

Memorandum of Understanding between the Office for Budget Responsibility and HM Treasury – the macroeconomic model

1. The Budget Responsibility and National Audit Act 2011 establishes the Office for Budget Responsibility (OBR) as a central part of the UK's fiscal framework, with responsibility for examining and reporting on the sustainability of the public finances. The OBR must be independent and expert – and perceived as such – in order to provide credible fiscal and economic forecasts.
2. The OBR uses a large-scale macroeconomic model for the production of the economic forecast. The model was originally designed and developed by the Treasury, but is now jointly maintained and developed by the Treasury and the OBR. It is important to emphasise that the model is a tool to which considerable judgement is applied when producing forecasts, and so co-ownership of the model in no way compromises the ability of the OBR to undertake independent forecasts.
3. This memorandum of understanding establishes a framework for the joint governance, management and development of the macroeconomic model. This memorandum does not constitute a legally binding agreement. The responsibilities of the OBR as set out in this memorandum are subject to the Budget Responsibility and National Audit Act 2011, and guidance provided in the Treasury's Charter for Budget Responsibility.¹

Background

4. The "*Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions and HM Revenue and Customs*" states that "the OBR will have full access to the Treasury's macroeconomic models and other Government forecasts and analytical models, and freedom to develop its own versions of these as it so chooses, within the limits governing access to confidential information, including confidential taxpayer and benefit claimant information. The Treasury, DWP and HMRC will provide necessary assistance to allow the OBR to appropriately scrutinise these models."
5. The macroeconomic model is principally a model of the economic activity described and recorded in the National Accounts as published by the Office for National Statistics. It is a set of relationships between various economic and fiscal variables. Some of these relationships are behavioural equations based on economic theory and statistical analyses of the how the economy has behaved in the past, others are technical relationships and accounting identities. Finally, some variables are determined outside of the model framework and their values are taken as given i.e. exogenous. Further details of the macroeconomic model are set out in '*Briefing Paper No.3: Forecasting the economy*', Annex A.²

¹ Available from: www.hm-treasury.gov.uk

² Available from: budgetresponsibility.independent.gov.uk

6. The macroeconomic model is a tool to which considerable judgement is applied. In producing the economic forecast the OBR also uses a variety of auxiliary analytical tools and other models, examines recent data and assesses alternative economic forecasts. The most important parts of the OBR's economic forecast are the judgements that underpin it. All judgements made are the responsibility of the members of the OBR's Budget Responsibility Committee.

Governance

7. Joint governance of the macroeconomic model will be supported by a working-level Model Development Steering Group, which would include representatives from the OBR and the Treasury. This will meet periodically through the year to discuss existing model development work, priorities for future work six months ahead and any other issues relating to the maintenance or development, management and governance of the macroeconomic model.
8. Senior oversight of the Model Development Steering Group will be provided by the Forecast Liaison Group which considers the high-level working relations between the OBR and the Treasury and is chaired by the Chairman of the Budget Responsibility Committee. The Forecast Liaison Group has overall responsibility for considering the planning and allocation of analytical resources and will determine the resolution of any areas of disputes relating to the governance, management or development of the macroeconomic model.

Development

9. The macroeconomic model will be maintained and developed by OBR and the Treasury. Both the Treasury and the OBR will maintain and regularly exchange a record of any changes to the macroeconomic model, including access to supporting analytical material. In the event that the needs or views on what the model should contain diverged, the OBR and Treasury would each reserve the right to maintain an exclusive version.
10. The OBR retains complete discretion over the version of the macroeconomic model it uses to produce its economic forecast. While the macroeconomic model may be jointly developed and maintained, the OBR's economic forecast is developed independently from the Treasury, with information exchange governed according to the guidance set out in the *"Memorandum of Understanding between Office for Budget Responsibility, HM Treasury, Department for Work and Pensions and HM Revenue and Customs"*.
11. The OBR and Treasury will commit to allocating analytical resources to the maintenance and development of the macroeconomic model to ensure that it remains fit for purpose. This should include: ensuring that the macroeconomic model reflects any changes to the structure, composition

and classification of the ONS National Accounts and/or other data sources; when and where appropriate, re-estimation of the behavioural equations to take on latest data or theory; maintenance of spreadsheets and other resources that support the model; periodic documentation of the structure of the model; and any other refinements to develop the overall coherence and consistency of the model.

12. Reflecting this, the Treasury have constituted a dedicated Model Unit, reporting directly to the Chief Economic Advisor. The Model Unit will be responsible for fulfilling HMT's obligations to maintain and develop the model set out in this memorandum, as well as using the model and other analytical tools to help the Treasury provide economic advice to the Chancellor as and when is required. The OBR's staff includes five economic analysts providing analytical support on the economic forecast and macroeconomic model, with one staff member responsible for the OBR's overall management, development and maintenance of the model in accordance with this memorandum.
13. The Forecast Liaison Group has overall responsibility for the planning and allocation of analytical resources across the OBR and Treasury on areas of shared interest. Any dispute over the allocation of resources to the maintenance and development of the model should be referred to the Forecast Liaison Group in the first instance.

Transparency

14. The OBR and the Treasury will treat shared information in accordance with the requirements of the Freedom of Information Act 2000. Subject to this, and unless otherwise specified, signatories will not without prior consultation disclose shared information that is restricted, commercially sensitive or may otherwise harm the formulation and development of Government policies. Signatories reserve the right to place further conditions on the handling, disposal and retention of shared information.
15. The OBR is committed to making its forecasts and methods as transparent as possible. The OBR, in coordination with the Treasury, will publish updated documentation of the macroeconomic model as appropriate and as time and resources allow. Alongside this the Treasury and OBR may make available the supporting code files of the documented version of the model. The OBR and Treasury will respond to further requests for information related to the macroeconomic model on a case-by-case basis, subject to the requirements of the Freedom of Information Act 2000.