

Office for
**Budget
Responsibility**

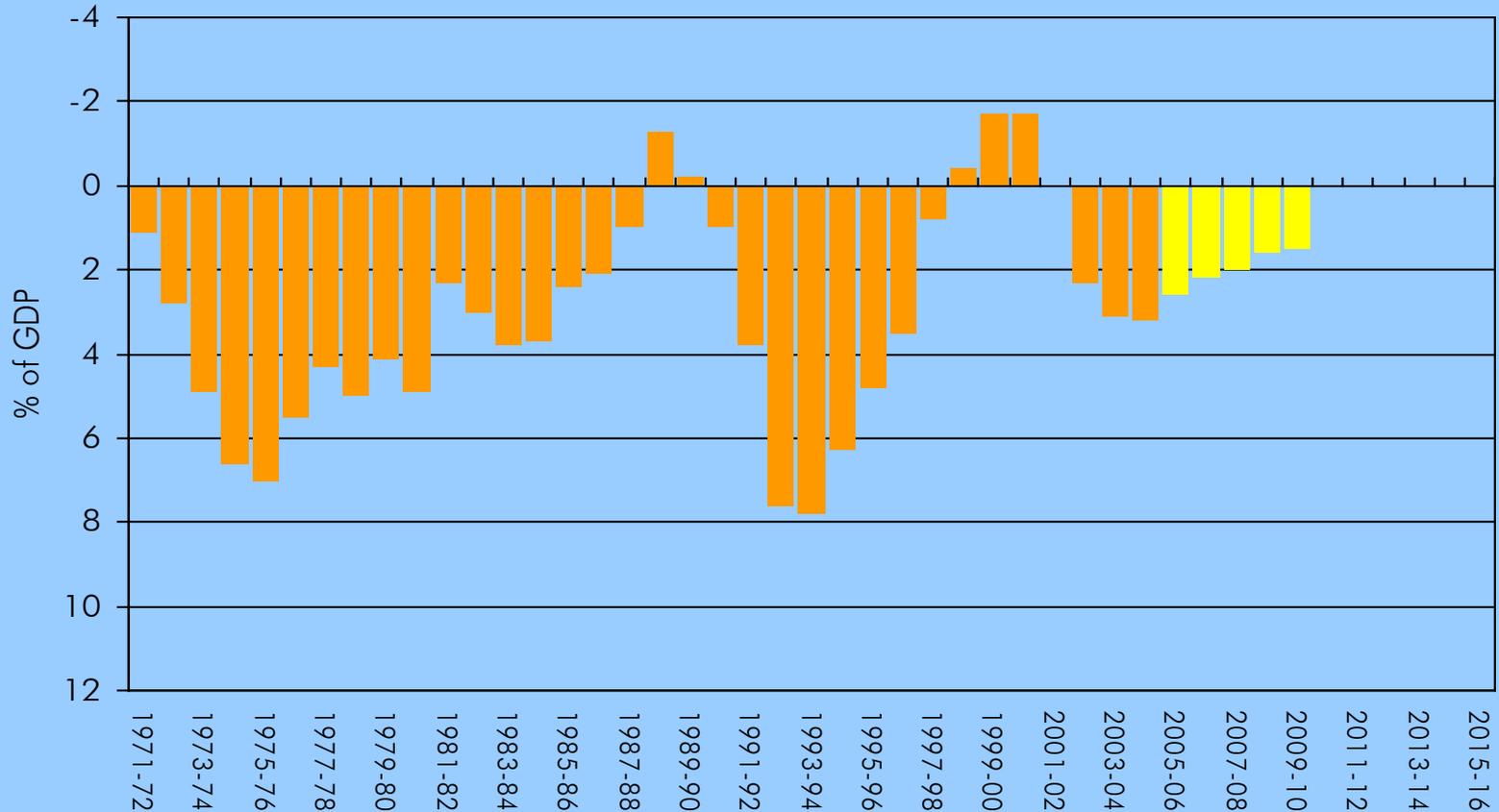
Interesting times

Robert Chote
Chairman

David Hume Institute
Royal Society of Edinburgh
21 September 2011

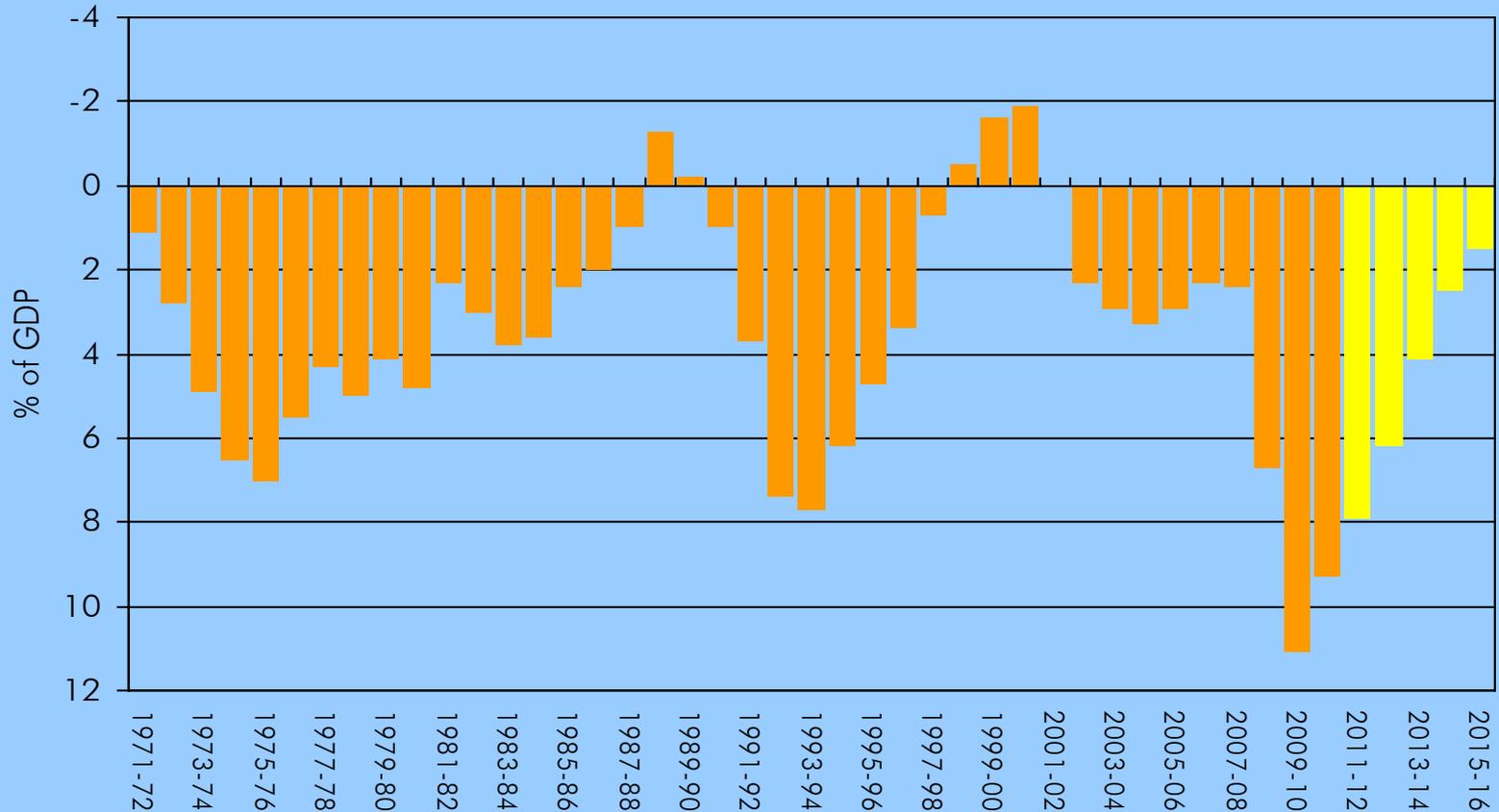
Public sector net borrowing

HM Treasury *Budget 2005*: outturns and forecasts



Public sector net borrowing

OBR *Economic and fiscal outlook* March 2011: outturns and forecasts



The creation of the OBR

- Created in interim form shortly after 2010 election
- After legislation, became statutory body on 4 April 2011
- One of a growing number of official independent fiscal watchdogs
- General rationale: combating 'deficit bias' and 'pro-cyclicality'
- UK rationale: fiscal forecasts without political wishful thinking
- So Government has 'contracted out' official forecasting to the OBR and given it access to data and analysis from within Whitehall

The remit of the OBR

- “to examine and report on the sustainability of the public finances” (Budget Responsibility and National Audit Act)
- Four main tasks:
 - Produce two five-year forecasts for economy and public finances
 - Judge progress towards the government’s fiscal targets
 - Scrutinise Treasury costing of tax and spending measures
 - Assess long-term sustainability and public sector balance sheet
- Other supporting material:
 - Briefing papers, discussion papers etc.
 - Monthly commentary on Treasury/ONS public finance statistics

