscal outlook. The sustainability deficit could be such an indicator;⁸⁰ it is defined as the immediate, permanent adjustment in the primary government balance as a percentage of GDP that is needed to make government debt financially sustainable. It translates the ageing-driven increase of government debt in the long-run sustainability analysis to the permanent fiscal adjustment that would be needed as of this year to stabilize debt in the long run.
95. In order to make this practically feasible within the timeframe available for the EFO, the OBR could implement some ‘shortcuts’. As it is not possible to update the entire baseline of the FRS within this timeframe, the OBR could use the change in the government primary balance in t+5 since the previous FRS (caused by economic and policy changes over the medium term) to update the

⁸⁰ For example, see European Commission, [Fiscal Sustainability Report 2018](#), January 2019

sustainability deficit of the previous FRS.⁸¹ Finally, the current timing of the publication of the FRS (July) hampers its impact on the public debate.

9 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.

This should draw upon best practice from comparable independent fiscal institutions. Examples include: highlighting uncertainties surrounding the central medium-term forecast and developing long-term fiscal sustainability metrics linked to the medium-term forecast. OBR could revisit the timing of the FRS, in order to increase the impact of this report. However, it would not be helpful for the OBR to go as far as costing opposition party proposals.

Implicit pressures

96. Over the next five years, the OBR can do more to drive transparency on the implications of government's stated policies. It is already empowered to set out the main 'risks and uncertainties' to the forecast – and does so in its EFO. In recent years, this has included detailing risks to economic determinants such as labour participation, energy prices and interest rates. Furthermore, it has also begun to set out potential challenges associated with 'the impact or implementation of other stated policies and aspirations'.⁸²

97. In its fullest articulation of such a risk yet – on fuel duty rate freezes – the OBR went further and produced a forecast that expressed government's 'revealed preference' rather than its stated policy. This followed a specific recommendation from the Treasury Select Committee that 'the Treasury should assume there will be no inflation-linked rises in fuel duty when providing the OBR with a policy assumption for future forecasts'.⁸³ This itself came after a sustained period when successive governments did not raise fuel duty with inflation, despite this being part of HM Treasury's underlying and stated policy assumptions.

⁸¹ Under the assumption that the output gap closes at the end of this period – and correcting for cyclical changes – the change of the primary balance can be interpreted as structural. This implies explicitly assuming that other crucial variables such as demographics, productivity and labour participation for the long run remain unchanged since the last FRS.

⁸² OBR, [Economic and fiscal outlook](#), March 2023

⁸³ Treasury Committee, [Fuel duty fiction clouds fiscal forecasts](#), January 2023

98. This has been, to date, an isolated occurrence. However, several interviewees remarked to us that there remain challenges for the OBR in developing with real credibility its central forecast based on stated policies. As well as with fuel duty rates, interviewees suggested that several types of decisions threatened to undermine the spirit of the OBR’s endeavour, including when governments:

- ‘pencil-in’ spending plans beyond the Spending Review period;
- express ‘ambitions’ for particular items of spending without a defined time horizon (e.g. increasing defence spending to 2.5 per cent of GDP);
- state intentions to index a certain tax rate in years 2-5 of a forecast, whilst freezing it in year 1 (of which fuel duty was the prime example in this period).

Greater use of economic assumptions and moving towards ‘standstill’ assumptions

99. One potential activity in this space is how the OBR could further explore transparency in the EFO by highlighting evidence-informed, economic scenarios which serve to illustrate implications for public services. On public sector workforce – in terms of jobs and pay, for example – the Institute for Government has suggested that the OBR could set out ‘neutral’ assumptions including:⁸⁴

