



HM Treasury

Charter for Budget Responsibility

March 2014 update

March 2014



HM Treasury

Charter for Budget Responsibility

March 2014 update

Presented to the Parliament pursuant to
Section 1 of the Budget Responsibility and
National Audit Act 2011

March 2014

© Crown copyright 2014

You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/version/2/ or email psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at public.enquiries@hm-treasury.gov.uk.

You can download this publication from www.gov.uk

ISBN 978-1-909790-86-5

PU1643

Contents

		Page
Chapter 1	Legislative basis	3
Chapter 2	Introduction	5
Chapter 3	The Government's fiscal policy framework	7
Chapter 4	The role of the Office for Budget Responsibility	11

1

Legislative basis

1.1 Under Section 1 (1) of the Budget Responsibility & National Audit Act 2011, the Government is required to prepare a document, to be known as the Charter for Budget Responsibility (“the Charter”), relating to the formulation and implementation of fiscal policy and policy for the management of the national debt.

1.2 Section 1 (2) of the Act requires that the Charter includes the Government’s objectives for fiscal policy and its objective for the management of the national debt, its fiscal mandate, and the minimum requirements of the Financial Statement and Budget Report (“the Budget Report”).

1.3 Section 6 (1) of the Act enables guidance to the Office for Budget Responsibility (OBR) about how it should perform its duty as part of the fiscal framework to be included in the Charter. Section 6 (2) of the Act specifies that the Charter may not make provision about the methods by which the OBR is to perform its duty.

1.4 Section 1 (4) of the Act requires the Treasury to lay the Charter before Parliament. Section 6 (4) specifies that if the Treasury proposes to modify the guidance to the OBR included in the Charter, a draft of the modified guidance must be published at least 28 days before being laid before Parliament.

2

Introduction

2.1 The *Charter for Budget Responsibility* (“the Charter”) presents the Government’s approach to operating fiscal policy transparently and managing sustainable public finances in the long-term interests of the UK. The purpose of the Charter is to improve the transparency of the Government’s fiscal policy framework. The Charter sets out the Government’s commitment to managing fiscal policy in accordance with clear objectives and targets.

2.2 The Coalition Government’s major reform to the fiscal framework has been the creation of the Office for Budget Responsibility (OBR). The OBR is designed to address past weaknesses in the credibility of economic and fiscal forecasting and, consequently, fiscal policy. To this end, the Charter also includes guidance to the OBR in line with, and in support of, the provisions in the Budget Responsibility & National Audit Act 2011. This guidance helps to explain the role of the OBR within the fiscal policy framework. The guidance provides greater clarity as to the OBR’s duty to independently examine and report on the sustainability of the public finances.

2.3 The Charter is structured in two parts:

2.3.1 Chapter 3 “The Government’s fiscal policy framework” contains the Treasury’s objectives for fiscal policy and the mandate for fiscal policy; the required contents of the Treasury’s annual Budget Report; the Treasury’s objective for the management of the national debt; and the required contents of the Treasury’s annual Debt Management Report and the debt management remit.

2.3.2 Chapter 4 “The role of the Office for Budget Responsibility” contains guidance to the OBR on its role and the duties it shall perform within the fiscal policy framework. A Memorandum of Understanding has also been agreed between the OBR, the Treasury and other Government departments as appropriate, setting out how the relationship between these institutions will work in practice under normal circumstances.

3

The Government's fiscal policy framework

Objectives and mandate for fiscal policy

3.1 The Treasury's objectives for fiscal policy are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider Government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

3.2 The Treasury's mandate for fiscal policy for this Parliament, announced in the Budget on 22 June 2010, is:

- a forward-looking target to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period.

3.3 At this time of rapidly rising debt, the Treasury's mandate for fiscal policy is supplemented by:

- a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16, ensuring the public finances are restored to a sustainable path.

3.4 To ensure that expenditure on welfare remains sustainable, the Treasury's mandate for fiscal policy is further supplemented by:

- the cap on welfare spending, at a level set out by the Treasury in the most recently published Budget report, over the rolling five-year forecast period, to ensure that expenditure on welfare is contained within a predetermined ceiling.

3.5 Should the Treasury wish to change its objectives and/or the mandate for fiscal policy, this shall be achieved through the formal process for modifying this *Charter for Budget Responsibility* ("the Charter") set out in Section 1 of the Budget Responsibility & National Audit Act 2011. The Treasury must explain the reasons for any departure from the previous objectives and/or the mandate for fiscal policy.