Governance and accountability

- Rights and responsibilities set out in:
 - Budget Responsibility and National Audit Act
 - Charter of Budget Responsibility
- Important features:
 - “Complete discretion in the performance of our duty”...
 - ... if we behave “objectively, transparently and impartially”
 - Look only at current government policy, not policy options
 - Cannot comment on the merits of particular policy measures
 - Fixed multi-year budget published, so squeeze would be visible
 - Accountable to Chancellor and to Treasury Select Committee
 - Non-execs can help balance accountability and independence

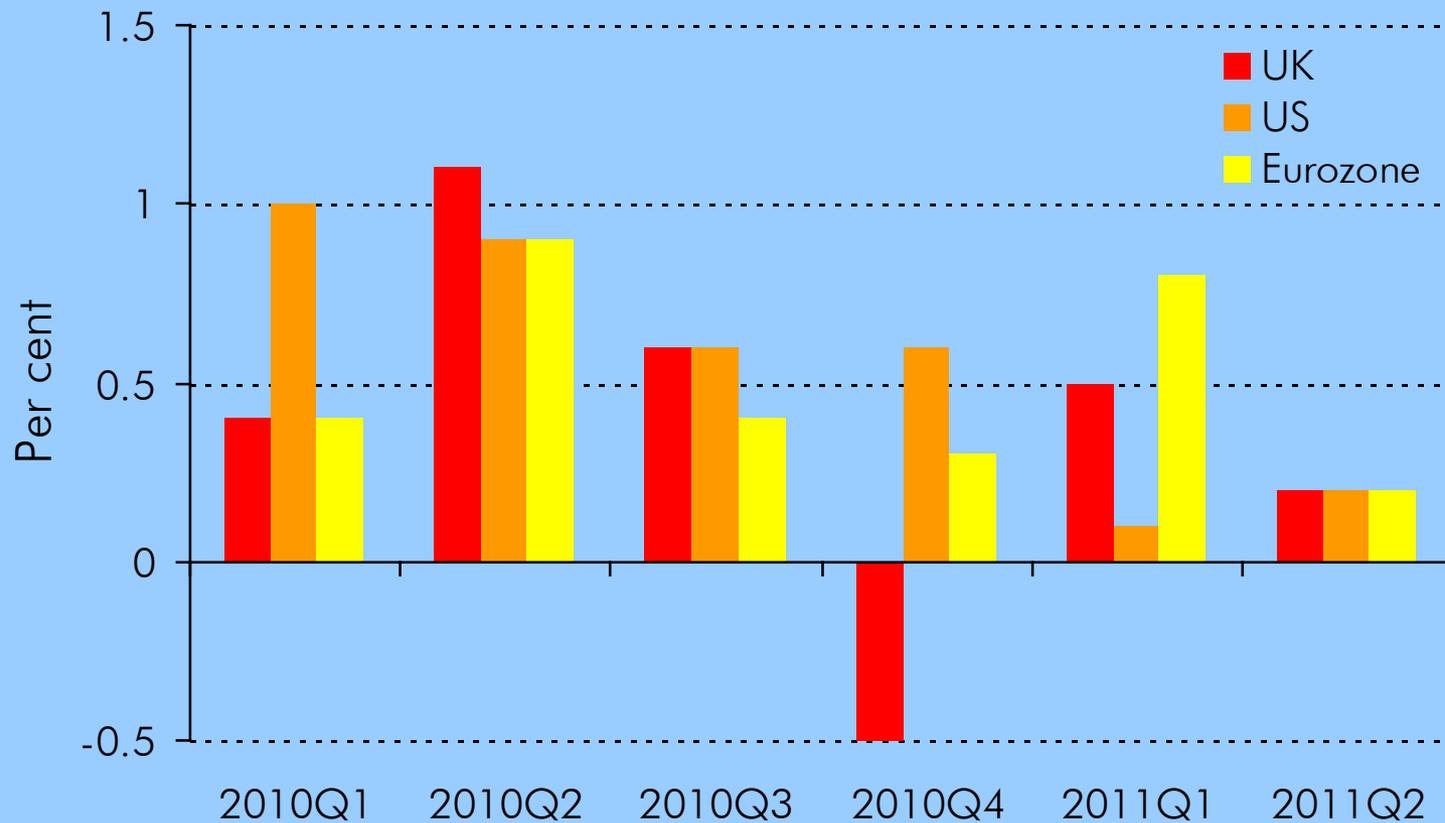
Transparency

- Process:
 - Substantive contacts with Chancellor and his office logged
 - Forecast timetable published
 - Treatment of post-deadline measures published
- Analysis:
 - Diagnostics
 - Simpler presentation of spending forecasts
 - More variables and assumptions
 - Additional information post-publication
 - More methodological information
 - Policy costings documents