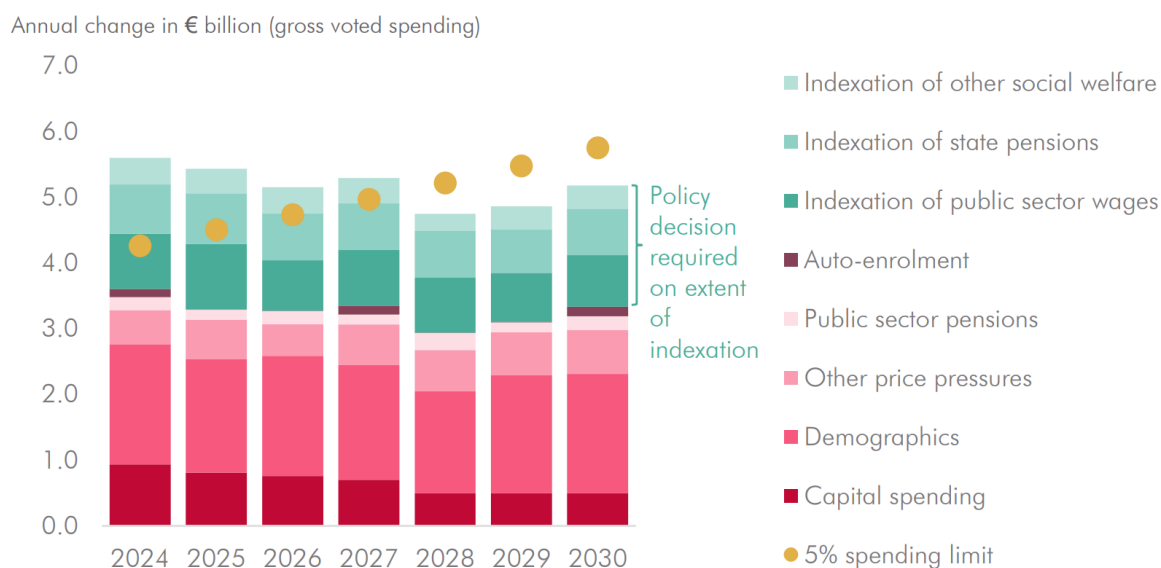
- that the workforce grows in line with the population (neutral in the sense of each public sector worker providing services to the same number of people);
- that average pay rises in line with the private sector (neutral in the sense of maintaining the ability to recruit and retain public sector workers);
- that non-pay budgets rise in line with pay budgets (neutral in the sense that these costs, largely the procurement of goods and services, are influenced by the same factors as the public sector pay budget and that swings in the ratio of non-pay to pay budgets would have implications for public services).

100. Setting out economic scenarios such as these would make clearer the implications of maintain existing programmes and commitments, helping to highlight how government decisions or changes in public sector productivity could impact the public finances.

⁸⁴ King, A., [How the OBR can help people understand the implications of government’s stated spending plans](#), Institute for Government, February 2024

101. This type of activity has been trialled and then mainstreamed in other IFIs, including the Irish Fiscal Advisory Council (IFAC). In this setting, the practice has been formalised as constructing ‘standstill’ scenarios. This approach is intended to set out ‘an illustrative exercise that provides estimates of the cost of maintaining today’s level of public services and benefits in real terms over the medium term’.⁸⁵

Figure 3: Assessment of spending plans against ‘stand-still’ scenario⁸⁶



Source: Fiscal Council workings. [Get the data.](#)

Notes: The stand-still assumes that public sector pay rates and social welfare rates grow in line with forecasts of economy-wide wage growth, while other prices grow in line with inflation forecasts. Capital spending is as outlined in the NDP for 2027-2030. Figures for the 5% spending limit show the existing ceilings. Including Ukrainian humanitarian aid in the base for core spending would increase the existing ceilings by circa €0.1 billion for each year.