3.6 The Treasury's mandate for fiscal policy lapses at the dissolution of this Parliament. The duty to set out a fiscal mandate will require the Treasury to set out a revised mandate for fiscal policy as soon as possible in the life of the new Parliament and, in any event, no later than the first Budget Report of the new Parliament.

Operation of fiscal policy

3.7 The Treasury must prepare a Budget Report for each financial year. The Chancellor of the Exchequer will announce the date of the Budget, and the publication date for the Budget Report, in advance to Parliament.

3.8 The Government intends to adopt the Office for Budget Responsibility's (OBR) fiscal and economic forecasts as the official forecasts for the Budget Report. The Government retains the

right to disagree with the OBR's forecasts and, if this is the case, will explain why to Parliament. The Treasury will continue to maintain the necessary analytical and macroeconomic expertise to provide on-going advice to the Government.

3.9 The Budget Report will present the Government's economic and fiscal policies. The Budget Report will announce tax policies for the following year and confirm the path for public spending for the forecast period. The Government will consult, where possible, on draft clauses for the Finance Bill, at least three months in advance of the introduction of the Bill.

3.10 The Budget Report shall provide, at a minimum:

- an explanation and costing of the impact of all significant fiscal policy measures introduced by the Government since the last Budget and an explanation of the methodology used to cost the fiscal impact of each of these measures;
- an explanation, where necessary, of how these policy measures maintain the path of the public finances in a position consistent with:
 - the objectives for fiscal policy;
 - the mandate for fiscal policy, where consistency will be assessed by the OBR;
 - the Government's European commitments, in particular the terms of the Stability and Growth Pact;
 - the Debt Management Report, as specified in paragraph 3.15, below;
 - the level of the welfare cap and the forecast margin, where consistency will be assessed by the OBR; and
- a comprehensive list of the items of expenditure which fall within the scope of the welfare cap.

3.11 The Treasury shall lay each Budget Report before Parliament and publish each Budget Report it prepares.

3.12 The Treasury shall refer each Budget Report, and any other report published under this Charter, to the House of Commons Treasury Committee.

3.13 The Treasury shall publish, from time to time, other information that it determines would better enable the public to scrutinise fiscal policy.

Objective for debt management

3.14 The Treasury's objective in relation to debt management policy is:

- to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy.

Operation of debt management

3.15 The Treasury shall report through its Debt Management Report – published as part of the Budget Report – on its plans for borrowing for each financial year.

3.16 The Treasury shall set remits for its agents in the annual Debt Management Report. This report shall include:

- the overall size of the debt financing programme for each financial year;

- the planned maturity structure of gilt issuance and the proportion of index-linked and conventional gilt issuance; and
- a forecast of net financing through National Savings & Investments.

3.17 The remits shall be subject to confirmation or revision as the OBR publishes subsequent fiscal projections.

3.18 The Treasury's agents for implementing debt management policy are the UK Debt Management Office (DMO) and National Savings & Investments (NS&I) which shall publish more detailed information in their own reports and accounts.

3.19 The Bank of England will be the Treasury's agent for management of the Official Reserves.

Operation of the welfare cap

3.20 The Treasury shall inform the House of Commons as soon as possible in the life of each new Parliament and, in any event, no later than the first Budget Report of the new Parliament, of the level at which the welfare cap is set over the five-year forecast horizon.

3.21 The Treasury shall specify a margin above the level of the cap that is considered appropriate to provide for temporary volatility and fluctuations in the forecast.

3.22 The welfare cap is a rolling cap on forecast expenditure. As such, at any point in time it will not apply to the first year of the forecast horizon, or to years previous to the first year of the forecast horizon.

3.23 The welfare cap and margin will roll forward every year. The level of the welfare cap for the additional year will be published at the same time as the level of the margin.

3.24 The Treasury will report on performance against the cap as assessed by the OBR, including any decisions that the Government has taken in response to an anticipated breach of the cap, as part of each Autumn Statement.

3.25 Any spending that falls within the OBR's Social Security or Personal Tax Credits forecasts and impacts upon Public Sector Current Expenditure (PSCE) should be presumed to be included within the welfare cap.

3.26 When setting the level of the welfare cap for the first time, and at every Budget, the Treasury will publish a comprehensive list of the items of expenditure which fall within the scope of the welfare cap.

3.27 The Treasury will seek the approval of the House of Commons for any changes to the list of items of expenditure which fall within the scope of the welfare cap, including where a new welfare cap level and/or margin are being set.