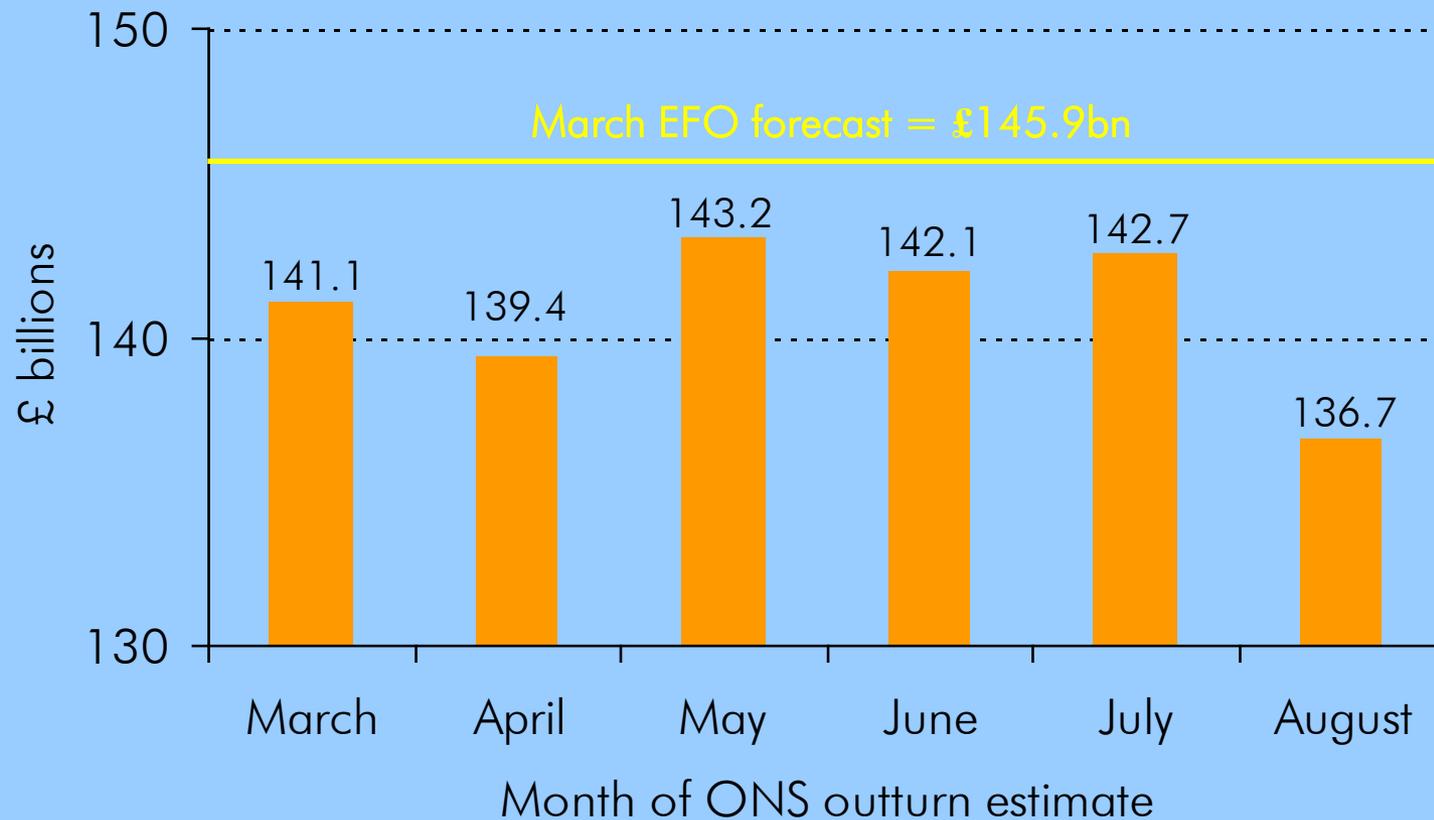
Forecasting Scottish tax receipts

- From Budget 2012
- Relevant taxes
 - Income tax
 - Stamp duty land tax
 - Landfill levy
 - Aggregates levy
- Not straightforward – e.g. is there a reliable relationship between Scottish income tax receipts and total UK receipts?