Source: Irish Fiscal Advisory Council

102. This approach set out above helps evaluate the disparity between what IFAC consider ‘realistic spending plans’ associated with maintaining existing tax and spending settings and ‘current’ spending plans set out by the government that may be based on technical or ad hoc assumptions. IFAC sets out this baseline by incorporating the costs of maintaining existing services – assuming ‘demographic changes are accounted for, welfare rates and public sector pay grow in line with [the government’s] forecasts for wage growth, while other costs grow in line with inflation forecasts’.⁸⁷

⁸⁵ Irish Fiscal Advisory Council, [Stand-Still Scenario](#)

⁸⁶ Irish Fiscal Advisory Council, [Fiscal Assessment Report](#), June 2023

⁸⁷ Irish Fiscal Advisory Council, [Fiscal Assessment Report](#), June 2023

103. Put simply, this type of approach would bring closer some of the working of the assumptions underlying OBR's long-term fiscal sustainability analysis towards the organisation's medium-term forecasts.

Transparency

104. Building on the OBR's current approach to detailing risks in the EFO, we suggest that the organisation could increase transparency with respect to the implied budgetary effort needed in the stated policies.
105. By this, we mean using the pencilled-in DEL spending beyond a Spending Review period and quantifying their implications with illustrative examples. For example, one could calculate relatively straightforwardly – in the realm of education expenditures – the implications of halving education spending growth in post-SR years and the effect that would have on primary education average class size to teacher. In doing so, this would make clearer the implicit decisions being made beyond the notional SR period.
106. The Charter also currently obliges OBR to assess whether government has (at least) a 50 per cent probability of meeting its fiscal target. The fact that OBR has to follow stated policies (i.e. the 'conditional' aspect of the forecast) in practice leads to a systematic forecast error of the government balance, in large part driven by too optimistic assumptions – stated policies – on DEL expenditure.⁶⁶
107. Given the OBR has a legal obligation to assume the implementation of these stated policies, the OBR forecast for PSNB can only be qualified as a central forecast on this conditional basis. Because of the likelihood of asymmetric future policy changes by governments, its public sector net borrowing (PSNB) forecast would not fall in the middle of an unconditional confidence interval; the probability that the PSNB outcome will actually be higher than the 'conditional' forecast is larger than 50 per cent. There is a subtle but important difference. The obligation in the Charter to follow stated policies and at the same time produce a forecast 'with a greater than 50 per cent chance of achieving or exceeding the fiscal mandate' is asking OBR to square a circle. Either way, in line with the aims of the DEL Review, DEL expenditure forecasts for post SR years should be improved to be as realistic as possible (which would solve the problem above), or OBR should be relieved of the obligation to produce a 'conditional' forecast with a larger than 50 per cent probability of meeting the fiscal mandate. This report notes the recent proposed revisions to the Charter which will allow the OBR to forecast DEL overspends, as well as underspends, may help alleviate this issue.⁸⁸

⁸⁸ [Draft Charter for Budget Responsibility: Autumn 2024](#), October 2024

10	<p>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.</p> <p>This could be achieved in a number of ways, including: extending the risk paragraph in the EFO with illustrative examples of implications for public service levels; and/or presenting trend or standstill scenarios (i.e. those needed simply to maintain existing levels of service in a public service)⁶⁷ against the fiscal mandate. The approach should aim to indicate the implied budgetary effort associated with the commitment to stated policies. The current practice of arriving at a probability that the government will meet its fiscal targets should be reconsidered – both in its construction and presentation.</p>
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Communications strategy