3.28 The Treasury will not be required to seek approval for fiscally neutral classification changes from Annually Managed Expenditure to fixed Departmental Expenditure Limits as certified by the OBR. The level of the cap will be adjusted to reflect any classification changes from Annually Managed Expenditure to Departmental Expenditure Limits, and vice versa.

3.29 If the Government wishes to change the level of the welfare cap after it has first been set, for a reason other than a neutral classification change as certified by the OBR, or the level of the forecast margin during the Parliament, it will seek the approval of the House of Commons via a debate on a votable motion.

3.30 The cap is considered to have been breached either:

- if spending within its scope is forecast to increase above the level of the cap in any year in which it applies, as a result of discretionary policy action; or
- if spending is forecast to increase above the margin in any year where the cap applies, for any reason.

3.31 If the welfare cap is found to be breached in one or more of the years in which it applies, there will be a debate on a votable motion led by the Department for Work and Pensions, normally within 28 sitting days, giving an assessment of the reasons for the breach. The Department for Work and Pensions will:

- propose Government policy measures which will reduce welfare spending to within the level of the cap;
- seek approval for the level of the welfare cap and/or margin to be increased, along with an explanation of why this is considered to be justified; or
- explain why a breach of the welfare cap is considered justified.

3.32 If spending within the scope of the welfare cap is forecast to be above the level of the cap but within the margin, and this is due to forecast changes rather than discretionary policy action, then the cap is not breached. The Treasury will set out the reasons for the increase as part of the Autumn Statement, and the Department for Work and Pensions will make a statement to the House of Commons on the causes of the increase in spending.

4

The role of the Office for Budget Responsibility

Performance of duties

4.1 This part of the *Charter for Budget Responsibility* (“the Charter”) sets out further details on the Office for Budget Responsibility’s (OBR) statutory remit, in order to add clarity to its statutory requirements on key issues and to explain how these are to apply.

The OBR’s remit

Main duty of the OBR

4.2 The main duty of the OBR is to examine and report on the sustainability of the public finances.

4.3 The scope of this duty means the OBR has a broad remit. The remit provides for the OBR to investigate the impact of trends and policies on the public finances from a multitude of angles, including through forecasting, long-term projections and balance sheet analysis.

4.4 The duty feeds directly into the Treasury’s fiscal objective to deliver sound and sustainable public finances.

Performance of the duty

4.5 The OBR will perform this 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 judgments 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; and
- the work programme by which the OBR may initiate research and produce additional analysis.

4.6 In order to protect the independence necessary for the effective delivery of its responsibilities within the fiscal framework, the OBR must perform its duty objectively, transparently and impartially.

4.7 All of the OBR’s reports will be concerned with its main duty to examine and report on the sustainability of the public finances. The OBR will consider a wide range of factors and dimensions relating to the sustainability of the public finances and will be transparent in its approach. More generally, in each report published under its main duty, the OBR will explain the factors taken into account when preparing the report, including the main assumptions and risks.

4.8 The OBR’s forecasts are essential inputs to the Government’s ongoing policy making. The establishment of the OBR will enhance the transparency and credibility of the Government’s official economic and public finances forecasts, in part, through the publication of more

information than has been made available to the public previously. However, to ensure consistency with existing forecasting conventions, where the OBR publishes its forecasts of the economy and public finances, these forecasts shall contain, as a minimum:

4.8.1 For the economic forecast:

- the key assumptions and conventions underpinning the forecast;
- the key projections of: GDP and its components; inflation; the labour market; and the current account position of the balance of payments; and
- an analysis of the risks surrounding the economic outlook.

4.8.2 For the public finances forecast:

- the key determinants underpinning the fiscal forecast;
- projections of the key fiscal aggregates, including: public sector current expenditure; public sector gross investment; public sector net investment; public sector current receipts; the current balance; public sector net borrowing; general government net borrowing; the central government net cash requirement; public sector net debt; general government gross debt; and any other aggregate or indicator as is required to judge progress or achievement against the Government's mandate for fiscal policy or is required for the purposes of the Government's European commitments, in particular the Stability and Growth Pact;
- an analysis of the impact of the economic cycle on the key fiscal aggregates, including estimates of the cyclically-adjusted position;
- an analysis of the risks surrounding the fiscal outlook; and
- the OBR's assessment of whether the Government's fiscal policy is consistent with a greater than fifty per cent chance of achieving the fiscal mandate. Specifically:
 - alongside its Budget forecast, the OBR will make a formal judgement on whether the fiscal policy set at that Budget is consistent with a greater than fifty per cent chance of achieving the fiscal mandate; and
 - alongside its update forecast, the OBR will make an updated judgement on whether policy announced to that date remains consistent with a greater than fifty per cent chance of achieving the fiscal mandate.