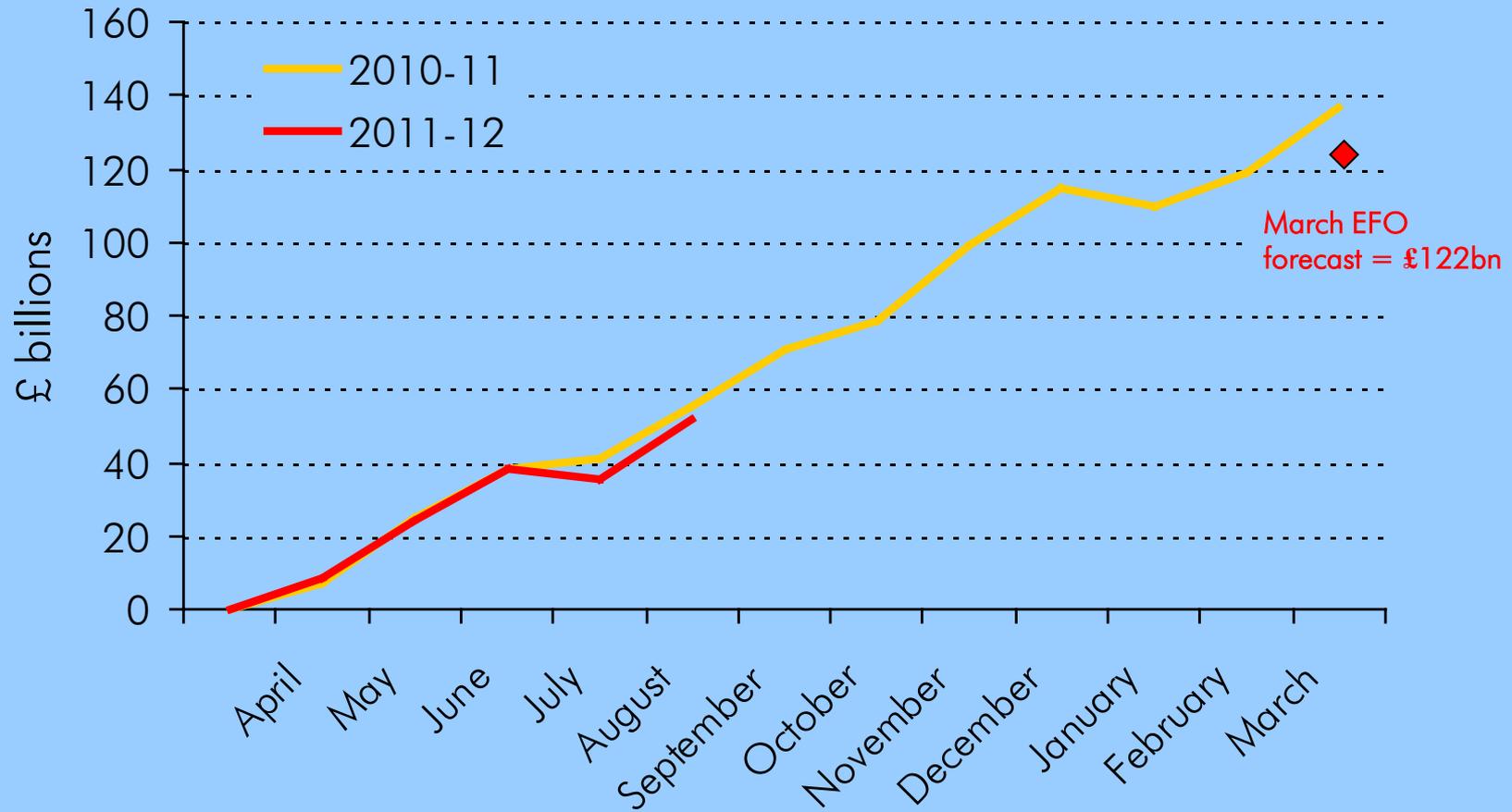
Quarterly growth in GDP



Public sector net borrowing in 2010-11



Cumulative public sector net borrowing



Longer term prospects for public finances

- Need to assess many factors with temporary or persistent effects on revenue and spending streams
- But medium term growth prospects crucial
- Scope for sustainable growth depends on spare capacity and outlook for productive potential
- Pace of growth depends on demand – Bank of England sets monetary policy to hit inflation target, taking into account fiscal policy and other domestic factors, plus global environment
- Mixed data on spare capacity and questions about implications for potential of recent weak productivity growth

Conclusion

- Assessing economic and fiscal outlook never easy
 - Blue Book may further complicate matters
- No point assuming any particular economic forecast correct
- So use sensitivity and scenario analysis to assess implications for public finances and fiscal targets of different economic outcome
- Need to set out analysis clearly and transparently
- People may disagree with assumptions or conclusions, but analysis based on professional judgement and best available information