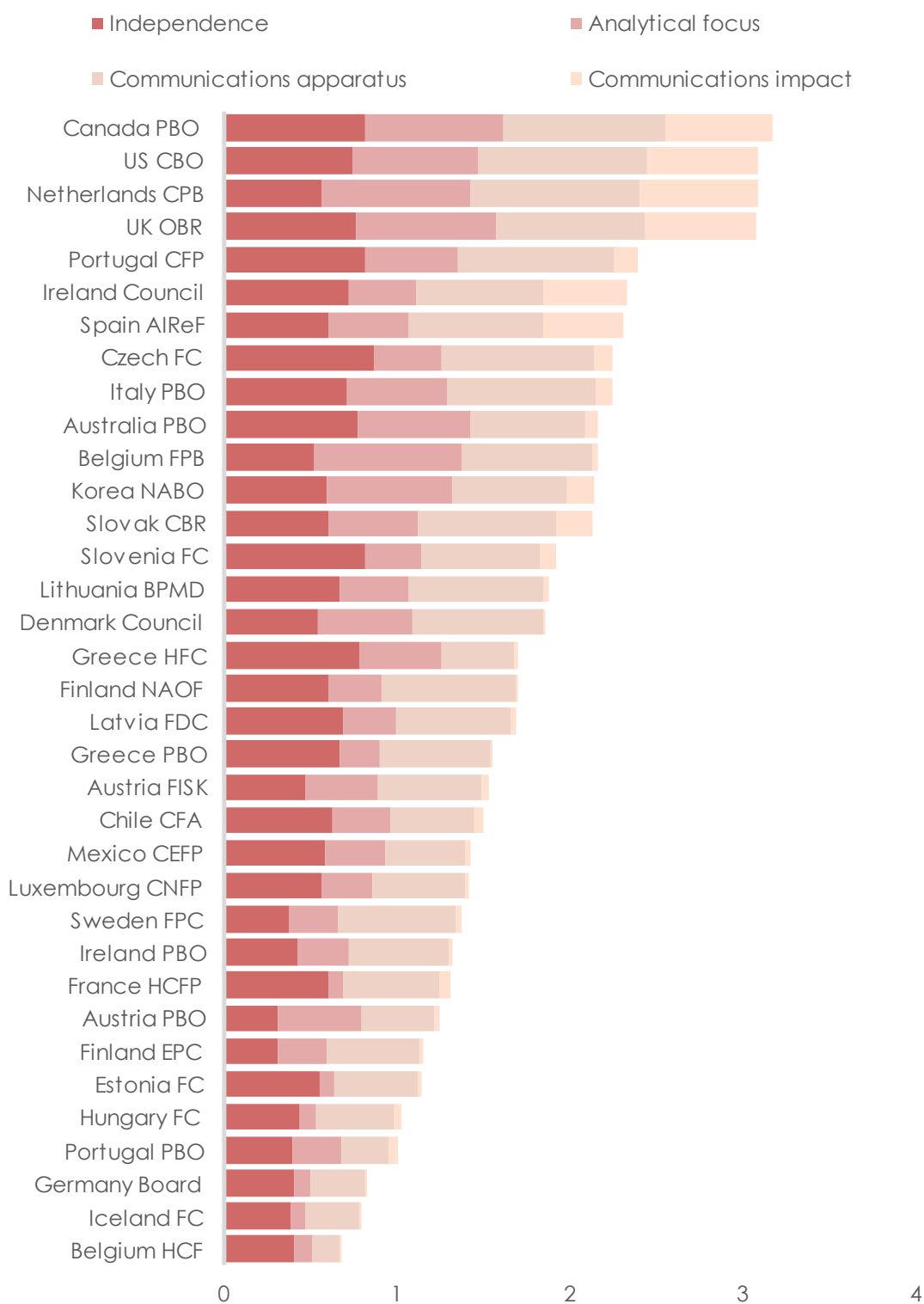
How the OBR compares

108. The 2020 OECD Review concluded that the OBR ‘has done an excellent job of presenting its work in a transparent manner, balancing its duties of comprehensiveness and maintaining a public record with outreach to a broad generalist audience’.

109. Our judgement broadly matches this assessment. We now invite the OBR to consider developing a longer-term strategy that makes explicit choices about where it devotes the body of its time and resources in this space, reflecting on the relative prioritisation between serving technical audiences and supporting wider public debate.

110. The most recent analysis by the OECD below demonstrates both the relative capacity and impact of the OBR’s communications. By these standards – and by the OECD’s more granular measurements of various IFI’s communications impact – the OBR performs well relative to comparable IFIs.