4.9 The OBR shall publish forecasts of the economy and public finances consistent with the forecast horizon set by the Chancellor of the Exchequer. The forecast horizon must be of sufficient length to enable the OBR to assess the Government's performance against the fiscal mandate and, in any event, will always be for a period of at least five financial years following the date of publication. For each of the forecasts, comparative figures of the key fiscal aggregates covering the previous two financial years are to be published.

4.10 The OBR's published forecasts shall be based on all Government decisions and all other circumstances that may have a material impact on the fiscal outlook. In particular:

- where the fiscal impact of these decisions and circumstances can be quantified with reasonable accuracy, the impact should be included in the published projections; and
- where the fiscal impact of these decisions and circumstances cannot be quantified with reasonable accuracy, these impacts should be noted as specific fiscal risks.

4.11 The Government is responsible for all policy decisions and for policy costings, i.e. quantifying the direct impact of policy decisions on the public finances. Subject to receiving sufficient information from the Treasury to do so, the OBR will provide independent scrutiny and certification of the Government's policy costings. The OBR will state whether it agrees or disagrees with the Government's costings, or whether it has been given insufficient time or information to reach a judgement. The OBR will also determine any resultant impact of the policy on its economic forecast ahead of publication.

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

4.13 The OBR will have access to Government information, subject to any statutory provision or common law rules. The OBR may require information from HM Revenue & Customs in order to carry out its duties; however, the OBR will not seek from HM Revenue & Customs information relating to a person whose identity is contained within or can be deduced from the information.

4.14 The normal process for exchanging information will be set out in advance in a Memorandum of Understanding between the OBR, the Treasury and other Government departments as appropriate. It shall be for the Government to determine policy decisions and to present and explain them to Parliament and the public. The Government will explain its policy decisions to the OBR to enable the OBR to deliver its duties on a basis that is consistent with Government policy and without assumptions or interpretations of Government policy. The Treasury will advise the OBR, where necessary, on policy in development that may be of relevance to any forecast or analysis that the OBR is undertaking (for example, policy for possible inclusion within the Budget will be shared with the OBR ahead of the Budget).

4.15 In addition to forecasts, the OBR will produce an annual sustainability report. This will include long-term projections for the public finances and an assessment of the public sector balance sheet. In producing the annual sustainability report, where a long-term policy has not yet been set by the Government, the OBR will set out the assumptions it makes in its projections regarding policy transparently. Where a policy has been set, the Government will explain its policy decisions to the OBR, who will ensure projections are consistent with Government policy. The OBR will also produce analysis of past forecasting performance.

4.16 The OBR's economic and fiscal forecasts and other reports and conclusions are essential inputs to the Government's ongoing policy making, and will enable the Treasury to carry out its functions and responsibilities. The Government will have full and timely access to information and assistance from the OBR, as the Government regards reasonable and necessary, in consultation with the OBR, to fulfil its policymaking responsibilities. In particular, the OBR will provide the Government with timely access to the information necessary to reach policy decisions ahead of fiscal policy events.

4.17 In preparing its forecasts and other analysis the OBR may choose to consult the Treasury for comment or input, but is not obliged to do so. Subject to fulfilling the minimum requirements contained within the Act and within this Charter, the content of OBR publications is completely at the discretion of the OBR.

Timing of the OBR's forecasts and publications

4.18 The Chancellor will commission the OBR to produce its fiscal and economic forecasts at a particular date, at least twice a year, one of which will be for the Budget. The Chancellor will provide the OBR with reasonable advance notice ahead of any forecast publication date, with further details to be set out in the Memorandum of Understanding between the OBR and the Treasury.

4.19 The date of any OBR forecast will also be communicated to the Treasury Select Committee and to Parliament in parallel to the OBR, or as soon as possible afterwards if Parliament is in recess.

4.20 At the same time as the forecasts, the OBR will produce its assessment of the extent to which fiscal policy has delivered, or is likely to deliver, the fiscal mandate.

4.21 Subject to fulfilling the requirements relevant to its forecasts and its assessment of the extent to which fiscal policy is likely to deliver the fiscal mandate, the OBR is responsible for determining the timing of its own publication programme. Consistent with acting transparently this programme will be published according to a regular and predictable timetable, with release dates set out in advance.

HM Treasury contacts

This document can be downloaded from
www.gov.uk

If you require this information in another
language, format or have general enquiries
about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN 978-1-909790-86-5



9 781909 790865 >