Figure 4: OECD Fiscal Advocacy Index⁸⁹



Source: OECD

⁸⁹ OECD, [From fiscal watchdogs to fiscal advocates: Creating champions of fiscal sustainability](#), May 2024

111. This is further substantiated by a number of important metrics collected by the OECD where the OBR scores well, including: total articles in top news sites; relative media share (number of news articles on budget topics and those that refer to IFI); and search share (per cent IFI name searches relative to budget topic searches). See **Annex A** for the breakdown on these measures.
112. Our interviewees echoed these positive findings, emphasising the reliable and consistent quality expected in OBR outputs. Preferences for how the OBR should present findings in the future varied – reflecting the various needs of different audiences.
113. In consultation, we heard strong support from different audiences for the OBR’s general outputs and style of communication, with particularly positive feedback on the consistency of style from year to year. Academics commented on both the comprehensiveness of OBR’s approach and openness with which it shared data.
114. Others highlighted the potential for the OBR to consolidate some of its key messages and potential new activity in summary material in more prominent space at the front of its publications. This might include ‘snapshot’ views of several different ways to analyse the fiscal position in ways described above: with the forecast based on stated policies; fan charts demonstrating uncertainty; highlighting the most relevant economic scenarios; and setting out long-term sustainability metrics.

Towards a communications strategy

115. This is not a new challenge for the OBR. In previous external reviews, there has been discussion about the perceived trade-off between communicating comprehensively (and therefore with credibility) against communicating innovatively for non-specialists.⁹⁰ In reality, we recognise that the OBR needs to meet both objectives for different types of audience. We call for the OBR to develop a strategy which: addresses this trade-off; demonstrates the effort to be made to engage with segmented audiences; and then sets measures of success against each.

⁹⁰ For example, the 2020 OECD Review and 2014 Page Review also noted ‘that while the level of disclosure reinforces the credibility of the fiscal and economic forecasting, it may come at the expense of limited accessibility for non-technical readers’. See OECD, [Independent Fiscal Institutions Review: Office for Budget Responsibility of the United Kingdom](#), September 2020

116. Being intentional about the intended audience and relative prioritisation will help the organisation manage this challenge and set out to both its Advisory Board and future external reviewers how it is delivering against agreed objectives.

117. One key imperative shared by our interviewees – as at the 2020 Review – was the call for great brevity in OBR outputs, and in particular the EFO. We recognise that the OBR have not been able in recent EFOs to reduce its length markedly – and so we echo this call. We also recognise, however, that there is no ‘one size fits all’ for such publications. Within its strategy, therefore, we encourage the OBR to review the expected length of documents, as well as considering the best use of supplementary materials such as tweets, charts and infographics.

11	The OBR should develop a plan for the next phase of its communications strategy, selectively incorporating best practice from comparable institutions across the OECD.
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	Building on its strengths, we suggest the OBR updates its strategy – making clear its aims, intended audience reach and any innovative methods with which it wishes to experiment.
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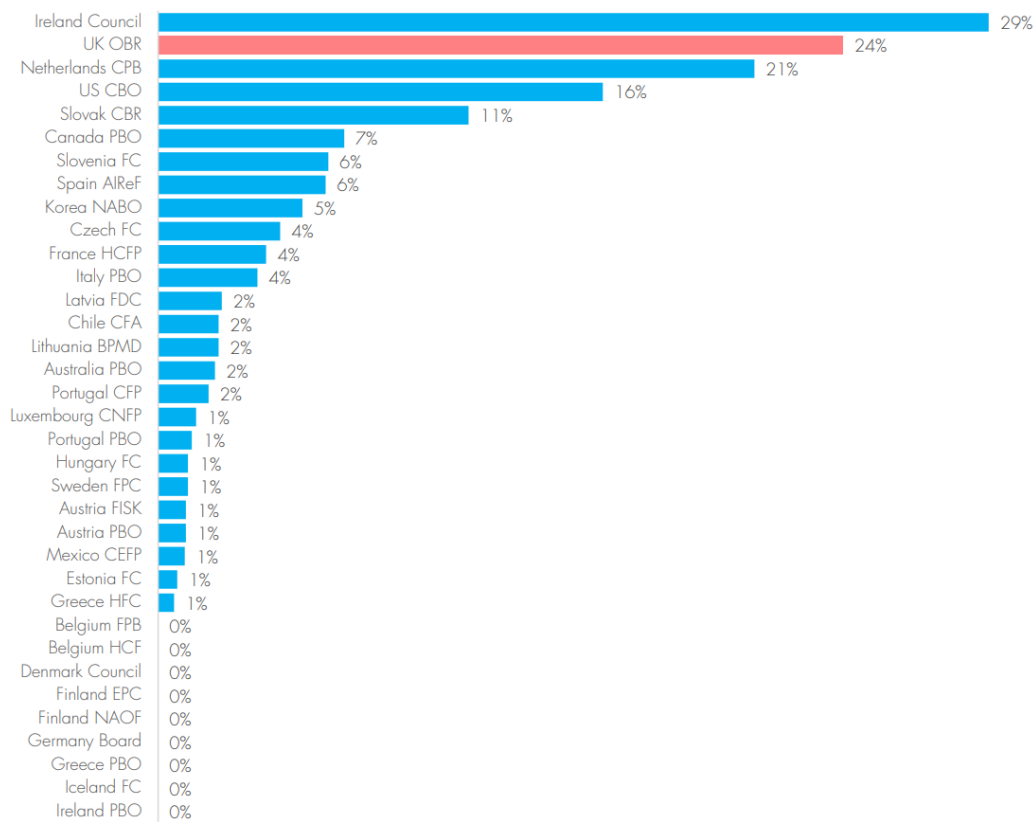
Annex A: OECD Analysis of OBR Communications

The OECD has undertaken comparative analysis of several important features of the ‘impact’ of a range of IFIs.⁹¹ There are two pieces of evidence which situate the impact of the OBR set against comparable institutions:

- 1. Media share 2023.** In comparison with other IFIs, this demonstrates that the OBR is featured relatively strongly in the media discussion around public finances.

Media share 2023

% online news articles on budget topics that refer to IFI



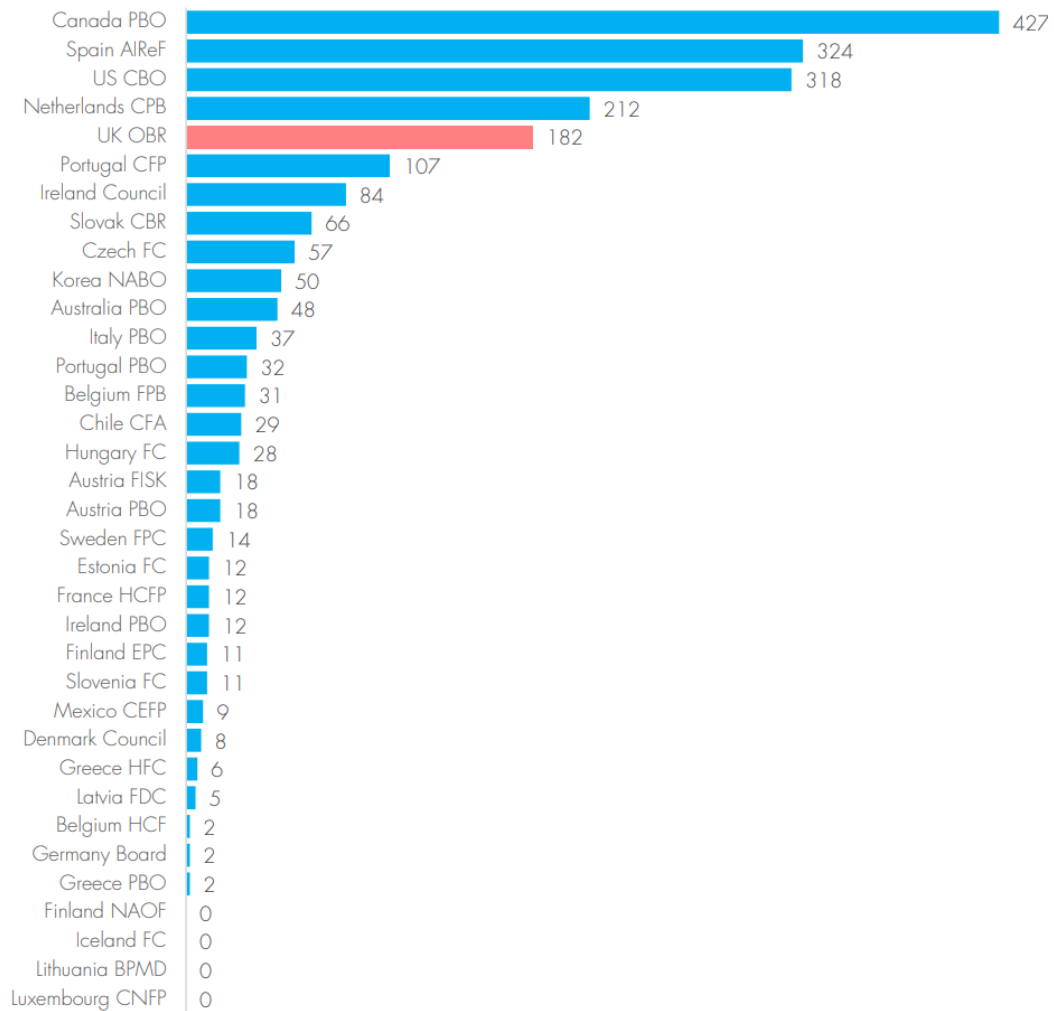
Notes: We search the top 3 online national news sources for articles that mention both "budget" and "fiscal" or some variant that narrows content down sufficiently to discussion of the public finances (imposing a minimum of 80 articles and a maximum of 1,000 for the year). Then, we consider what % of those articles specifically reference the respective country's IFI(s), allowing for alternative IFI names (example: "OBR" or "Office for Budget Responsibility").

⁹¹ OECD, [From fiscal watchdogs to fiscal advocates: Creating champions of fiscal sustainability](#), May 2024

2. **Total articles in top news sites.** This looks at the prominence of IFIs within the most popular news sites in each country.

Total articles in top news sites 2023

Total number of news articles that refer to IFI, top 3 online news sites



Annex B: Interview List

The review team would like to thank the individuals from the following groups and institutions who met with them and contributed insights:

- Bank of England
- Centre for Policy Studies
- Debt Management Office
- Department for Work and Pensions
- Former external review team (OECD 2020)
- Former members of the Budget Responsibility Committee (Sir Charlie Bean and Andy King)
- Former OBR Chair (Sir Robert Chote)
- HM Revenue and Customs
- HM Treasury
- IMF Country Desk
- Institute for Fiscal Studies
- Institute for Government
- Media representatives from the BBC, Financial Times, The Sunday Times, and The Telegraph
- Members of Parliament from the Treasury Select Committee and the House of Lords Economic Affairs Committee
- Members of the OBR's Advisory Panel
- National Institute for Economic and Social Research
- Non-executive members of the OBR
- OBR Chair (Richard Hughes) and other members of the OBR's Budget Responsibility Committee (Tom Josephs and David Miles)
- OBR Chief & Deputy Chief of Staff, and OBR Staff
- Resolution Foundation
- Scottish Fiscal Commission
- Welsh Government

